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IN THE UNITED STATES PATENT AND TRADEMARK OFFICE
BEFORE THE TRADEMARK TRIAL AND APPEAL BOARD

Proceeding	91194218
Party	Defendant Meridian Bioscience, Inc.
Correspondence Address	J MICHAEL HURST KEATING MUETHING & KLEKAMP 1 E 4TH ST, STE 1400 CINCINNATI, OH 45202 3752 UNITED STATES mhurst@kmklaw.com, trademarks@kmklaw.com
Submission	Defendant's Notice of Reliance
Filer's Name	J. Michael Hurst
Filer's e-mail	mhurst@kmklaw.com
Signature	/J. Michael Hurst/
Date	02/06/2015
Attachments	Notice of Reliance - Illumina v. Meridian - 6 Feb 2015 - EX-ECUTED.PDF(399294 bytes) Noctice of Reliance Exhibit 1 Public.pdf(431696 bytes) Noctice of Reliance Exhibit 1 Public Pt.2.pdf(8681 bytes) EXHIBIT 2.a.pdf(1065041 bytes) EXHIBIT 2.b.pdf(3127772 bytes) EXHIBIT 2.c.pdf(1398720 bytes) EXHIBIT 2.d.pdf(5411803 bytes) EXHIBIT 2.e.pdf(1248112 bytes) EXHIBIT 2.f.pdf(889428 bytes) EXHIBIT 2.g.pdf(911913 bytes) EXHIBIT 2.h.pdf(1356274 bytes) EXHIBIT 3.pdf(746362 bytes) EXHIBIT 4.pdf(336199 bytes) EXHIBIT 5.pdf(748688 bytes) EXHIBIT 6.pdf(326219 bytes) EXHIBIT 7.pdf(190591 bytes) EXHIBIT 8.pdf(1635290 bytes) Noctice of Reliance Exhibit 9 Public.pdf(8624 bytes) EXHIBIT 10.pdf(922542 bytes) EXHIBIT 11.pdf(4529661 bytes) EXHIBIT 12.pdf(3840393 bytes)

IN THE UNITED STATES PATENT AND TRADEMARK OFFICE
BEFORE THE TRADEMARK TRIAL APPEAL BOARD

ILLUMINA, INC.,	Opposition No. 91194218 (parent)
	Ser. No. 77/768176
Opposer/Petitioner,	
	Opposition No. 91194219
-v-	Ser. No. 77/775316
MERIDIAN BIOSCIENCE, INC.,	Cancellation No. 92053479
	Reg. No. 3887164
Applicant/Registrant.	
	Cancellation No. 92053482
	Reg. No. 3868081

APPLICANT'S / REGISTRANT'S NOTICE OF RELIANCE

Pursuant to 37 C.F.R. §§ 2.120 and 2.122, and the parties' stipulation dated 16 July 2014, pursuant to 37 C.F.R. § 2.121(a)(1), Applicant / Registrant Meridian Bioscience, Inc. ("Meridian") makes the following of record:

Exhibit 1

Opposer's Supplemental Responses and Objections to Applicant's First Set of Interrogatories to Opposer dated 10 June 2013; Opposer's Responses and Objections to Applicant's Second Set of Interrogatories to Opposer dated 2 January 2014; and Opposer's Supplemental Responses and Objections to Applicant's First Set of Interrogatories to Opposer dated 4 February 2014.

Exhibit 2

Opposer's Annual Reports and 10(k) filings from the years 2003 through 2011. Exhibit 2 is relevant generally to show the industries in which Opposer operated between 2003 and 2011. The exhibit demonstrates no likelihood of confusion between Opposer's marks and Meridian's

marks due to the lack of similarity between channels of trade, relevant consumers, and lack of priority.

Exhibit 3

Genomeweb article published online 14 March 2012, titled, "Q & A: Matt Posard on Illumina's Clinically Focused Business Unit." Exhibit 3 is relevant generally to show the channels of trade and relevant consumers Opposer's products, as well as the timing of its expansion into Meridian's market. The exhibit demonstrates no likelihood of confusion between Opposer's marks and Meridian's marks due to the lack of similarity between channels of trade, relevant consumers, and lack of priority.

Exhibit 4

Genomeweb article published online 21 January 2009, titled, "Illumina Unveils Strategy to Enter Molecular Diagnostics Market." Exhibit 4 is relevant generally to show the channels of trade and relevant consumers Opposer's products, as well as the timing of its expansion into Meridian's market. The exhibit demonstrates no likelihood of confusion between Opposer's marks and Meridian's marks due to the lack of similarity between channels of trade, relevant consumers, and lack of priority.

Exhibit 5

U-T San Diego article published online 26 November 2013, titled, "Illumina Scores Medical Sequencing Breakthrough." Exhibit 5 is relevant generally to show the channels of trade and relevant consumers Opposer's products, as well as the timing of its expansion into Meridian's market. The exhibit demonstrates no likelihood of confusion between Opposer's

marks and Meridian's marks due to the lack of similarity between channels of trade, relevant consumers, and lack of priority.

Exhibit 6

Genomeweb article published online 20 June 2012, titled, "Illumina Sees Diagnostics as Largest Growth Opportunity; Dx Strategy to Focus on Cancer." Exhibit 6 is relevant generally to show the channels of trade and relevant consumers Opposer's products, as well as the timing of its expansion into Meridian's market. The exhibit demonstrates no likelihood of confusion between Opposer's marks and Meridian's marks due to the lack of similarity between channels of trade, relevant consumers, and lack of priority.

Exhibit 7

Illumina press release issued 3 May 2010, titled, "Illumina Receives FDA 510(k) Clearance for its BeadXpress Multiplex Analysis System. Exhibit 7 is relevant generally to show the channels of trade and relevant consumers Opposer's products, as well as the timing of its expansion into Meridian's market. The exhibit demonstrates no likelihood of confusion between Opposer's marks and Meridian's marks due to the lack of similarity between channels of trade, relevant consumers, and lack of priority.

Exhibit 8

Website printouts from Opposer's webpage, including product advertisements information sheets available on Opposer's website, relating to its TruGenome product. Exhibit 8 is relevant generally to show the channels of trade and relevant consumers of Opposer's products, as well as the lack of similarity between Opposer's and Meridian's goods and services. The exhibit demonstrates no likelihood of confusion between Opposer's marks and

Meridian's marks due to lack of similarity between channels of trade, relevant consumers, and the goods/services themselves.

Exhibit 9

List of "top 25 customers" of Opposer produced in response to Meridian's Interrogatory No. 13. Exhibit 9 is relevant generally to identify the relevant consumers of Opposer's products. The exhibit demonstrates no likelihood of confusion between Opposer's marks and Meridian's marks due to the sophistication of the purchasers.

Exhibit 10

Product brochure for Opposer's TruGenone Clinical Sequencing Services dated 2013. Exhibit 10 is relevant generally to show the channels of trade and relevant consumers Opposer's products, the timing of its expansion into Meridian's market, and its coexistence with Meridian's TRU-formative marks. The exhibit demonstrates no likelihood of confusion between Opposer's marks and Meridian's marks due to the lack of similarity between channels of trade, relevant consumers, lack of priority, and dissimilarity of goods/services.

Exhibit 11

Product brochure for Opposer's MiSeqDx diagnostic platform dated 2013. Exhibit 11 is relevant generally to show the channels of trade and relevant consumers Opposer's products, the timing of its expansion into Meridian's market, and the goods/servies of the parties. The exhibit demonstrates no likelihood of confusion between Opposer's marks and Meridian's marks due to the lack of similarity between channels of trade, relevant consumers, lack of priority, and dissimilarity of goods/services.

Exhibit 12

Selection of third-party ILLUMI-formative registrations with evidence of current use of each mark supported by Declaration of Stephanie A. Ferguson. Exhibit 12 is relevant generally to the strength of Opposer's marks and the widespread use of ILLUMI-formative marks in the relevant industry. The exhibit demonstrates no likelihood of confusion between Opposer's marks and Meridian's marks due to lack of similarity between the parties' respective marks.

Exhibit 13

Selection of third-party LUMI-formative registrations with evidence of current use of each mark supported by Declaration of Stephanie A. Ferguson. Exhibit 13 is relevant generally to the strength of Opposer's marks and the widespread use of LUMI-formative marks in the relevant industry. The exhibit demonstrates no likelihood of confusion between Opposer's marks and Meridian's marks due to lack of similarity between the parties' respective marks.

Exhibit 14

Meridian's registrations for TRU RSV, Registration No. 3407186; TRU FLU, Registration No. 3407185; TRU EBV-M, Registration No. 3468631; TRU EBV-G, Registration No. 3468630; TRU BLOCK, Registration No. 3877361; TRU LEGIONELLA, Registration No. 4255343; and TRU HSV 1 AND 2 IGG, Registration No. 4277182; and Illumina's registrations and applications for TRUSEQ, Registration No. 4064847; TRUSIGHT, Registration No. 4498222; and TRUGENOME, Serial No. 86/096366 with evidence of current use of each mark supported by Declaration of Stephanie A. Ferguson. Exhibit 14 is relevant generally to the coexistence of Meridian's TRU-formative marks with Opposer's TRU-formative marks. The exhibit demonstrates no likelihood of confusion between Opposer's marks and Meridian's marks due to lack of similarity between the goods.

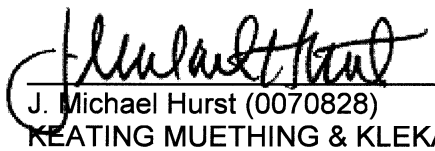
Exhibit 15

Xconomy article published online 15 January 2013, titled, "Illumina CEO Jay Flatley on Diagnostics, the $1K Genome & China." Exhibit 15 is relevant generally to show the channels of trade and relevant consumers Opposer's products, as well as the timing of its expansion into Meridian's market. The exhibit demonstrates no likelihood of confusion between Opposer's marks and Meridian's marks due to the lack of similarity between channels of trade, relevant consumers, and lack of priority.

The above-described documents are filed concurrently herewith.

Dated this 6th day of February, 2015.

Respectfully submitted,



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mhurst@kmklaw.com

Attorney for Applicant / Registrant,
Meridian Bioscience, Inc.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Applicant's / Registrant's Notice of Reliance was served upon Susan M. Natland, Knobbe, Martens, Olson & Bear, LLP, 2040 Main Street, Fourteenth Floor, Irvine, California, 92614 by first class mail this 6th day of February, 2015.

Laura Evans

NOTICE OF RELIANCE EXHIBIT 1
(PUBLIC)

IN THE UNITED STATES PATENT AND TRADEMARK OFFICE
BEFORE THE TRADEMARK TRIAL AND APPEAL BOARD

Illumina, Inc., Opposer, v. Meridian Bioscience, Inc., Applicant.	Opposition No. 91194218 (parent) Serial No.: 77/768176 Mark: ILLUMIPRO Opposition No. 91194219 Serial No.: 77/775316 Mark: ILLUMIPRO-10

OPPOSER'S SUPPLEMENTAL RESPONSES AND OBJECTIONS TO APPLICANT'S FIRST SET OF INTERROGATORIES TO OPPOSER

Pursuant to Fed. R. Civ. P. 33 and subject to the General Objections and the Objections to Definitions and Instructions in Opposer's Responses and Objections to Applicant's First Set of Interrogatories to Opposer, Illumina, Inc. hereby serves following supplemental responses and objections to Applicant's First Set of Interrogatories to Opposer.

Interrogatory No. 10:

Identify all publications in which Opposer's products/services bearing the ILLUMINA Marks have been promoted in the United States.

Response:

Opposer incorporates its General Objections as if fully set forth herein. Opposer objects to this interrogatory as overly broad, unduly burdensome and vague in that it fails to define the terms "publications," "bearing" and "promoted" thus rendering the interrogatory unintelligible.

Subject to and without waiving its objections, Opposer answers that its website, <<http://www.illumina.com/publications/list.ilmn>>, includes a list of the numerous

publications in which researchers successfully used Opposer's products bearing Opposer's ILLUMINA Marks for a wide range of genetic analysis applications.

Supplemental Response and Objection(s):

Subject to and without waiving its objections, Opposer provides the following list of print and electronic publications in which Opposer's products/services bearing the ILLUMINA Marks have been promoted in the United States:

Print Placements

American Journal of Human Genetics
Biotechniques
Cancer Cell
CAP Today
CELL
Cytogenetics & Genomic Research
Drug Discovery News
Genetic Engineering & Biotechnology News
Genome Research
Genome Technology
Human Molecular Genetics
Journal of Molecular Diagnostics
Methods (Cell)
Molecular Cell Microbe Magazine Nature
Nature
Nature Biotechnology
Nature Genetics
Nature Medicine
Nature Methods
Nature Reviews Cancer
Nature Reviews Genetics
Nature Reviews Microbiology
Plant Physiology
Science
Seed Today
Seed World
The Plant Cell
The Scientist

Electronic Placements

AACR Cancer Research

American Journal of Human Genetics
Animal Genetics
ASPB (American Society of Plant Biologists)
BioMCC
BioMed Central
BioMed Central Cancer Portal
Biotechniques
Cancer Cell
Cell
Crop Science
Drug Design, Development and Therapy
DDN
Drug Discovery
Dx/PGX
EJHG (European Journal of Human Genetics)
ESHJ
G3 Journal
GEN
Gene Therapy
Genes & Development
Genetics
Genome Research
Genome Web
Genome Web PCR Insider
Genome Web: Clinical Genomics
In Sequence
International Journal of Cancer
Journal of Clinical Microbiology
Journal of Molecular Diagnostics
Lab Matters: Association of Public Health Laboratories
Molecular Cytogenetics
Molecular Microbiology
Nature
Nature Genetics
Nature Heredity
Nature Methods
Nature Reviews Cancer
Nature Reviews Genetics
Nature Reviews Microbiology
PGx Reporter (Genome Web)
Plant Physiology
PLoS Genetics
Proceeding of National Academy of Sciences
Science
Scientific Direct
SeedQuest

Select Science Microbiology
SeqAnswers
The Plant Cell
The Scientist

Interrogatory No. 30:

Identify and describe each instance of confusion, mistake, or deception of any kind between Opposer's ILLUMINA Marks and Applicant's ILLUMIPRO Marks, and identify each person with knowledge of each instance.

Response:

Opposer incorporates its General Allegations as if fully stated herein. Opposer objects to this interrogatory as overly broad, unduly burdensome and vague in that it is impossible for Opposer to be aware of every instance of consumer confusion as there have most likely been times where consumers were confused but never made Opposer aware of that confusion. Thus, it is impossible to formulate a complete answer for this question.

Supplemental Response and Objection(s):

Subject to and without waiving its objections, Opposer answers that it has not yet documented any instances of confusion between Opposer's ILLUMINA Marks and Applicant's ILLUMIPRO Marks by consumers of the parties' good and services.

Respectfully submitted,

ILLUMINA, INC.

Date: **June 10, 2013**

James R. Menker

Attorney for Opposer
HOLLEY & MENKER, P.A.
PO Box 331937
Atlantic Beach, FL 32233

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing "OPPOSER'S SUPPLEMENTAL RESPONSES AND OBJECTIONS TO APPLICANT'S FIRST SET OF INTERROGATORIES TO OPPOSER" was served on J. Michael Hurst of Keating Muething & Klekamp PLL, with an address at One East Fourth Street, Suite 1400, Cincinnati, OH 45202, via first class mail, postage prepaid, today **June 10, 2013**.

By:
James R. Menker

Tel: 904-247-2620
Fax: 202-280-11177
email: eastdocket@holleymenker.com

VERIFICATION

I, William Noon, Ph.D., Patent Attorney of Opposer, am authorized to verify this response on behalf of Opposer. I have read the foregoing OPPOSER'S SUPPLEMENTAL RESPONSES AND OBJECTIONS TO APPLICANT'S FIRST SET OF INTERROGATORIES TO OPPOSER and know their contents. The statements are true and correct and are of my own personal knowledge, except for those matters stated to be upon information and belief, and as to those matters, I believe them to be true.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

June 7, 2013
Date

William Noon, Ph.D.
Patent Attorney
Illumina, Inc.

IN THE UNITED STATES PATENT AND TRADEMARK OFFICE
BEFORE THE TRADEMARK TRIAL AND APPEAL BOARD

Illumina, Inc., Opposer, v. Meridian Bioscience, Inc., Applicant.	Opposition No. 91194218 (parent) Serial No.: 77/768176 Mark: ILLUMIPRO Opposition No. 91194219 Serial No.: 77/775316 Mark: ILLUMIPRO-10

OPPOSER'S RESPONSES AND OBJECTIONS TO APPLICANT'S SECOND SET OF INTERROGATORIES TO OPPOSER

Pursuant to Fed.R.Civ.P. 33, Illumina, Inc., ("Opposer"), hereby serves its responses and objections to, Meridian Bioscience, Inc.'s ("Applicant") First Set of Interrogatories to Opposer.

Preliminary Statement

These responses are made solely for the purpose of and in relation to this matter. Opposer has not fully completed it investigation, discovery, analysis, legal research, and preparation for trial in this matter. The responses contained herein are based only upon the information and documentation that is presently available and known to Opposer, and which has been identified as containing relevant information. It is possible that further investigation, discovery, analysis, legal research and/or preparation may result in the ascertainment of additional information or documentation, or provide additional meaning to known factual conclusions and legal contentions, all of which may result in modification of these responses. Accordingly, Opposer reserves the right, but does not assume the obligation, to modify its

responses herein based upon subsequently ascertained, identified, or developed information, facts and contentions.

Subject to the objections asserted herein, Opposer's responses are made in a good faith effort to reasonably respond to the Interrogatory based upon presently available information and documentation. These responses are provided without prejudice to Opposer's right to conduct further investigation, discovery, analysis, legal research and/or preparation, and shall not limit Opposer's right to utilize any additional evidence or documents that may be identified, discovered, or developed.

Specific objections to each separate Interrogatory are made on an individual basis in Opposer's responses below. In addition to the specific objections, Opposer makes certain general and continuing objections as well as objections to the definitions and instructions ("General Objections") to all of the Interrogatories. These General Objections are hereby incorporated by reference into the responses made with each Interrogatory. Opposer's response to each individual Interrogatory is submitted without prejudice to, and without waiving in any respect, any General Objections not expressly set forth in that response. Accordingly, the inclusion of any specific objection to an Interrogatory in any response below is neither intended as, nor in any way shall be deemed to be, a waiver of any General Objection or any other specific objection made herein or that may be asserted at a later date. In addition, the failure to include at this time any general or specific objection to an Interrogatory is neither intended as, nor shall in any way be deemed, a waiver of Opposer's right to assert that or any other objection at a later date.

General Objections

1. Opposer renews and incorporates by reference the General Objections set forth in Opposer's Responses and Objections to Applicant's First Set of Interrogatories to Opposer.

Objections to Definitions

1. Opposer renews and incorporates the Objections to Definition set forth in Opposer's Responses and Objections to Applicant's First Set of Interrogatories to Opposer.

Without waiving these objections, Opposer responds as follows:

Interrogatory No. 44:

Identify the date on which Opposer first sold or offered for sale (whichever is earlier) products or services under the ILLUMINA Marks that could be used in a clinical diagnostics lab of a hospital or reference laboratory.

Response:

Opposer incorporates its General Objections and its Objections to Definitions as if fully set forth herein. Opposer objects to this interrogatory as vague in that it is not clear what is meant by "could be used".

Subject to and without waiving its objections, Opposer responds that it first offered for sale services under the ILLUMINA Marks that could have been ordered by or delivered to individuals employed in a clinical diagnostics lab of a hospital or reference laboratory at least as early as December 5, 2006.

Interrogatory No. 45:

Identify the date on which Opposer first sold or first offered for sale (whichever is earlier) products or services under the ILLUMINA Marks that are approved by the U.S. Food and Drug Administration ("FDA") for in vitro diagnostic ("IVD") uses as further described here: http://www.fda.gov/MedicalDevices/DeviceRegulationandGuidance/IVDRegulatoryAssistance/ucm123682.htm.

Response:

Opposer incorporates its General Objections and its Objections to Definitions as if fully set forth herein. Opposer objects to this interrogatory as overly broad, unduly burdensome and vague in that it is not clear what is meant by "approved". The page from the FDA website listed in the interrogatory references "premarket approval" and "marketing clearance" amongst other types of approvals that could be relevant. Subject to and without waiving its objections, Opposer responds that it first offered for sale products approved by the U.S. Food and Drug Administration ("FDA") for in vitro diagnostic ("IVD") uses under the ILLUMINA Marks following immediately after the approval of its BeadXpress Multiplex Analysis System on April 28, 2010.

Respectfully submitted,

ILLUMINA, INC.

Date: **January 2, 2014**

James R. Menker

Attorney for Opposer
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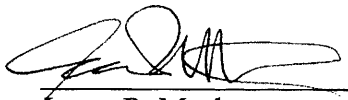
PO Box 331937
Atlantic Beach, FL 32233
Tel: 904-247-2620
Fax: 202-280-11177
email: eastdocket@holleymenker.com

CERTIFICATE OF SERVICE

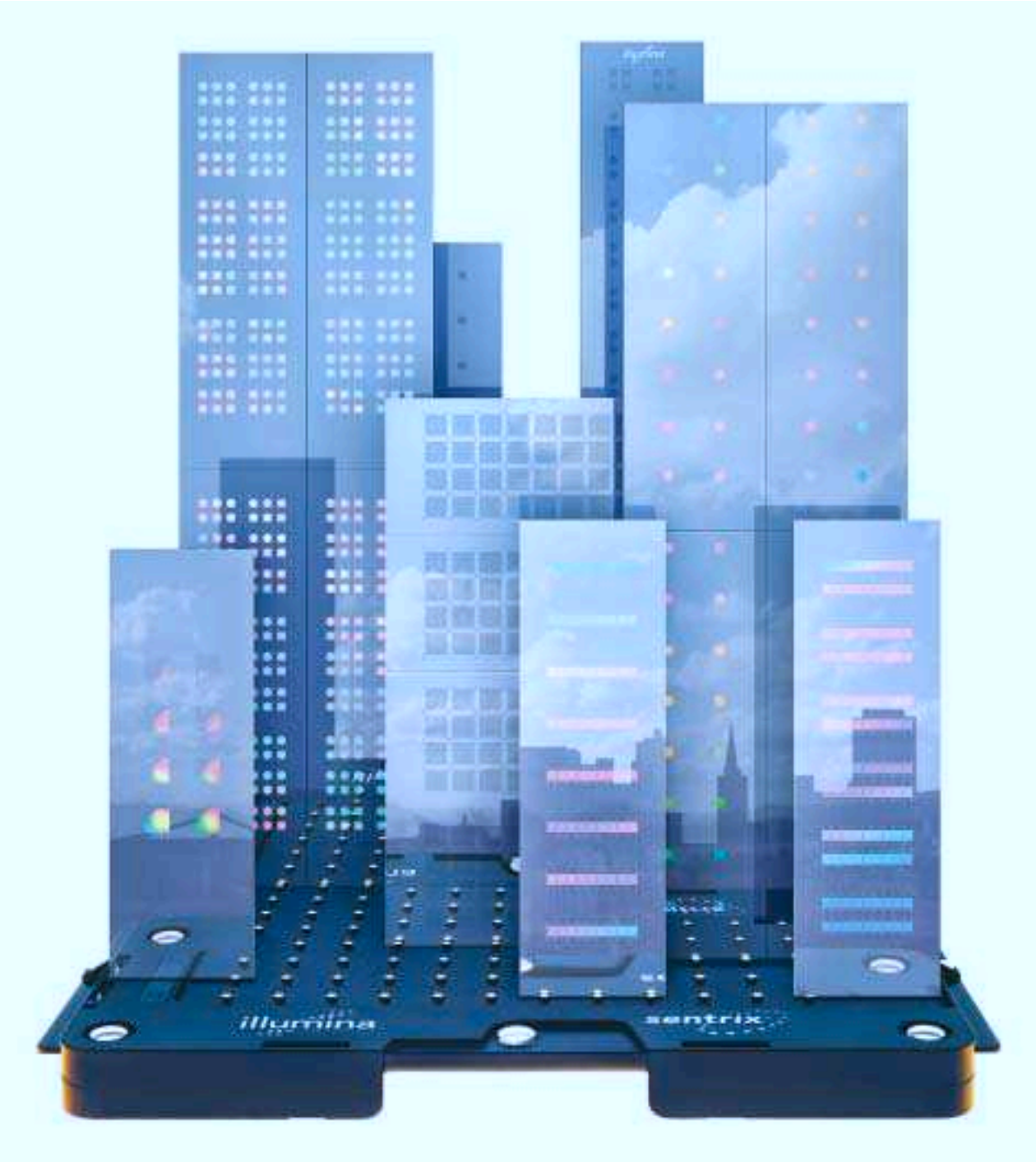
I hereby certify that a true and correct copy of the foregoing "OPPOSER'S RESPONSES AND OBJECTIONS TO APPLICANT'S FIRST SET OF INTERROGATORIES TO OPPOSER" was served on J. Michael Hurst of Keating Muething & Klekamp PLL, with an address at One East Fourth Street, Suite 1400, Cincinnati, OH 45202, via first class mail, postage prepaid, today January 2, 2014.

By: 
James R. Menker

NOTICE OF RELIANCE EXHIBIT 1
(CONFIDENTIAL)

EXHIBIT 2.a

2003 Annual Report



illumina®

ILLUM-1902

Sentrix® 16-array BeadChip
Each array can genotype 1536 SNPs.
Dense geometry; 6-micron spacing.

Sentrix 8-sample BeadChip for Focused Expression
700 genes per sample.
20-micron feature-to-feature spacing.

Sentrix RefSeq BeadChip
Query 8 samples in parallel, 24,000 transcripts each, derived from RefSeq sequences.

Sentrix Whole Genome BeadChip
Six genomes on a single microarray.
Over 10 million features.

Sentrix Array Matrix
Microplate-compatible. 96 arrays in parallel. 50,000 features per array, with 1536-multiplex assay protocol.

The New Architecture for Genetic Analysis

2003 Highlights

In 2003, Illumina shipped the first of a developing family of products built on our New Architecture for Genetic Analysis. These products help researchers speed genetic discoveries that are essential for personalized medicine. As a result of this progress and the hard work of our employee teams, our revenue for 2003 exceeded $28 million, nearly three times the level of 2002.

We planted cornerstones for future success around the world in 2003, installing six genotyping BeadLabs at leading genomics centers in Asia, North America and Europe.

The BeadLab is a production laboratory that delivers on the promise of a turnkey system. In less than 30 days, we can convert empty lab space into an operation that generates over one million genotypes per day.

In 2003 we introduced the Sentrix® BeadChip, a flexible, highly configurable complement to our Sentrix Array Matrix. We design BeadChips to address various market opportunities by trading off the number of samples analyzed on each chip with the complexity of the analysis of each sample. BeadChips use the same manufacturing methods and infrastructure perfected for the fiber optic-based Array Matrix as well as identical genetic content and assay methods. This results in lower-cost manufacturing for Illumina while providing unequaled platform flexibility for our customers.

Our aggressive business plans require effective team execution across multiple disciplines and functional areas. Our teams have worked tirelessly to exceed our internal expectations and more importantly, those of our customers and investors. The following pages recap Illumina's 2003 performance.

Jay Flatley and John Stuelpnagel

MEETING AND EXCEEDING 2003 MILESTONES

- **Sign 15 Service Contracts**
  Signed 26 genotyping service agreements
- **Ship 5 Production-Scale BeadLabs**
  Shipped and installed 6 BeadLabs
- **Develop 100,000 Assays for the HapMap Project**
  Completed in Q4, 2003
- **Launch First Whole-Genome Oligo Set**
  Completed in Q1, 2003
- **Launch First Product for Gene Expression Profiling**
  Launched Focused Gene Expression Program in Q3, 2003

Commercial

The market for SNP genotyping and gene expression products exceeds $1 billion annually and is growing robustly, fueled by expanded use of microarray methods to study genetic variation and function. Illumina technologies are ideally suited to address research initiatives that increasingly require the generation of large data sets—the product of large numbers of samples and high complexity per sample. For example, the International HapMap Project, for which Illumina is both a Principal Investigator and a supplier, will generate in excess of 250 million data points over approximately two years. This project will serve as a catalyst for new genotyping projects and will help standardize SNP-based pharmacogenomics initiatives.

In 2003, we installed BeadLabs at six of the world's most respected research institutions: The Wellcome Trust Sanger Institute, Shanghai's National Center for Biochip Technology, The Eli and Edyth L. Broad Institute (formerly the Whitehead Institute/MIT Center for Genome Research), Genome Quebec Innovation Centre, Human Genome Center of the Institute of Medical Science of the University of Tokyo, and Johns Hopkins University/Center for Inherited Disease Research (CIDR). Strategically, these BeadLab placements give Illumina the ability to build relationships with the thought leaders of our industry.

In 2003, we installed BeadLabs at six of the world's most respected research institutions.

Tristan Orpin, *Sales*; Susan Eddins, *Marketing*; Kirk Malloy, *Customer Solutions*

Longer term, we believe that the largest opportunity for SNP genotyping will be the broader market of core laboratories and individual researchers who require more moderate throughput levels. The BeadStation 500G was announced in November 2003 to address this emerging opportunity. Built on the same technology platform as BeadLab, the BeadStation features a streamlined GoldenGate™ assay and flexible multiplex levels, enabling researchers to achieve low-cost, high-accuracy genotyping without the use of robotics or information management systems. We began BeadStation shipments in March 2004.

In September 2003, we entered the gene expression market with the launch of our focused array program. This flexible program allows customers to order standard or custom gene content (to query a specific organism or disease state) and to use the content interchangeably on two Sentrix® platforms: our 96-sample Array Matrix and our 8-sample BeadChip.

In January 2004, we announced our plan to enter the whole-human-genome expression market with two new Sentrix BeadChip configurations. The first BeadChip analyzes six samples or replicates (48,000 transcripts each) on a single chip, while the second BeadChip generates expression data for eight samples (24,000 RefSeq transcripts) in parallel on one chip. These new BeadChips have the potential to dramatically reduce the cost of whole-genome expression analysis, allowing researchers to expand the scale and reproducibility of biological experimentation.

Collectively, these new products form the base for an integrated suite of products that can readily expand to accommodate additional market-driven requirements.

On the service side, we signed 26 genotyping service agreements, reflecting the throughput and consistently high data quality of our internal scientific operations. Additionally, Illumina's Oligator® oligonucleotide synthesis business continued to gain market share by focusing on researchers engaged in large projects and major accounts that require volume quantities of high-quality oligos.

In 2003, we nearly doubled the size of our Sales, Marketing and Customer Solutions organizations to support an expanding portfolio of products and to broaden our global coverage and customer service levels. We opened a subsidiary in Japan and a new facility in Singapore, along with distributors and support personnel in China and Australia.

These new BeadChips have the potential to dramatically reduce the cost of whole-genome expression analysis, allowing researchers to expand the scale and reproducibility of biological experimentation.

Research and Engineering

Our success as a company is critically dependent on our ability to effectively convert projects in our development pipeline into innovative new products that provide value to the markets and customers we serve. Our research and development teams represent a core asset with expertise across a broad range of disciplines including biochemistry, bioinformatics, molecular biology, genetics, optical engineering and process engineering. During 2003, we invested considerable energy in optimizing our processes for organizing these core resources into high-performance, cross-functional teams that can rapidly define and deliver new products. While we continue our focus on improving these processes, we feel great about the progress we have made and the level of performance we have achieved.

During the year, our teams delivered critical products to the market including the BeadLab, the BeadChip and the Focused Array products. These teams also enhanced the core technologies we use across multiple product lines, including the BeadArray Reader and the multiplex levels of our assays and arrays.

With our core array platforms fully deployed in manufacturing, we will now concentrate product development resources on new applications and assays that will leverage our technology infrastructure and enhance the capabilities of our growing installed base.

Michal Lebl, *Automation*; Bob Kain, *Engineering*; David Barker, *Research & Development*

Our research and development teams represent a core asset with expertise across a broad range of disciplines.

Operations

Our scientific operations and manufacturing groups focus on the efficient production of high-quality products and services. In 2003, the company made tremendous progress in reducing costs, improving yields and increasing capacity across all our product lines, including arrays, oligos, software, systems and genotyping data.

Central to this progress is a mission-critical set of enterprise information and LIMS (Laboratory Information Management) systems that allow us to manage inventory, schedule manufacturing activity, and integrate data and sample flows both seamlessly and cost effectively.

Illumina continues to be the only microarray manufacturer that is able to ensure the quality of every feature in every array *before* customers ever use our products. Increasingly, the customers we serve are recognizing our superior array performance and data quality, and rewarding us with repeat purchases and new system sales.

As part of our participation in the International HapMap Project, we delivered approximately 100,000 assays in 2003. Illumina's technology continues to demonstrate superior results across all of our installed sites. In 2004 we expect to generate, along with our HapMap partners, approximately 400,000 additional assays as part of this seminal international effort. This library of assays has the potential to deliver value to life science researchers long after the HapMap Project draws to an end.

Arnold Oliphant, *Scientific Operations*; Dave Douglas, *Manufacturing*

Illumina continues to be the only microarray manufacturer that is able to ensure the quality of every feature in every array *before* customers ever use our products.

Corporate

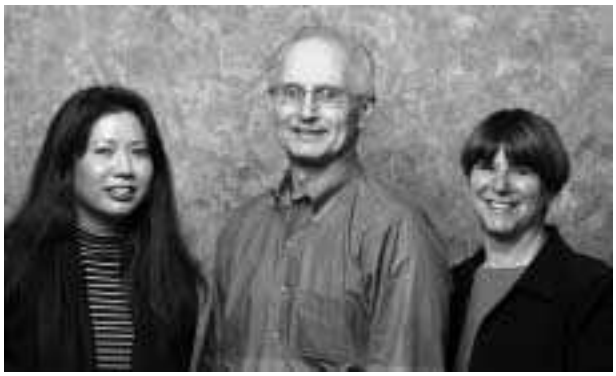
In 2003, Illumina reported revenues of $28.0 million, a 179% increase over the previous year, and a net loss of $27.1 million, or $0.85 per share, compared to a net loss of $40.3 million, or $1.31 per share in 2002. Approximately 50% of our sales were outside the United States, including four of our six BeadLab installations. Cash, investments and long-term restricted cash at year end totaled $45.1 million.

As a result of manufacturing efficiencies and operating leverage, we improved gross margins while continuing to lower market pricing for oligos, arrays, reagents and services. Expense growth was directed toward the build-out of our sales, marketing and customer service infrastructure. As a result of our ongoing litigation with Applied Biosystems, we incurred higher legal costs.

Shortly after year end, we appointed Daniel Bradbury to our Board of Directors. Dan's international pharmaceutical experience will be particularly useful as we develop strategies for deploying our products and services more broadly in the drug discovery and development process.

As a sign of our continued ability to innovate, our patent estate grew to 30 issued and 67 allowed or pending domestic applications. These patents fortify our intellectual property position.

Looking forward to 2004, we will continue to make substantial investments in developing, manufacturing and launching an expanding product portfolio. As we build our installed base, our revenue growth will be driven increasingly by consumable sales. We expect that cash burn in 2004 will be less than $15 million.



Nicky Espinosa, *Intellectual Property*; Tim Kish, *Finance*; Paulette Cabral, *Human Resources*

Our dispute with Applied Biosystems regarding our previous genotyping collaboration agreement will continue in 2004. In December 2003 we notified Applied Biosystems that we terminated our joint development agreement and the San Diego Superior Court directed Applied Biosystems and Illumina to resolve the contract dispute in a binding arbitration procedure. While a definitive schedule has not yet been set, we believe that the arbitration process could be completed as early as September 2004.

We will continue to make substantial investments in developing, manufacturing and launching an expanding product portfolio.

Looking Ahead

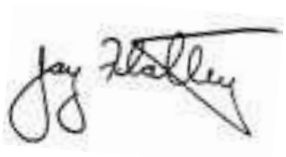
As 2004 unfolds, we remain firmly committed to our strategy of building a comprehensive offering of scalable, multi-application systems. At the foundation of our systems are the Sentrix Array Matrix and BeadChip, the BeadArray Reader, and Oligator® DNA synthesis capability. The BeadLab and BeadStation systems can be scaled in multiple dimensions, providing customers the flexibility to perform SNP genotyping or gene expression experiments on the same platform, with content ranging from whole genomes to focused sets, at various levels of throughput and automation.

We are looking forward this year to full-scale production and shipment of BeadStations and whole-genome expression arrays — extending the benefits of our core technology to the broad genomics community around the world.

2004 will be a financially pivotal year. Our goal is to grow revenue substantially and to approach cash flow breakeven by year end. To achieve these goals, we will need to expand both our customer base and the reach of our commercial organization.

Although we will be selling directly against large companies with greater resources than our own, we believe that our clear customer focus and value proposition will continue to differentiate us. Our products have been developed collaboratively with many of our current customers and we have a keen understanding of their needs. These ongoing relationships will enable us to quickly recognize and adapt to changing market conditions. Concurrent with anticipated sales growth, we are building our customer support teams to ensure the highest level of satisfaction and loyalty.

Our employee team is strong. With the support of stakeholders and together with customers, we will achieve our goal of enabling personalized medicine, while building a scientifically and economically successful company. Our growing community shares in this mission. Thanks for joining us in our pursuit.



JAY FLATLEY
President and Chief Executive Officer

KEY MILESTONES FOR 2004

- **Sign 20 Genotyping Service Contracts**
- **Ship 20 BeadStations and BeadLabs**
- **Develop at least 400,000 Assays with our HapMap Partners**
- **Ship Sentrix Whole-Genome Expression BeadChips**
- **Achieve Operating Cash Burn less than $15 Million**

2003 results: form 10-K >

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 28, 2003

or

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

For the transition period from to .

Commission file number: 000-30361

Illumina, Inc.

(Exact name of Registrant as Specified in Its Charter)

Delaware	**33-0804655**
(State or other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*
9885 Towne Centre Drive, San Diego, California	**92121**
(Address of Principal Executive Offices)	*(zip code)*

Registrant's telephone number, including area code: (858) 202-4500

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

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

Common Stock, $.01 par value
(Title of class)

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ☑ No ☐

As of January 31, 2004, there were 32,900,523 shares of the Registrant's Common Stock outstanding. The aggregate market value of the Common Stock held by non-affiliates of the Registrant (based on the closing price for the Common Stock on the Nasdaq National Market on June 30, 2003) was approximately $56,230,576. This amount excludes an aggregate of 12,673,530 shares of common stock held by officers and directors and each person known by the Registrant to own 10% or more of the outstanding common stock. Exclusion of shares held by any person should not be construed to indicate that such person possesses the power, direct or indirect, to direct or cause the direction of management or policies of the Registrant, or that such person is controlled by or under common control with the Registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Certain exhibits filed with the Registrant's prior registration statements and reports under the Securities Exchange Act of 1934 are incorporated herein by reference into Part IV of this Report.

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ILLUMINA, INC.

FORM 10-K
For the Fiscal Year Ended December 28, 2003

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This Annual Report on Form 10-K may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. These statements relate to future events or our future financial performance. We have attempted to identify forward-looking statements by terminology including ''anticipates,'' ''believes,'' ''can,'' ''continue,'' ''could,'' ''estimates,'' ''expects,'' ''intends,'' ''may,'' ''plans,'' ''potential,'' ''predicts,'' ''should'' or ''will'' or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks outlined under ''Factors Affecting Operating Results,'' contained in Item 7 — ''Management's Discussion and Analysis of Financial Condition and Results of Operation,'' that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels or activity, performance or achievements expressed or implied by these forward-looking statements. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We are not under any duty to update any of the forward-looking statements after the date we file this Annual Report on Form 10-K or to conform these statements to actual results, unless required by law.

Illumina®, Array of Arrays™, BeadArray™, GoldenGate™, Sentrix® and Oligator® are our trademarks. This report also contains brand names, trademarks or service marks of companies other than Illumina, and these brand names, trademarks and service marks are the property of their respective holders.

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports are available free of charge on our website, *www.illumina.com.* Such reports are made available as soon as reasonably practicable after filing with the Securities and Exchange Commission.

PART I

Item 1. *Business.*

Overview

We are a leading developer of next-generation tools for the large-scale analysis of genetic variation and function. Understanding genetic variation and function is critical to the development of personalized medicine, a key goal of genomics. Our tools provide information that could be used to improve drugs and therapies, customize diagnoses and treatment, and cure disease.

Completion of the sequencing of the human genome will drive demand for tools that can assist researchers in processing the billions of tests necessary to convert raw genetic data into medically valuable information. This requires functional analysis of highly complex biological systems, involving a scale of experimentation not practical using currently available tools and technologies. Using our technologies, we have developed a comprehensive line of products that can address the scale of experimentation and the breadth of functional analysis required to help achieve the goals of molecular medicine.

Our patented BeadArray technology uses microscopic beads randomly deposited in wells to achieve a level of miniaturization that allows for a new scale of experimentation. A microarray is a collection of miniaturized test sites arranged on a surface that permits many tests, or assays, to be performed in parallel. Our arrays allow simultaneous processing of many samples in parallel, achieving throughput we believe to be significantly beyond the capability of any other technology currently on the market. We assemble our arrays using relatively inexpensive materials. Our proprietary manufacturing process allows us to easily adapt the arrays to a broad range of applications, including both genotyping and gene expression. These characteristics allow us to create next-generation arrays with a unique combination of high throughput, cost effectiveness and flexibility. In addition, our complemen-

tary Oligator technology permits parallel synthesis of the millions of different pieces of DNA necessary to perform large-scale genetic analysis on arrays.

We provide both products and services that utilize our proprietary technologies. During 2001, we launched our commercial genotyping service product line which combines our BeadArray technology with an automated, laboratory information management system, or LIMS, controlled process to provide high throughput identification of the most common form of genetic variation, known as single nucleotide polymorphisms, or SNPs. We also began the sale of custom synthesized pieces of DNA called oligonucleotides, or oligos using our proprietary Oligator technology.

In the third quarter of 2002, we announced the launch of our production scale BeadLab genotyping system. This integrated turnkey system is built around our proprietary BeadArray technology. Included in the system are the BeadArray Reader, GoldenGate assay protocols, LIMS and analytical software, fluid-handling robotics, and access to Sentrix arrays and reagent kits for analyzing genetic sequences. Our Sentrix array is a collection of individual arrays arranged in a pattern compatible with standard microtiter plates, our reagent kit uses highly multiplexed GoldenGate assay protocols which allow up to 1536 SNPs to be analyzed at one time in a sample and our BeadArray Reader is a proprietary scanner used to read the results of the experiments captured on our arrays. Our genotyping system is based on the production laboratory that has been operational in our genotyping service product line since 2001. When installed, the BeadLab genotyping system is able to routinely produce up to 1.4 million genotypes per day. As of the end of February 2004, we have installed six BeadLab genotyping systems.

In the fourth quarter of 2002, we were named the largest U.S. participant in the $100 million International HapMap Project funded by the National Institutes of Health. This project is an internationally funded successor project to the Human Genome Project that will help identify a map of genetic variations that may be used to perform disease-related research. This map of the human genome will allow more rapid and efficient large-scale genetic association studies aimed at discovering variants contributing to human disease and differential response to drug treatments. We are one of five funded U.S. participants in a worldwide initiative that includes research groups in Canada, China, Japan, Nigeria and the United Kingdom. We will be directly responsible for screening over 15% of the assays in the project. This effort leverages our Oligator DNA synthesis capability and the production-scale throughput of our genotyping services operation. Our BeadLab system is being used by organizations responsible for creating over 60% of the assays in this project.

In the first quarter of 2003, we completed the installation of and recorded revenue for our first BeadLab high-throughput SNP genotyping system. We installed and recorded revenue for a second BeadLab in the second quarter of 2003, two additional BeadLabs in the third quarter of 2003 and a fifth and sixth BeadLab system in the fourth quarter of 2003.

In the second quarter of 2003, we announced the launch of a new microarray format, the Sentrix BeadChip, which is expected to significantly expand market opportunities for our BeadArray technology and provide increased experimental flexibility for life science researchers.

In the third quarter of 2003, we announced the launch of a gene expression product line on both the Sentrix Array Matrix and the Sentrix BeadChip that will allow researchers to analyze a focused set of genes across eight to 96 samples on a single microarray.

In the fourth quarter of 2003, we announced the launch of a benchtop SNP genotyping system, the BeadStation, for performing medium scale genotyping using our technology. The BeadStation includes our BeadArray Reader, genotyping analysis software and GoldenGate assay reagents and is designed to match the throughput requirements and variable automation needs of individual research groups and core labs. This system is expected to be available for shipment in the second quarter of 2004.

In the first quarter of 2004, we announced the launch of two new Sentrix BeadChips for whole-genome gene expression. These BeadChips are designed to enable high-performance, cost-effective,

whole-genome expression profiling of multiple samples on a single chip, resulting in a dramatic reduction in cost of whole-genome expression analysis while allowing researchers to expand the scale and reproducibility of large-scale biological experimentation.

We are seeking to expand our customer base for our BeadArray technology; however, we can give no assurance that our sales efforts will continue to be successful.

We were incorporated in California in April 1998. We reincorporated in Delaware in July 2000. Our principal executive offices are located at 9885 Towne Centre Drive, San Diego, California 92121. Our telephone number is (858) 202-4500.

Industry Background

Genetic Variation and Function

Every person inherits two copies of each gene, one from each parent. The two copies of each gene may be identical, or they may be different. These differences are referred to as genetic variation. Examples of the physical consequences of genetic variation include differences in eye and hair color. Genetic variation can also have important medical consequences, including predisposition to disease and differential response to drugs. Genetic variation affects diseases, including cancer, diabetes, cardiovascular disease and Alzheimer's disease. In addition, genetic variation may cause people to respond differently to the same drug. Some people may respond well, others may not respond at all, and still others may experience adverse side effects. The most common form of genetic variation is a Single Nucleotide Polymorphism, or SNP. A SNP is a variation in a single position in a DNA sequence. It is estimated that the human genome contains between three and six million SNPs.

While in some cases a single SNP will be responsible for medically important effects, it is now believed that the genetic component of most major diseases is the result of the interaction of many SNPs. Therefore, it will be important to investigate many SNPs together in order to discover medically valuable information.

Current efforts to understand genetic variation and function have primarily centered around SNP genotyping and gene expression profiling.

SNP Genotyping

SNP genotyping is the process of determining which SNPs are present in each of the two copies of a gene, or other portion of DNA sequence, within an individual or other organism. The use of SNP genotyping to obtain meaningful statistics on the effect of an individual SNP or a collection of SNPs, and to apply that information to clinical trials and diagnostic testing, will require the analysis of millions of SNP genotypes and the testing of large populations for each disease. For example, a single large clinical trial could involve genotyping 200,000 SNPs per patient in 1,000 patients, thus requiring 200 million assays. Using available technologies, this scale of SNP genotyping is both impractical and prohibitively expensive.

Large-scale SNP genotyping will be used for a variety of applications, including genomics-based drug development, clinical trial analysis, disease predisposition testing, and disease diagnosis. SNP genotyping can also be used outside of healthcare, for example in the development of plants and animals with desirable commercial characteristics. These markets will require billions of SNP genotyping assays annually.

Gene Expression Profiling

Gene expression profiling is the process of determining which genes are active in a specific cell or group of cells and is accomplished by measuring mRNA, the intermediary between genes and proteins. Variation in gene expression can cause disease, or act as an important indicator of disease or predisposition to disease. By comparing gene expression patterns between cells from different

environments, such as normal tissue compared to diseased tissue or in the presence or absence of a drug, specific genes or groups of genes that play a role in these processes can be identified. Studies of this type, used in drug discovery, require monitoring thousands, and preferably tens of thousands, of mRNAs in large numbers of samples. Once a smaller set of genes of interest has been identified, researchers can then examine how these genes are expressed or suppressed across numerous samples, for example, within a clinical trial. The high cost of current gene expression methods has limited the development of the gene expression market.

Once gene expression patterns have been correlated to specific diseases, gene expression profiling is expected to become an important diagnostic tool. Diagnostic use of expression profiling tools is anticipated to grow rapidly with the combination of the sequencing of various genomes and the availability of more cost-effective technologies.

Our Technologies

BeadArray Technology

We have developed a proprietary array technology that enables the large-scale analysis of genetic variation and function. Our BeadArray technology combines microscopic beads and a substrate in a simple proprietary manufacturing process to produce arrays that can perform many assays simultaneously. Our BeadArray technology provides a unique combination of high throughput, cost effectiveness, and flexibility. We achieve high throughput with a high density of test sites per array and our ability to format arrays in either a pattern arranged to match the wells of standard microtiter plates or in various configurations in the format of standard microscope slides. We maximize cost effectiveness by reducing consumption of expensive reagents and valuable samples, and from the low manufacturing costs associated with our complementary technologies. Our ability to vary the size, shape and format of the well patterns and to create specific bead pools, or sensors, for different applications provides the flexibility to address multiple markets and market segments. We believe that these features will enable our BeadArray technology to become a leading platform for the emerging high-growth markets of SNP genotyping and gene expression.

Our proprietary BeadArray technology combines microwells etched into a substrate and specially prepared beads that self-assemble into an array. We have deployed our BeadArray technology in two different formats, the Array Matrix and the BeadChip. Our first bead-based product was the Array Matrix which incorporates fiber optic bundles. We have the fiber optic bundles manufactured to our specifications, which we cut into lengths of less than one inch. Each bundle contains approximately 50,000 individual fibers and 96 of these bundles are placed into an aluminum plate, which forms an Array Matrix. BeadChips are fabricated in microscope slide-shaped sizes with varying numbers of sample sites per slide. Both formats are chemically etched to create tens of thousands of wells for each sample site.

In a separate process, we create sensors by affixing a specific type of molecule to each of the billions of microscopic beads in a batch. We make different batches of beads, with the beads in a given batch coated with one particular type of molecule. The particular molecules on a bead define that bead's function as a sensor. For example, we create a batch of SNP sensors by attaching a particular DNA sequence to each bead in the batch. We combine batches of coated beads to form a pool specific to the type of array we intend to create. A bead pool one milliliter in volume contains sufficient beads to produce thousands of arrays. One of the advantages of this technology is that it allows us to create universal arrays for SNP genotyping. All of our SNP genotyping arrays are manufactured with the same set of sensors. This allows us to manufacture one type of genotyping array, and by varying the reagent kit, still be able to use it to test for any combination of SNPs.

To form an array, a pool of coated beads is brought into contact with the array surface where they are randomly drawn into the wells, one bead per well. The tens of thousands of beads in the wells comprise our BeadArray. Because the beads assemble randomly into the wells, we perform a final procedure called decoding in order to determine which bead type occupies which well in the array. We

employ several proprietary methods for decoding, a process that requires only a few steps to identify all the beads in the array. One beneficial by-product of the decoding process is a validation of each bead in the array. This quality control test characterizes the performance of each bead and can identify and eliminate use of any empty wells. We ensure that each bead type on the array is sufficiently represented by having multiple copies of each bead type. This improves the reliability and accuracy of the resulting data by allowing statistical processing of the results of identical beads.

One performs an experiment on the BeadArray matrices by preparing a sample, such as DNA from a patient, and introducing it to the array. The design features of our Array Matrix allow it to be simply dipped into a solution containing the sample, whereas our BeadChip allows processing of samples on a slide. The molecules in the sample bind to their matching molecules on the coated bead. The BeadArray Reader detects the matched molecules by shining a laser on the fiber optic bundle or on the BeadChip. Since the molecules in the sample have a structure that causes them to emit light in response to a laser, detection of a binding event is possible. This allows the measurement of the number of molecules bound to each coated bead, resulting in a quantitative analysis of the sample.

Oligator Technology

Genomic applications require many different short pieces of DNA that can be made synthetically, called oligonucleotides. For example, SNP genotyping typically requires three to four different oligonucleotides per assay. A SNP genotyping experiment analyzing 10,000 SNPs may therefore require 30,000 to 40,000 different oligonucleotides, contributing significantly to the expense of the experiment.

We have designed our proprietary Oligator technology for the parallel synthesis of many different oligonucleotides to meet the requirements of large-scale genomics applications. We believe that our Oligator technology is substantially more cost effective and provides higher throughput than available commercial alternatives. Our synthesis machines are computer controlled and utilize many robotic processes to minimize the amount of labor used in the manufacturing process. Each of these synthesizers can produce up to 3072 oligos in parallel, using very small amounts of material. We believe both of these attributes are substantial improvements over other existing technologies.

Key Advantages of Our BeadArray and Oligator Technologies

We believe that our BeadArray and Oligator technologies provide distinct advantages, in a variety of applications, over competing technologies, by creating cost-effective, highly miniaturized arrays with the following advantages:

High Throughput. The miniaturization of our BeadArray technology provides significantly greater information content per unit area than any other array known to us. To further increase throughput, we have formatted our Arrays in a pattern arranged to match the wells of standard microtiter plates, allowing throughput levels of up to 150,000 unique assays per microtiter plate, as well as the use of laboratory robotics to speed process time. The Oligator's parallel synthesis capability allows us to manufacture the diversity of oligonucleotides necessary to support large-scale genomic applications.

Cost Effectiveness. Our BeadArray products substantially reduce the cost of experiments as a result of our proprietary manufacturing process and our ability to capitalize on cost reductions generated by advances in fiber optics, digital imaging and bead chemistry. In addition, these products require smaller reagent volumes than other array technologies, and therefore reduce reagent costs. Our cost-effective Oligator technology further reduces reagent costs, as well as the cost of coating beads.

Flexibility. A wide variety of conventional chemistries are available for attaching different molecules, such as DNA, RNA, proteins, and other chemicals to beads. By using beads, we are able to take advantage of these chemistries to create a wide variety of sensors, which we assemble into arrays using the same proprietary manufacturing process. In addition, we can have fiber optic bundles and

BeadChips manufactured in multiple shapes and sizes with wells organized in various arrangements to optimize them for different markets and market segments. In combination, the use of beads and etched wells provides the flexibility and scalability for our BeadArray technology to be tailored to perform many applications in many different market segments, from drug discovery to diagnostics. Our Oligator technology allows us to manufacture a wide diversity of lengths and quantities of oligonucleotides.

Quality. The high density of beads in each array enables us to have multiple copies of each individual bead type. We measure the copies simultaneously and combine them into one data point. This allows us to make a comparison of each bead against its own population of identical beads, which permits the statistical calculation of a more reliable and accurate value for each data point. Finally, the manufacture of the array includes a proprietary decoding step that also functions as a quality control test of every bead on every array, improving the overall quality of the data.

Our Strategy

Our goal is to make our BeadArray platforms the industry standard for products and services utilizing array technologies. We plan to achieve this by:

- focusing on emerging high-growth markets;
- rapidly commercializing our BeadLab, BeadStation, Sentrix and BeadChip products;
- expanding our technologies into multiple product lines and market segments; and
- strengthening our technological leadership.

Products and Services

The first implementation of our BeadArray technology, the Sentrix Array Matrix, is a disposable matrix with 96 fiber optic bundles arranged in a pattern that matches the standard 96-well microtiter plate. Each fiber optic bundle performs more than 1,500 unique assays. Therefore, one Sentrix array can perform nearly 150,000 individual assays simultaneously, more than any other array system known to us. The BeadChip, introduced in 2003, is fabricated in multiple configurations to support multiple applications and scanning technologies.

We have provided genotyping services using our proprietary BeadArray technology since 2001. In addition, we have developed our first genotyping and gene expression products based on this technology. These products include disposable Sentrix Arrays and BeadChips, GoldenGate reagent kits for SNP genotyping and BeadArray Reader scanning instruments.

SNP Genotyping

In 2001, we introduced the first commercial application of our BeadArray technology by launching our SNP genotyping services product line. Since this launch we have had peak days in which we operated at two million genotypes per day based on individual samples. To our knowledge, no other genotyping platform can achieve comparable levels of throughput while delivering such high accuracy and low cost.

We designed our first consumable BeadArray product, the Sentrix Array Matrix, for SNP genotyping. The Sentrix Array Matrix uses a universal format that allows it to analyze any set of SNPs. We have also developed reagent kits based on GoldenGate assay protocols and the BeadArray Reader, a laser scanner, which is used to read our array products. These components, combined with LIMS, standard operating procedures and analytical software and fluid handling robotics comprise our BeadLab SNP genotyping system. This production scale system was commercialized in late 2002 and when installed, the genotyping system can routinely produce up to 1.4 million genotypes per day.

In January 2003, we announced the availability of two assay sets, one for genetic linkage analysis and the other for fine chromosomal or whole-genome mapping. These standard products have been deployed in our genotyping services operation and are also sold to customers who use our SNP genotyping system. Genetic linkage analysis can help identify chromosomal regions with potential disease associations across a related set of samples. Fine mapping provides dense genotyping and may enable target gene identification related to a specific disease.

In November 2003, we announced the BeadStation, a system for performing moderate scale genotyping designed to match the throughput requirements of individual research groups and core labs. The BeadStation includes our BeadArray Reader, genotyping analysis software and GoldenGate assay reagents and will initially support a high-density version of our BeadChip. The Sentrix BeadChip allows simultaneous processing of 16 samples and uses identical content as the Sentrix Array Matrix.

Gene Expression Profiling

In September 2003, we introduced our focused set gene expression products on both the Sentrix Array Matrix and Sentrix BeadChip platforms. For high-throughput projects, our system includes a BeadArray Reader for imaging Sentrix Array Matrices, a hybridization chamber and software for data extraction. For research projects that require moderate throughput, a version of the Sentrix BeadChip analyzes eight samples in parallel and can be scanned on a portion of the installed base of Axon Instruments' GenePix™ scanners. In addition, we have developed standard gene expression products for each of the human, mouse and arabidopsis genomes.

In January 2004, we announced two whole-genome gene expression BeadChip products. Both products allow whole-genome expression profiling of multiple samples on a single chip and are imaged using our BeadArray Reader. The first BeadChip is designed to analyze six discrete whole-human-genome samples on one chip, interrogating in each sample approximately 48,000 transcripts from the estimated 30,000 genes in the human genome. The second BeadChip product analyzes eight samples in parallel against the roughly 22,000 genes represented in the consensus RefSeq database, a well-characterized whole-genome subset used broadly in genetic analysis. We expect that the new whole-genome gene expression BeadChips will dramatically reduce the cost of whole-genome expression analysis, allowing researchers to expand the scale and reproducibility of large-scale biological experimentation.

Scanning Instrumentation

We have developed the BeadArray Reader which is an instrument that uses a laser to read the results of experiments that are captured on our Sentrix Array Matrices and BeadChips, and is part of both our production scale BeadLab SNP genotyping laboratory and our benchtop BeadStation system. This scanning equipment was designed to be used in all areas of genetic analysis that use our Sentrix arrays.

High-Throughput Synthesis

We have put in place an oligonucleotide manufacturing facility that currently has the capability of producing approximately 20 million oligonucleotides per year. In addition to their use to coat beads, these oligonucleotides are components of the reagent kits for our BeadArray products and are used for assay development. Because our production capacity exceeds our internal needs, we began to offer oligonucleotides for sale to high volume users in 2001. We provide oligonucleotides in a wide range of lengths and in several scales, with the ability to add many types of modifications. We offer a range of quality control options and have implemented a laboratory information management system to control much of the manufacturing process. In February 2003, we introduced the first standard product offerings in our Oligator product line, a whole-genome oligonucleotide reference set designed and optimized for spotted gene expression microarrays. We believe our Oligator technology is more cost

effective than competing technologies, which has allowed us to market our oligonucleotides under a price leadership strategy while still achieving attractive gross margins.

Partnerships and Collaborations

In November 1999, we entered into a joint development agreement with Applied Biosystems, a Division of Applera Corporation, under which the companies would jointly develop a SNP genotyping system that would combine our BeadArray™ technology with Applied Biosystems' assay chemistry and scanner technology. Under this agreement, we were primarily responsible for developing and manufacturing the arrays and Applied Biosystems was responsible for developing and manufacturing the instruments, SNP assay reagents and software and for marketing the system worldwide. In conjunction with the agreement, Applied Biosystems purchased 1.25 million shares of Series C convertible preferred stock at $4.00 per share. In addition, Applied Biosystems agreed to provide us with non-refundable research and development support of $10 million, all of which was provided by December 2001. Upon commercialization of the system, we were to receive a share of the operating profits from the sales of all components of these systems, had such sales occurred.

In July 2002, Applied Biosystems indicated that the planned mid-2002 launch of this genotyping system would be delayed a second time. This delay was related to Applied Biosystems' inability to optimize and multiplex the SNP assay reagents. We do not believe that Applied Biosystems has any intention of continuing to develop a collaboration product with us. As a result of the delay in developing the collaboration product, we launched our own production-scale genotyping system in July 2002 utilizing our arrays and an independently developed scanner and assay method. In December 2002, we announced that we had notified Applied Biosystems that it was in breach of the joint development agreement. This notification followed a patent infringement suit filed by Applied Biosystems against us and a notification from Applied Biosystems alleging that we had breached the joint development agreement and seeking to compel arbitration pursuant to the agreement. In December 2003, we notified Applied Biosystems that we had terminated the joint development agreement. For further information regarding this matter, please see ITEM 3, ''Legal Proceedings'' and ITEM 7, ''Managements' Discussion and Analysis of Financial Condition and Results of Operations.'' We do not have any other significant partnerships or collaborations.

Research and Development

We have made substantial investments in research and development since our inception. We have assembled a team of skilled engineers and scientists who are specialists in biology, chemistry, informatics, instrumentation, optical systems, software, manufacturing and other related areas required to complete the development of our products. Our research and development efforts have focused primarily on the tasks required to optimize our BeadArray and Oligator technologies and to support commercialization of the products and services derived from these technologies. These efforts include among others:

- We enhanced the quality and manufacturing yield of our Sentrix Array Matrices and BeadChips. We are exploring ways to continue to increase the level of automation in the manufacturing process to further reduce the time and cost of producing arrays. We currently have the infrastructure in place to manufacture Sentrix Array Matrices and BeadChips in sufficient quantity to meet anticipated internal and external needs.

- We introduced a number of initiatives in 2002 and 2003 to improve the yield and quality of our oligonucleotides while reducing cost substantially. By refining our understanding of the design and operation of our Oligator technology, we have been able to make numerous changes in our process, which we believe provides us a more cost effective system than competing technologies. Our oligonucleotide manufacturing facility currently has the capability of producing approximately 20 million oligonucleotides per year.

- We have developed the BeadArray Reader, a laser scanning instrument that scans our Sentrix array platforms. Laser scanners provide the high sensitivity and resolution required to address the extremely dense geometries of our bead-based arrays. We made the first commercial shipments of our scanners in the first quarter of 2003 as part of our BeadLab system.

- We completed development of and launched our gene expression product line on both array formats. We believe the combination of our gene expression products flexibility and low-per-sample cost will enable larger and more meaningful gene expression studies.

- We have been exploring the underlying molecular biology and chemistry issues related to developing assays and performing experiments on our BeadArray platforms. By improving our processes and protocols, we have substantially increased the number of assays we can process simultaneously in a single sample on our arrays.

Our research and development expenses for the fiscal years 2003, 2002 and 2001 (exclusive of charges relating to stock based compensation of $1.3 million, $2.4 million and $3.1 million, respectively) were $22.5 million, $26.8 million and $20.7 million, respectively. We expect research and development expense to remain flat in 2004 as compared to 2003 but in general increase in the future as we continue to expand our research and product development efforts.

Government Grants

Government grants allow us to fund internal scientific programs and exploratory research. We retain ownership of all intellectual property and commercial rights generated during these projects, subject to a non-exclusive, non-transferable, paid-up license to practice, for or on behalf of the United States, inventions made with federal funds. This license is retained by the U.S. government as provided by applicable statutes and regulations. We do not believe that the retained license will have any impact on our ability to market our products, and we do not need government approval with respect to this license in order to enter into collaborations or other relationships with third parties. We are the recipient of a grant from the National Institutes of Health covering our participation in the International HapMap Project, which is a $100 million, internationally funded successor project to the Human Genome Project that will help identify a map of genetic variations that may be used to perform disease-related research. We could receive up to $9 million of funding for this project which covers basic research activities, the development of SNP assays and the genotyping to be performed on those assays. As of the end of 2003, we had approximately $5.4 million of funding remaining related to this project, much of which is expected to be received in 2004, depending on the actual amount of work that is performed by us.

Intellectual Property

We have an extensive patent portfolio, including ownership of, or exclusive licenses to, 27 issued U.S. patents and 65 pending U.S. patent applications, including four allowed applications that have not yet issued as patents, some of which derive from a common parent application. Our issued patents, which cover various aspects of our BeadArray, oligonucleotide synthesis and chemical detection technologies, expire between 2011 and 2020. We are seeking to extend this patent protection on our BeadArray, GoldenGate, Oligator, Sentrix and related technologies. We have received or filed counterparts for many of these patents and applications in one or more foreign countries.

We also rely upon trade secrets, know-how, copyright and trademark protection, as well as continuing technological innovation and licensing opportunities to develop and maintain our competitive position. Our success will depend in part on our ability to obtain patent protection for our products and processes, to preserve our copyrights and trade secrets, to operate without infringing the proprietary rights of third parties and to acquire licenses related to enabling technology or products used with our BeadArray, GoldenGate, Sentrix and Oligator technologies.

We are party to various exclusive and non-exclusive license agreements with third parties, which grant us rights to use key aspects of our array technology, assay methods, chemical detection methods, reagent kits and scanning equipment. We have exclusive licenses from Tufts University to patents that cover our use of BeadArray technology. These patents were filed by Dr. David Walt, a member of our board of directors, the Chairman of our Scientific Advisory Board and one of our founders. Our exclusive licenses expire with the termination of the underlying patents, which will occur between 2010 and 2020. In 2001, we entered into a non-exclusive license agreement with Amersham Biosciences that covers certain technology contained in our BeadArray Reader. In 2002, we obtained a non-exclusive license from Dade Behring Marburg GmbH that relates to certain components of our GoldenGate assay. In all cases, the agreements remain in effect over the term of the underlying patents, may be terminated at our request without further obligation and require that we pay customary royalties while the agreement is in effect.

Marketing and Distribution

Our current products address the genetic analysis portion of the life sciences market, in particular, experiments involving SNP genotyping and gene expression profiling. These experiments may be involved in many areas of biologic research including basic human disease research, pharmaceutical drug discovery and development, pharmacogenomics, toxicogenomics and agricultural research. Our potential customers include pharmaceutical, biotechnology, agrichemical, diagnostics and consumer products companies, as well as academic or private research centers. The genetic analysis market is relatively new and emerging and its size and speed of development will be ultimately driven by, among other items,

- the ability of the research community to extract medically valuable information from genomics and to apply that knowledge to multiple areas of disease-related research and treatment,
- the availability of sufficiently low cost, high-throughput research tools to enable the large amount of experimentation required to study genetic variation and function, and
- the availability of government and private industry funding to perform the research required to extract medically relevant information from genomic analysis.

We market and distribute our products directly to customers in North America, major European markets, Japan and Singapore. In each of these areas we have dedicated sales, service and application support personnel responsible for expanding and managing their respective customer bases. In markets outside of these areas, primarily the Pacific Rim countries, we sell our products and provide services to customers through distributors that specialize in life science products. We expect to significantly increase our sales and distribution resources during 2004 and beyond as we launch a number of new products and expand the number of customers that can use our products.

Manufacturing

We manufacture our array platforms, reagent kits, scanning equipment and oligonucleotides in-house and believe that we currently have the ability to manufacture these in sufficient quantity to meet anticipated internal and external needs. We currently depend upon outside suppliers for materials used in the manufacture of our products. We intend to continue, and may extend, the outsourcing of portions of our manufacturing process to subcontractors where we determine it is in our best commercial interests.

During 2001, we moved into a new facility which allowed us to design the manufacturing areas to fit our specific processes, and optimize material flow and personnel movement. In addition, we have implemented information management systems for many of our manufacturing and services operations to manage all aspects of material and sample use. We adhere to access and safety standards required by federal, state and local health ordinances, such as standards for the use, handling and disposal of hazardous substances.

Competition

Although we expect that our BeadArray products and services will provide significant advantages over currently available products and services, we expect to encounter intense competition from other companies that offer products and services for the SNP genotyping and gene expression markets. These include companies such as Aclara Biosciences, Affymetrix, Agilent, Amersham Biosciences (recently acquired by GE Corp.), Applied Biosystems, Beckman Coulter, Caliper Technologies, Luminex, ParAllele Bioscience, Perlegen Sciences, Sequenom and Third Wave Technologies. Many of these companies have or will have substantially greater financial, technical, research, and other resources and larger, more established marketing, sales, distribution and service organizations than we do. In addition, they may have greater name recognition than we do in the markets we need to address and in some cases a large installed base of systems. Each of these markets is very competitive and we expect new competitors to emerge and the intensity of competition to increase in the future. In order to effectively compete with these companies, we will need to demonstrate that our products have superior throughput, cost and accuracy advantages over the existing products. Rapid technological development may result in our products or technologies becoming obsolete. Products offered by us could be made obsolete either by less expensive or more effective products based on similar or other technologies. Although we believe that our technology and products will offer advantages that will enable us to compete effectively with these companies, we cannot assure you that we will be successful.

Geographic Information

During 2003, $14.4 million, or 51%, of our total revenues came from customers outside the United States, as compared to $1.3 million, or 13%, in 2002. We expect that sales to international customers will continue to be an important and growing source of revenues. In 2003, we continued to add sales support resources in Western Europe and opened direct sales offices in Japan and Singapore. In addition, we established new distributor relationships in China and Australia.

Information about the geographies in which we operate can be found in the Notes to Consolidated Financial Statements at Note 10, ''Segment Information and Geographic Data.''

Employees

As of December 28, 2003, we had a total of 236 employees, 53 of whom hold Ph.D. degrees and 103 of whom are engaged in full-time research and development activities. None of our employees is represented by a labor union. We consider our employee relations to be positive.

Executive Officers

Our executive officers as of March 1, 2004, are as follows:

Name	Age	Position
Jay T. Flatley	51	President, Chief Executive Officer and Director
David L. Barker, Ph.D.	62	Vice President, Chief Scientific Officer
Paulette D. Cabral	59	Vice President of Human Resources
David C. Douglas	49	Vice President of Manufacturing
Noemi C. Espinosa	45	Vice President of Intellectual Property
Robert C. Kain	43	Vice President of Engineering
Timothy M. Kish	52	Vice President, Chief Financial Officer
Arnold Oliphant, Ph. D	44	Vice President of Scientific Operations
Tristan B. Orpin	38	Vice President of Worldwide Sales
John R. Stuelpnagel, DVM	46	Founder, Senior Vice President of Operations and Director

Jay T. Flatley has served as our President, Chief Executive Officer and a Director since October 1999. Prior to joining Illumina, Mr. Flatley was co-founder, President, Chief Executive Officer and a Director of Molecular Dynamics, a life sciences company, from May 1994 to September 1999. He served in various other positions with that company from 1987 to 1994. From 1985 to 1987, Mr. Flatley was Vice President of Engineering and Vice President of Strategic Planning at Plexus Computers, a UNIX computer company. Mr. Flatley holds a B.A. in Economics from Claremont McKenna College and a B.S. and M.S. in Industrial Engineering from Stanford University.

David L. Barker, Ph.D., has served as our Vice President and Chief Scientific Officer since March 2000. Prior to joining us, Dr. Barker was Vice President and Chief Science Advisor at Amersham Pharmacia Biotech, a life sciences company, from September 1998 to March 2000. From May 1997 to September 1998, Dr. Barker was Vice President of Research and Business Development of Molecular Dynamics. From 1992 to 1997, he was Vice President of Scientific Development. From 1988 to 1995, he held various other positions with that company. Dr. Barker holds a B.S. in Chemistry from California Institute of Technology and received his Ph.D. in Biochemistry from Brandeis University.

Paulette D. Cabral has served as our Vice President of Human Resources since March 2001. Prior to joining us, Ms. Cabral was the Vice President of Human Resources at Marimba, Inc., an internet infrastructure company, from July 2000 to February 2001. From December 1996 to July 2000, Ms. Cabral held various human resource positions at Molecular Dynamics; most recently, she was Vice President of Human Resources. Previous to that she held various positions at Acuson Corporation and Spectra Physics. Ms. Cabral holds a B.A. in Sociology from San Jose State University.

David C. Douglas has served as our Vice President of Manufacturing since January 2001. Prior to joining us, Mr. Douglas was Vice President of Operations at POSDATA Inc., an information technology equipment company, from July 1989 to December 2000. From July 1988 to July 1989, Mr. Douglas was Test Operations Manager at Acuson Computed Sonography, a medical equipment company. Previous to that he held various positions at Plexus Computers and Spectra Physics. Mr. Douglas holds a B.S. in Electronics Engineering Technology from Oregon Institute of Technology.

Noemi C. Espinosa has served as our Vice President of Intellectual Property since May 2000 and our Corporate Secretary since January 2001. Prior to joining us, Ms. Espinosa was a partner with the firm of Brobeck, Phleger & Harrison LLP from January 1992 to April 2000, having joined the firm in 1990. From 1983 to 1990, Ms. Espinosa was associated with the intellectual property firm of Townsend & Townsend. Ms. Espinosa holds a B.S. in Chemical Engineering from San Jose State University and a J.D. from the University of California, Hastings College of Law. She is registered to practice before the United States Patent and Trademark Office.

Robert C. Kain has served as our Vice President of Engineering since December 1999. Prior to joining us, Mr. Kain was Senior Director of Engineering at Molecular Devices from July 1999 to December 1999. Previously, Mr. Kain served as Director of Microarray Engineering at Molecular Dynamics from August 1998 to July 1999 and in other positions from August 1996 to August 1998. From 1983 to 1988, Mr. Kain was employed at DatagraphiX, an information technology equipment company. Mr. Kain received his B.S. in Physics from San Diego State University and his M.B.A. from St. Mary's College.

Timothy M. Kish has served as our Vice President and Chief Financial Officer since May 2000. Prior to joining us, Mr. Kish was Vice President, Finance and Chief Financial Officer at Biogen, Inc., a biopharmaceutical company, from September 1993 to April 2000. He served as Corporate Controller of that company from 1986 to 1993. From 1983 to 1986, Mr. Kish was Director of Finance at Allied Health & Scientific Products Company, a subsidiary of Allied-Signal Corporation. Mr. Kish holds a B.B.A. from Michigan State University and an M.B.A. from the University of Minnesota.

Arnold Oliphant, Ph.D., has served as our Vice President of Scientific Operations since October 2000. Prior to joining us, Dr. Oliphant was Vice President of Functional Genomics at Myriad Genetics, a genomics company, from 1997 to September 2000 and was Process Development and Production

Director from January 1995 to June 1997. From January 1992 to January 1995, Dr. Oliphant held several positions at Pioneer Hybrid International, a plant genetics company and prior to that was an Assistant Professor at the University of Utah. Dr. Oliphant received his B.A. in biology from the University of Utah and his Ph.D. in Genetics from the Harvard Medical School.

Tristan Orpin has served as our Vice President of Worldwide Sales since December 2002. Prior to joining us, Mr. Orpin was the Vice President of Sales and Marketing at Sequenom, a genomics company, from August 2001 to November 2002 and was Director of Sales and Marketing from September 1999 to August 2001. From December 1988 to September 1999, Mr. Orpin served in several senior sales and marketing positions at Bio-Rad Laboratories, a life sciences company. Mr. Orpin received his BSc. in Biochemistry from the University of Melbourne.

John R. Stuelpnagel, D.V.M., one of our founders, is our Senior Vice President of Operations and has been a director since April 1998. From October 1999 to April 2002, he served as our Vice President of Business Development. From April 1998 to October 1999, he served as our acting President and Chief Executive Officer and was acting Chief Financial Officer through April 2000. While founding Illumina, Dr. Stuelpnagel was an associate with CW Group, a venture capital firm, from June 1997 to September 1998 and with Catalyst Partners, a venture capital firm, from August 1996 to June 1997. Dr. Stuelpnagel received his B.S. in Biochemistry and his Doctorate in Veterinary Medicine from the University of California, Davis and his M.B.A. from the University of California, Los Angeles.

Item 2. ***Properties.***

Our principal research and development, manufacturing and administrative facilities occupy approximately 90,000 square feet of three buildings located in San Diego, California, which we purchased, along with eight acres of adjacent land, in January 2002. In connection with this purchase we assumed a $26 million, 10-year mortgage on the property at a fixed interest rate of 8.36%. We lease a total of 26,000 square feet of this space to two tenants. The land has been approved for construction of a fourth building although, we have no current plans to construct the fourth building. We expect that these facilities will be sufficient for our San Diego based operations for the foreseeable future.

In February 2003, the Company began leasing approximately 3,300 square feet of office space in Tokyo and in January 2004, began leasing approximately 1,600 square feet of office space in Singapore. These facilities are used by local sales, marketing and field service personnel. At December 28, 2003, annual future minimum payments for these facilities were approximately $462,000.

Item 3. ***Legal Proceedings.***

In March 2001, a complaint seeking damages of an unspecified amount was filed against us by a former employee in the Superior Court of the State of California in connection with the employee's termination of employment with Illumina. In July 2002 a California Superior Court judgment was rendered against the Company and we recorded a $7.7 million charge in our financial results for the second quarter of 2002 to cover total damages and remaining expenses. We believe that the termination was lawful in all respects and that the verdict was unsupported by evidence presented at the trial. A notice of appeal in this case was filed on October 10, 2002, and the appeal process is ongoing. We are also recording interest expense on the $7.7 million during the appeal based on the statutory rate.

In December 2002, Applied Biosystems Group filed a complaint, then later in March 2003 amended and refiled a complaint, for a patent infringement suit against us in the federal court in Northern California asserting infringement of several patents related to an Applied Biosystems' assay intended for use in our collaboration. Applied Biosystems seeks a judgment granting it damages for infringement, treble damages alleging that such infringement is willful and a permanent injunction restraining us from the alleged infringement. We have answered the complaint, asserting various defenses, including that we do not infringe the patents or that the patents are invalid, and asserting

counterclaims against Applied Biosystems seeking declaratory judgment relief related to the patents being asserted against us, and seeking damages from Applied Biosystems for its unfair and unlawful conduct which constitutes attempted monopolization in violation of the antitrust laws.

Also in December 2002, Applied Biosystems sent a notification to us alleging that we had breached the joint development agreement between Illumina and Applied Biosystems entered into in November 1999 and seeking to compel arbitration pursuant to that agreement. This notification alleged that our production-scale genotyping products and services are collaboration products developed under the joint development agreement, and that our commercial activities with respect to our genotyping products and services are unlawful, unfair or fraudulent. Among other relief, Applied Biosystems is seeking compensatory damages of $30 million, disgorgement of all revenues received from sales of these products and services and a prohibition of future sales of these products or services.

In December 2002, we filed a suit alleging breach of contract, breach of the implied covenant of good faith and fair dealing, unfair competition and other allegations against Applied Biosystems in San Diego Superior Court, and a motion for a temporary restraining order to prevent the arbitration of our joint development agreement sought by Applied Biosystems. In December 2003, we notified Applied Biosystems that we terminated the joint development agreement.

In December 2003, after having granted temporary and preliminary injunctions staying the arbitration, the San Diego Superior Court directed Applied Biosystems and us to resolve the contract dispute in a binding arbitration procedure. While a definitive schedule has not yet been set, we believe that the arbitration process could be completed as early as September 2004. We will vigorously defend against the claims alleged by Applied Biosystems but the outcome of an arbitration proceeding is inherently uncertain and we cannot be sure that we will prevail. This arbitration could result in a range of potential outcomes, based solely on the judgment and discretion of the arbitrator, including (1) the award of all damages and injunctive relief sought by Applied Biosystems; (2) the award of all damages and relief sought by us; or (3) a partial award of damages and/or injunctive relief to either party. We have not accrued for any potential losses in this case because we believe that an adverse determination is not probable, and potential losses cannot be reasonably estimated. In addition, our financial statements include a $10 million advance payment from Applied Biosystems that would have been deducted from the profits otherwise payable to us from Applied Biosystems had the collaboration been successful and which could offset the impact on our consolidated results of operations of an adverse arbitration determination up to that amount. However, any unfavorable arbitration determination, and in particular any significant cash amounts required to be paid by the Company or prohibition of the sale of our products or services, could result in a material adverse effect on our business, financial condition and results of operations.

We are in the early stages of proceedings in the patent case. In February 2004, the federal district court in Northern California ordered that the patent case be stayed pending completion of the arbitration process. We intend to vigorously defend against the claims alleged by Applied Biosystems and continue to pursue our counterclaims against Applied Biosystems. However, we cannot be sure that we will prevail in these matters. Any unfavorable determination, and in particular any significant cash amounts required to be paid by the Company or prohibition of the sale of our products or services, could result in a material adverse effect on our business, financial condition and results of operations.

Item 4. ***Submission of Matters to a Vote of Security Holders.***

No matters were submitted to a vote of security holders during the fourth quarter of 2003.

PART II

Item 5. ***Market for Registrant's Common Stock and Related Stockholder Matters.***

Our common stock has been quoted on the Nasdaq National Market under the symbol ''ILMN'' since July 28, 2000. Prior to that time, there was no public market for our common stock. The following table sets forth, for the periods indicated, the quarterly high and low closing prices per share of the common stock as reported on the Nasdaq National Market. Our present policy is to retain earnings, if any, to finance future growth. We have never paid cash dividends and have no present intention to pay cash dividends in the foreseeable future.

	2002	
	High	Low
First Quarter	$12.34	$6.50
Second Quarter	9.00	4.34
Third Quarter	6.22	2.93
Fourth Quarter	5.83	2.91
	2003	
	High	Low
First Quarter	$3.95	$1.80
Second Quarter	4.19	1.81
Third Quarter	5.31	2.81
Fourth Quarter	8.50	5.20

At March 1, 2004, there were approximately 145 stockholders of record and the price per share of our common stock, as reported on the Nasdaq National Market on such date, was $6.89.

Sales of Unregistered Securities

None.

Use of Proceeds

On July 27, 2000, we commenced our initial public offering pursuant to a Registration Statement on Form S-1 (File No. 333-33922) resulting in net offering proceeds of $101.3 million. We will continue to use proceeds from our initial public offering to fund operations. Through December 28, 2003, we have used approximately $18 million to purchase property, plant and equipment and approximately $38 million to fund general operating expenses. The remaining balance is invested in a variety of interest-bearing instruments including U.S. Treasury securities, corporate debt securities and money market accounts.

Item 6. ***Selected Financial Data.***

The following selected historical consolidated financial data have been derived from our audited consolidated financial statements. The balance sheet data as of December 28, 2003 and December 29, 2002 and statements of operations data for each of the three years in the period ended December 28, 2003 are derived from audited consolidated financial statements included in this Form 10-K. You

should read this table in conjunction with Item 7, ''Management's Discussion and Analysis of Financial Condition and Results of Operations,'' and Item 8, ''Financial Statements and Supplementary Data.''

Statements of Operations Data

	Year Ended December 28, 2003	Year Ended December 29, 2002	Year Ended December 30, 2001	Year Ended December 31, 2000	Year Ended December 31, 1999
	(In thousands, except per share data)				
Revenue:					
Product revenue	$ 18,378	$ 4,103	$ 897	$ 42	$ 37
Service revenue	6,496	3,305	99	—	—
Research revenue	3,161	2,632	1,490	1,267	437
Total revenue	28,035	10,040	2,486	1,309	474
Costs and expenses:					
Cost of product and service revenue	10,037	3,536	557	—	—
Research and development	22,511	26,848	20,735	13,554	4,085
Selling, general and administrative	18,899	9,099	5,663	4,193	1,349
Amortization of deferred compensation and other non-cash compensation charges	2,454	4,360	5,850	6,797	958
Litigation judgment	756	8,052	—	—	—
Total costs and expenses	54,657	51,895	32,805	24,544	6,392
Loss from operations	(26,622)	(41,855)	(30,319)	(23,235)	(5,918)
Interest income, net	(441)	1,524	5,496	4,629	400
Net loss	$(27,063)	$(40,331)	$(24,823)	$(18,606)	$(5,518)
Net loss per share, basic and diluted	$ (0.85)	$ (1.31)	$ (0.83)	$ (1.37)	$ (3.91)
Shares used in calculating net loss per share, basic and diluted	31,925	30,890	29,748	13,557	1,410

Balance Sheet Data

	December 28, 2003	December 29, 2002	December 30, 2001	December 31, 2000	December 31, 1999
			(In thousands)		
Cash, cash equivalents and current restricted cash and investments	$ 32,882	$ 66,294	$ 93,786	$118,719	$33,088
Working capital	32,229	58,522	91,452	126,260	32,881
Total assets	99,234	121,906	122,465	132,793	33,895
Long-term debt obligations	24,999	25,620	590	887	—
Accumulated deficit	(117,487)	(90,424)	(50,093)	(25,270)	(6,663)
Total stockholders' equity	47,388	71,744	106,791	124,100	32,032

See Note 1 of Notes to Financial Statements for an explanation of the determination of the number of shares used to compute basic and diluted net loss per share.

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operation.*

The following discussion and analysis should be read with ''Selected Financial Data'' and our financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K. The discussion and analysis in this Annual Report on Form 10-K may contain forward-looking statements that involve risks and uncertainties, such as statements of our plans, objectives, expectations and intentions. The cautionary statements made in this Annual Report on Form 10-K should be read as applying to all related forward-looking statements wherever they appear in this Annual Report on Form 10-K. Our actual results could differ materially from those discussed here. Factors that could cause or contribute to these differences include those discussed in ''Factors Affecting Operating Results'' below as well as those discussed elsewhere.

Overview

Illumina, Inc. was incorporated in April 1998. We are developing next-generation tools for the large-scale analysis of genetic variation and function. Understanding genetic variation and function is critical to the development of personalized medicine, a key goal of genomics. Using our technologies, we have developed a comprehensive line of products that are designed to provide the throughput, cost effectiveness and flexibility necessary to enable researchers in the life sciences and pharmaceutical industries to perform the billions of tests necessary to extract medically valuable information from advances in genomics. This information is expected to correlate genetic variation and gene function with particular disease states, enhancing drug discovery, allowing diseases to be detected earlier and more specifically, and permitting better choices of drugs for individual patients.

In November 1999, we entered into a joint development agreement with Applied Biosystems under which the companies would jointly develop a SNP genotyping system that would combine our BeadArray technology with Applied Biosystems' assay chemistry and scanner technology. Under this agreement, we were primarily responsible for developing and manufacturing the arrays and Applied Biosystems was primarily responsible for developing and manufacturing the instruments, SNP assay reagents, and software and for marketing the system worldwide. In conjunction with the agreement, Applied Biosystems purchased 1.25 million shares of Series C convertible preferred stock at $4.00 per share. In addition, Applied Biosystems agreed to provide us with non-refundable research and development support of $10 million, all of which was provided by December 2001. Upon commercialization of the system, we would have received a share of the operating profits from the sales of all components of these systems. We had originally deferred recognition of revenue from the research funding of $10 million provided by Applied Biosystems, and would have recognized such amounts as revenue at a contractually defined rate of 25% of the total profit share we earned from the sales of

collaboration products, had such sales occurred. As of December 28, 2003, this amount has been reclassified to an advance payment from former collaborator.

In July 2002, Applied Biosystems indicated that the planned mid-2002 launch of this genotyping system would be delayed a second time. This delay was related to Applied Biosystems' inability to optimize and multiplex the SNP assay reagents. We do not believe that Applied Biosystems has any intention of continuing to develop a collaboration product with us, and it has recently launched a competing product. As a result of the delay in developing the collaboration product, we launched our own production-scale genotyping system in July 2002 utilizing our arrays and an independently developed scanner and assay method.

In December 2002, Applied Biosystems filed a complaint, then later in March 2003 amended and refiled a complaint, for a patent infringement suit against us in the federal court in Northern California asserting infringement of several patents related to Applied Biosystems' patented assay intended for use in our collaboration. Applied Biosystems seeks a judgment granting it damages for infringement, treble damages alleging that such infringement is willful and a permanent injunction restraining us from the alleged infringement. We have answered the complaint, asserting various defenses, including that we do not infringe the patents or that the patents are invalid, and asserting counterclaims against Applied Biosystems seeking declaratory judgment relief related to the patents being asserted against us, and seeking damages from Applied Biosystems for its unfair and unlawful conduct which constitutes attempted monopolization in violation of the antitrust laws.

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In December 2003, after having granted temporary and preliminary injunctions staying the arbitration, the San Diego Superior Court directed Applied Biosystems and us to resolve the contract dispute in a binding arbitration procedure. While a definitive schedule has not yet been set, we believe that the arbitration process could be completed as early as September 2004. We will vigorously defend against the claims alleged by Applied Biosystems but the outcome of an arbitration proceeding is inherently uncertain and we cannot be sure that we will prevail. This arbitration could result in a range of potential outcomes, based solely on the judgment and discretion of the arbitrator, including (1) the award of all damages and injunctive relief sought by Applied Biosystems; (2) the award of all damages and relief sought by us; or (3) a partial award of damages and/or injunctive relief to either party. We have not accrued for any potential losses in this case because we believe that an adverse determination is not probable, and potential losses cannot be reasonably estimated. In addition, our financial statements include a $10 million advance payment from Applied Biosystems that would have been deducted from the profits otherwise payable to us from Applied Biosystems had the collaboration been successful and which could offset the impact on our consolidated results of operations of an adverse arbitration determination up to that amount. However, any unfavorable arbitration determination, and in particular any significant cash amounts required to be paid by us or prohibition of the sale of our products or services, could result in a material adverse effect on our business, financial condition and results of operations.

We are in the early stages of proceedings in the patent case. In February 2004, the federal district court in Northern California ordered that the patent case be stayed pending completion of the arbitration process. We intend to vigorously defend against the claims alleged by Applied Biosystems and continue to pursue our counterclaims against Applied Biosystems. However, we cannot be sure that we will prevail in these matters. Any unfavorable determination, and in particular any significant cash amounts required to be paid by us or prohibition of the sale of our products or services, could result in a material adverse effect on our business, financial condition and results of operations.

In the first quarter of 2001, we began commercial sale of short pieces of DNA, or oligos, manufactured using our proprietary Oligator technology. We believe our Oligator technology is more cost effective than competing technologies, which has allowed us to market our oligonucleotides under a price leadership strategy while still achieving attractive gross margins. In the second quarter of 2001, we initiated our SNP genotyping services product line. As a result of the increasing market acceptance of our high throughput, low cost BeadArray technology, we have entered into genotyping services contracts with many of the leading genotyping organizations including GlaxoSmithKline and The Sanger Centre, and have been awarded $9 million from the National Institutes of Health to play a major role in the International HapMap Project.

Our production-scale genotyping system, BeadLab, is based on the system we developed that has been operational in our genotyping service product line since 2001. In addition to our Sentrix Array Matrices, it includes the BeadArray Reader, a proprietary scanner that uses a laser to read the results of experiments captured on our arrays, as well as the GoldenGate SNP genotyping assay which can analyze up to 1536 SNPs per DNA sample. This system is initially being marketed to a small number of high throughput genotyping users.

In the first quarter of 2003, we completed the installation of and recorded revenue for our first BeadLab high-throughput SNP genotyping system. We installed and recorded revenue for a second BeadLab in the second quarter of 2003, two additional BeadLabs in the third quarter of 2003 and a fifth and sixth BeadLab system in the fourth quarter of 2003.

In the second quarter of 2003, we announced the launch of a new array format, the Sentrix BeadChip, which is expected to significantly expand market opportunities for our BeadArray technology and provide increased experimental flexibility for life science researchers.

In the third quarter of 2003, we announced the launch of a gene expression product line on both the Sentrix Array Matrix and the Sentrix BeadChip that will allow researchers to analyze a focused set of genes across eight to 96 samples on a single array.

In the fourth quarter of 2003, we announced the launch of a benchtop SNP genotyping system, the BeadStation, for performing medium scale genotyping using our technology. The BeadStation includes our BeadArray Reader, genotyping analysis software and GoldenGate assay reagents and is designed to match the throughput requirements and variable automation needs of individual research groups and core labs. This system is expected to be available for shipment in the second quarter of 2004.

In the first quarter of 2004, we announced the launch of two new Sentrix BeadChips for whole-genome gene expression. These BeadChips are designed to enable high-performance, cost-effective, whole-genome expression profiling of multiple samples on a single chip, resulting in a dramatic reduction in cost of whole-genome expression analysis while allowing researchers to expand the scale and reproducibility of large-scale biological experimentation.

We are seeking to expand our customer base for our BeadArray technology; however, we can give no assurance that our sales efforts will continue to be successful.

A significant portion of our current revenue is derived from a few, large individual transactions such as the sale of production genotyping systems and large genotyping services contracts, including our work on the International HapMap Project. Because these transactions do not occur regularly and

there is a lengthy sales cycle for such transactions, revenue of these types may not occur on a consistent or frequent basis. In addition, our total amount of revenues is subject to fluctuations in demand from seasonality impacts, the timing and amount of U.S. government grant funding programs, the timing and size of research projects our customers perform and changes in overall spending levels in the life science industry. Given the difficulty in predicting the timing and magnitude of sales for our products, we may experience quarter-to-quarter fluctuations in revenue, resulting in the potential for a sequential decline in quarterly revenue. Due to the possibility of fluctuations in our revenue and net income or loss, we believe quarterly comparisons of our operating results are not a good indication of our future performance.

We have incurred substantial operating losses since our inception. As of December 28, 2003, our accumulated deficit was $117.5 million, and total stockholders' equity was $47.4 million. These losses have principally occurred as a result of the substantial resources required for the research, development and manufacturing scale up effort required to commercialize our products and services, as well as charges of $8.8 million related to a termination-of-employment lawsuit. We expect to continue to incur substantial costs for research, development and manufacturing scale up activities over the next several years. We will also need to significantly increase our selling, general and administrative costs as we build up our sales and marketing infrastructure to expand and support the sale of systems, other products and services. As a result, we will need to increase revenue significantly to achieve profitability

Results of Operations

To enhance comparability, the following table sets forth audited Consolidated Statements of Operations for the years ended December 28, 2003, December 29, 2002 and December 30, 2001 stated as a percentage of total revenue.

	Year Ended December 28, 2003	Year Ended December 29, 2002	Year Ended December 30, 2001
Revenue			
Product revenue	66%	41%	36%
Service revenue	23	33	4
Research revenue	11	26	60
Total revenue	100	100	100
Costs and expenses:			
Cost of product and service revenue	36	35	23
Research and development	80	267	834
Selling, general and administrative	67	91	228
Amortization of deferred compensation and other non-cash compensation charges	9	44	235
Litigation judgment	3	80	—
Total costs and expenses	195	517	1,320
Loss from operations	(95)	(417)	(1,220)
Interest income	6	38	249
Interest expense	(8)	(23)	(28)
Net loss	(97)%	(402)%	(999)%

Comparison of Years Ended December 28, 2003 and December 29, 2002

Revenue

	Year Ended December 28, 2003	Year Ended December 29, 2002	Change
	(In thousands)		
Product revenue	$18,378	$ 4,103	348%
Service revenue	6,496	3,305	97
Research revenue	3,161	2,632	20
Total revenue	$28,035	$10,040	179%

Revenue for the years ended December 28, 2003 and December 29, 2002 was $28.0 million and $10.0 million, respectively. Product revenue increased to $18.4 million in 2003 from $4.1 million in 2002. The increase resulted almost entirely from the first sales of our BeadLab SNP genotyping system, with six systems sold in the year ended December 28, 2003, along with sales of consumables that are used on these systems. Prior to 2003 we had no sales of genotyping systems or consumable products. SNP genotyping service revenue increased to $6.5 million in 2003 from $3.3 million in 2002. Substantially all of this increase relates to genotyping services performed for the International HapMap Project, which commenced in 2003. We are the recipient of a grant from the National Institutes of Health covering our participation in the International HapMap Project, which is a $100 million, internationally funded successor project to the Human Genome Project that will help identify a map of genetic variations that may be used to perform disease-related research. We could receive up to $9.1 million of funding for this project which covers basic research activities, the development of SNP assays and the genotyping to be performed on those assays. We recognized revenue under this grant of $3.7 million in 2003 and, as of the end of 2003, we had approximately $5.4 million of funding remaining related to this project which is expected to be received in 2004, depending on the actual amount of work that we perform. Government grants and other research funding increased to $3.2 million for the year ended December 28, 2003 from $2.6 million for the year ended December 29, 2002 due to an increase in the number of grants received.

To expand revenue in the future, we have recently launched a series of new products that we expect to begin selling in 2004. These include our BeadStation system for moderate throughput genotyping needs, and two multi-sample whole genome gene expression BeadChips that are also processed on a BeadStation. Our BeadLab systems address a limited number of potential high throughput genotyping customers, and sales of these systems may decline in 2004 versus 2003. We expect the sales of the new products mentioned above to offset such decline and for overall revenues to increase above 2003 levels; however, we cannot be assured that we will be successful in these sales efforts.

Cost of Product and Service Revenue

	Year Ended December 28, 2003	Year Ended December 29, 2002	Change
	(In thousands)		
Cost of product and service revenue	$10,037	$3,536	184%

Cost of revenue represents manufacturing costs incurred in the production process, including component materials, assembly labor and overhead, packaging and delivery cost. Costs related to research revenue is included in research and development expense. Cost of product and service revenue increased to $10.0 million the year ended December 28, 2003 from $3.5 million for the year ended December 29, 2002. Substantially all of this increase was driven by the sales of our BeadLab systems and consumables, of which we had none in 2002, as well as the higher level of services revenue during 2003. Gross margins on product and service revenues were 60% in the year ended December 28, 2003, compared to 52% for the year ended December 29, 2002. This increase is due

primarily to increased sales of higher margin products and services such as SNP genotyping services, array matrices and assay reagents. We expect product mix will continue to affect our future gross margins. We also expect our total cost of product and service revenue to increase in the next year as we sell additional products, but to decrease as a percent of product and service revenue due to gains in manufacturing efficiencies and the sale of a larger proportion of higher margin products.

Research and Development Expenses

	Year Ended December 28, 2003	Year Ended December 29, 2002	Change
	(In thousands)		
Research and development	$22,511	$26,848	(16)%

Our research and development expenses consist primarily of salaries and other personnel-related expenses, laboratory supplies and other expenses related to the design, development, testing and enhancement of our products. We expense our research and development expenses as they are incurred. Research and development expenses decreased $4.3 million to $22.5 million for the year ended December 28, 2003 from $26.8 million for the year ended December 29, 2002.

During the year ended December 28, 2003, the cost of BeadArray research activities decreased $3.8 million as compared to the year ended December 29, 2002. The decrease occurred primarily as a result of completing the development of new products launched in 2003: the BeadChip, an additional microarray platform, a gene expression application on both our Array Matrix and BeadChip platforms and a benchtop SNP genotyping system, the BeadStation, for performing moderate scale genotyping. In addition, as we completed development efforts and increased our BeadArray-driven product sales, a smaller portion of our manufacturing resources was charged to research and development expense in 2003 than in 2002.

Research to support our Oligator technology platform decreased $0.5 million in the year ended December 28, 2003 as compared to the year ended December 29, 2002. This decline is primarily due to higher development expenses incurred in the first quarter of 2002 for a major upgrade of our Oligator technology, which resulted in a significant increase in our manufacturing capacity. In the second quarter of 2003, we implemented additional Oligator manufacturing enhancements to expand capacity, increase throughput, and further reduce operating costs. We expect that our research and development expenses will remain relatively flat over the next 12 months.

Stock based compensation related to research and development employees and consultants was $1.3 million for the year ended December 28, 2003 as compared to $2.4 million for the year ended December 29, 2002.

Selling, General and Administrative Expenses

	Year Ended December 28, 2003	Year Ended December 29, 2002	Change
	(In thousands)		
Selling, general and administrative	$18,899	$9,099	108%

Our selling, general and administrative expenses consist primarily of personnel costs for sales and marketing, finance, human resources, business development and general management, as well as professional fees, such as expenses for legal and accounting services. Selling, general and administrative expenses increased $9.8 million to $18.9 million for the year ended December 28, 2003 from $9.1 million for the year ended December 29, 2002. Approximately $4.4 million of this increase is related to higher legal expenses, which is primarily due to legal proceedings regarding the disputes with Applied Biosystems. Approximately $4.1 million of the increase is due to higher sales and marketing costs, of which $3.0 million is attributable to personnel related expenses while the majority of the remaining $1.1 million is attributable to an increase in facility related expenses. During 2003, we

significantly expanded our sales and marketing resources to support the direct sale of our new products, including establishing additional sales operations in Japan and Singapore. We expect that our selling, general and administrative expenses will accelerate as we expand our staff, add sales and marketing infrastructure and incur additional costs to support the commercialization and support of an increasing number of products.

Stock based compensation related to selling, general and administrative employees, directors and consultants was $1.2 million for the year ended December 28, 2003 as compared to $2.0 million for the year ended December 29, 2002.

Amortization of Deferred Compensation and Other Stock-Based Compensation Charges

	Year Ended December 28, 2003	Year Ended December 29, 2002	Change
	(In thousands)		
Amortization of deferred compensation and other stock-based compensation charges	$2,454	$4,360	(44)%

From our inception through July 27, 2000, in connection with the grant of certain stock options and sales of restricted stock to employees, founders and directors, we have recorded deferred stock compensation totaling $17.7 million, representing the difference between the exercise or purchase price and the fair value of our common stock as estimated for financial reporting purposes on the date such stock options were granted or such restricted stock was sold. We recorded this amount as a component of stockholders' equity and amortize the amount as a charge to operations over the vesting period of the restricted stock and options.

We recognize compensation expense over the vesting period for employees, founders and directors, using an accelerated amortization methodology in accordance with Financial Accounting Standards Board Interpretation No. 28. For consultants, deferred compensation is recorded at the fair value for the options granted or stock sold in accordance with Statement of Financial Accounting Standards No. 123 and is periodically re-measured and expensed in accordance with Emerging Issues Task Force No. 96-18.

We recorded amortization of deferred compensation of $2.5 million and $4.4 million for the years ended December 28, 2003 and December 29, 2002, respectively. We expect amortization of deferred compensation to decrease in 2004 due to the nature of the accelerated depreciation methodology as the options near the end of their vesting period.

Litigation Judgment

	Year Ended December 28, 2003	Year Ended December 29, 2002	Change
	(In thousands)		
Litigation judgment	$756	$8,052	(91)%

A $7.7 million charge was recorded in June 2002 to cover total damages and estimated expenses related to a termination-of-employment lawsuit. We believe that the termination was lawful in all respects and that the verdict was unsupported by evidence presented at the trial. We plan to vigorously defend our position on appeal. A notice of appeal in this case was filed on October 10, 2002, and the appeal process is ongoing. During the appeal process, the court requires us to incur interest charges on the judgment amount at statutory rates until the case is resolved. For the years ended December 28, 2003 and December 29, 2002, we recorded litigation expense of $756,000 and $352,000, respectively, for interest.

Interest Income

	Year Ended December 28, 2003	Year Ended December 29, 2002	Change
	(In thousands)		
Interest income	$1,821	$3,805	(52)%

Interest income on our cash and cash equivalents and investments was $1.8 million and $3.8 million for the years ended December 28, 2003 and December 29, 2002, respectively. The decrease is due to lower average levels of invested funds and lower effective interest rates.

Interest Expense

	Year Ended December 28, 2003	Year Ended December 29, 2002	Change
	(In thousands)		
Interest expense	$2,262	$2,281	(1)%

Interest expense was $2.3 million for the years ended December 28, 2003 and December 29, 2002. Interest expense relates primarily to a $26.0 million fixed rate loan related to the purchase of our new facility during the first quarter of 2002.

Provision for Income Taxes

We incurred net operating losses for the years ended December 28, 2003 and December 29, 2002, and accordingly, we did not pay any federal or state income taxes. We have recorded a valuation allowance for the full amount of the resulting net deferred tax asset, as the future realization of the tax benefit is uncertain. As of December 28, 2003, we had net operating loss carryforwards for federal and state tax purposes of approximately $69.5 million and $27.0 million, respectively, which begin to expire in 2018 and 2006.

We also had federal and state research and development tax credit carryforwards of approximately $3.1 million and $2.6 million, respectively, which begin to expire in 2018, unless previously utilized.

Our utilization of the net operating losses and credits may be subject to substantial annual limitations pursuant to Section 382 and 383 of the Internal Revenue Code, and similar state provisions, as a result of changes in our ownership structure. These annual limitations may result in the expiration of net operating losses and credits prior to utilization.

Comparison of Years Ended December 29, 2002 and December 30, 2001

Revenue

	Year Ended December 29, 2002	Year Ended December 30, 2001	Change
	(In thousands)		
Product revenue	$ 4,103	$ 897	357%
Service revenue	3,305	99	3,238%
Research revenue	2,632	1,490	77%
Total revenue	$10,040	$2,486	304%

Revenue for the years ended December 29, 2002 and December 30, 2001 was $10.0 million and $2.5 million, respectively. Product revenue increased to $4.1 million in 2002 from $0.9 million in 2001, mostly due to higher sales of oligonucleotides. SNP genotyping service revenue was $3.3 million in 2002 compared to $0.1 million in 2001 as a result of several contracts that were signed during 2002; 2001 was the first year of operations for our services and we experienced limited revenues. Government grants and other research funding increased to $2.6 million for the year ended Decem-

ber 29, 2002 from $1.5 million for the year ended December 30, 2001 due to a larger number of grants that were awarded to us.

Cost of Product and Service Revenue

	Year Ended December 29, 2002	Year Ended December 30, 2001	Change
	(In thousands)		
Cost of product and service revenue	$3,536	$557	535%

Cost of product and service revenue for the years ended December 29, 2002 and December 30, 2001 was $3.5 million and $0.6 million, respectively. The increase was driven by the increased sales of products and services. Gross margins on product and service revenues were 52% in 2002, versus 44% in 2001, driven by a more favorable cost structure in oligo manufacturing.

Research and Development

	Year Ended December 29, 2002	Year Ended December 30, 2001	Change
	(In thousands)		
Research and development	$26,848	$20,735	29%

Research and development expenses increased $6.1 million to $26.8 million for the year ended December 29, 2002, from $20.7 million for the year ended December 30, 2001. The increase in expenses was driven primarily by higher headcount, related personnel costs and higher laboratory and manufacturing supplies required to continue development of our BeadArray technology, which is the underlying technology on which Illumina was founded. During the year ended December 29, 2002, the research expense to support our BeadArray activities increased $5.4 million over the same period in 2001. These additional research and development expenses were related to activities such as exploring and optimizing assays for various types of genetic analysis experiments, increasing the multiplexing level of our arrays, continuing development of our arrays and the scanning instrumentation required to read arrays and building up and optimizing our SNP genotyping services system. Research to support our Oligator technology platform increased $0.7 million during the year ended December 29, 2002, as compared to the year ended December 30, 2001. During 2002, we introduced upgrades to our Oligator technology that significantly increased capacity and quality while reducing manufacturing cost.

Stock based compensation related to research and development employees and consultants was $2.4 million for the year ended December 29, 2002 as compared to $3.1 million for the year ended December 30, 2001.

Selling, General and Administrative Expenses

	Year Ended December 29, 2002	Year Ended December 30, 2001	Change
	(In thousands)		
Selling, general and administrative	$9,099	$5,663	61%

Selling, general and administrative expenses increased $3.4 million to $9.1 million for the year ended December 29, 2002, from $5.7 million for the year ended December 30, 2001. A portion of this increase is due to higher legal expenses related to a termination-of-employment lawsuit as well as higher legal expenses related to securing patents. The remaining increase was due to increases in the sales and marketing costs required to expand and support our custom oligonucleotide sales and SNP genotyping services operations.

Stock based compensation related to selling, general and administrative employees, directors and consultants was $2.0 million for the year ended December 29, 2002 as compared to $2.7 million for the year ended December 30, 2001.

Amortization of Deferred Compensation and Other Stock-Based Compensation Charges

	Year Ended December 29, 2002	Year Ended December 30, 2001	Change
	(In thousands)		
Amortization of deferred compensation and other stock-based compensation charges	$4,360	$5,850	(25)%

In connection with the grant of stock options and sale of restricted common stock to employees, founders and directors through July 27, 2000, we recorded deferred compensation of approximately $17.7 million. We recorded amortization of this deferred compensation of $4.4 million and $5.9 million for the years ended December 29, 2002 and December 30, 2001, respectively.

Interest Income

	Year Ended December 29, 2002	Year Ended December 30, 2001	Change
	(In thousands)		
Interest income	$3,805	$6,198	(39)%

Interest income on our cash and cash equivalents and investments was $3.8 million and $6.2 million for the years ended December 29, 2002 and December 30, 2001, respectively. Interest income decreased in 2002 due to lower average levels of invested funds and lower effective interest rates.

Interest Expense

	Year Ended December 29, 2002	Year Ended December 30, 2001	Change
	(In thousands)		
Interest expense	$2,281	$702	225%

Interest expense was $2.3 million for the year ended December 29, 2002 as compared to $0.7 million for the year ended December 30, 2001. Interest expense for the year ended December 29, 2002 resulted primarily from a $26.0 million loan related to the purchase of our new facility during the first quarter of 2002.

Liquidity and Capital Resources

As of December 28, 2003, we had cash, cash equivalents and investments (including restricted cash and investments of $100,000) of approximately $32.9 million. In addition, we had long term restricted investments of $12.2 million. We currently invest our funds in U.S. dollar based investment-grade corporate and government debt securities with average maturities of approximately 22 months.

Our operating activities used cash of $18.3 million in the year ended December 28, 2003, as compared to $25.6 million in the year ended December 29, 2002. Net cash used in operating activities in 2003 was primarily the result of a net loss from operations of $27.1 million reduced by non-cash charges of $4.5 million for depreciation and amortization and non-cash charges of $2.5 million for amortization of deferred stock compensation. Net cash used in operating activities in 2002 was primarily the result of a net loss from operations of $40.3 million reduced by an $8.1 million increase in accrued litigation judgment, non-cash charges of $4.5 million for depreciation and amortization and non-cash charges of $4.4 million for amortization of deferred stock compensation.

Our investing activities provided cash of $28.5 million in the year ended December 28, 2003 as compared to cash used of $2.6 million in the year ended December 29, 2002. Cash provided in investing activities in the year ended December 28, 2003 was due primarily to the sale or maturity of investment securities used to provide operating funds for our business, while cash used in the year ended December 29, 2002 was due primarily to the purchase of a new facility offset by maturities of investment securities. Capital expenditures were $2.0 million in 2003 and are expected to increase $1 to $2 million in 2004.

Our financing activities provided $0.2 million in the year ended December 28, 2003 as compared to $26.1 million in the year ended December 29, 2002. Cash provided by financing activities in the year ended December 29, 2002 resulted primarily from $26.0 million in loan proceeds related to the purchase of our new facility.

In June 2002, we recorded a $7.7 million charge to cover total damages and estimated expenses related to a termination-of-employment lawsuit. As a result of our decision to appeal the ruling, we filed a surety bond with the court on October 25, 2002 of 1.5 times the judgment amount, or approximately $11.3 million. Under the terms of the bond, we are required to maintain a letter of credit for 90% of the bond amount to secure the bond. Further, we were required to deposit approximately $12.5 million of marketable securities as collateral for the letter of credit and accordingly, these funds will be restricted from use for corporate purposes until the appeal process is completed. If a judgment is due, we expect payment will occur within 12 to 18 months.

As of the end of 2003, we had funding remaining under existing NIH grants of approximately $6.5 million, including $5.4 million available under the International HapMap Project. All of these amounts are scheduled to be paid in 2004, subject to the actual amount of activities we perform under these grants.

Based on our current operating plans, we expect that our current cash and cash equivalents, investments, revenues from sales and funding from grants will be sufficient to fund our anticipated operating needs for at least 18 to 24 months. Operating needs include the planned costs to operate our business including amounts required to fund working capital and capital expenditures. At the current time, we have no material commitments for capital expenditures. However, our future capital requirements and the adequacy of our available funds will depend on many factors, including our ability to successfully commercialize our SNP genotyping laboratory and gene expression systems and extensions to those products and to expand our oligonucleotide and SNP genotyping services product lines, scientific progress in our research and development programs, the magnitude of those programs, competing technological and market developments, the successful resolution of our legal proceedings with Applied Biosystems and the successful resolution of our appeal in a termination of employment lawsuit. Therefore, we may require additional funding within this time frame and the additional funding, if needed, may not be available on terms that are acceptable to us, or at all. Further, any additional equity financing may be dilutive to our then existing stockholders and may adversely affect their rights.

On December 23, 2003, we filed a shelf registration statement that would allow us to raise up to $65 million of funding through the sale of common stock in one or more transactions. We currently do not have formal arrangements to sell securities under the registration statement, but if market and other business conditions become favorable within the next several months, we could put such arrangements in place and attempt to raise at least a portion of the funds covered by the registration statement.

Contractual Obligations

In April 2000, we entered into a $3.0 million loan arrangement to be used at our discretion to finance purchases of capital equipment, $1.7 million of which remains available at December 28, 2003.

In January 2002, we purchased two newly constructed buildings and assumed a $26.0 million, 10-year mortgage on the property at a fixed interest rate of 8.36% which calls for principal and interest

payments of approximately $2.5 million per year until the loan expires in January 2012 at which time a balloon payment of $21.2 million will be due.

We also lease office space under non-cancelable operating leases that expire at various times through December 2006. These leases contain renewal options ranging from 2 to 3 years.

As of December 28, 2003, our contractual obligations are (in thousands);

	Payments Due by Period				
Contractual Obligation	Total	Less Than 1 Year	1 – 3 Years	3 – 5 Years	More Than 5 Years
Long term debt	$41,519	$2,508	$5,016	$5,016	$28,979
Capital lease obligations	263	263	—	—	—
Operating leases	462	360	65	37	—
Total	$42,244	$3,131	$5,081	$5,053	$28,979

Critical Accounting Policies

Revenue Recognition. We recognize revenue in accordance with the guidelines established by SEC Staff Accounting Bulletin (SAB) No. 101. Under SAB 101, revenue cannot be recorded until all of the following criteria have been met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; the seller's price to the buyer is fixed or determinable; and collectibility is reasonably assured. Product revenue consists of sales of oligonucleotides, array matrices, assay reagents, genotyping systems and gene expression systems. Services revenue consists of revenue received for performing genotyping services. Revenue for product sales is recognized generally upon shipment and transfer of title to the customer, provided no significant obligations remain and collection of the receivables is reasonably assured. BeadLab genotyping system revenue is recognized when earned, which is generally upon shipment, installation, training and fulfillment of contractually defined acceptance criteria. Reserves are provided for anticipated product warranty expenses at the time the associated revenue is recognized. Revenue for genotyping services is recognized generally at the time the genotyping analysis data is delivered to the customer. We have been awarded $9.1 million from the National Institutes of Health to perform genotyping services in connection with the International HapMap Project. A portion of the revenue from this project is earned at the time the related costs are incurred while the remainder of the revenue is earned upon the delivery of genotyping data. Research revenue consists of amounts earned under research agreements with government grants, which is recognized in the period during which the related costs are incurred. All revenues are recorded net of any applicable allowances for returns or discounts.

We received $10 million of non-refundable research funding from Applied Biosystems in connection with a licensing and development contract entered into in 1999. This amount was originally recorded as deferred revenue in accordance with the provisions of SAB 101 and would have been recognized as revenue at a contractually defined rate of 25% of the defined operating profit earned from sales of the products covered by the collaboration agreement, had such sales occurred. At present, we do not believe a collaboration product will be commercialized under the partnership agreement, and there are legal proceedings between the parties as more fully described in ITEM 3, ''Legal Proceedings''. The $10 million of research funding has been reclassified to an advance payment from former collaborator until the legal proceedings have been resolved.

Cash & Investments. We invest our excess cash balances in marketable debt securities, primarily government securities and corporate bonds and notes, with strong credit ratings. We classify our investments as ''Available-for-Sale'' under SFAS 115 and record such investments at the estimated fair value in the balance sheet, with gains and losses, if any, reported in stockholders' equity. We periodically review our investments for other than temporary impairment.

Recently Issued Accounting Standards

In November 2002, the FASB Emerging Issues Task Force issued its consensus concerning *Revenue Arrangements with Multiple Deliverables* (''EITF 00-21''). EITF 00-21 addresses how to determine whether a revenue arrangement involving multiple deliverables should be divided into separate units of accounting, and, if separation is appropriate, how the arrangement consideration should be measured and allocated to the identified accounting units. EITF 00-21 is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The adoption of EITF 00-21 did not have a material impact on our consolidated financial statements.

In November 2002, the FASB issued FASB Interpretation No. 45 (''FIN 45''), *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.* FIN 45 requires a liability to be recorded in the guarantor's balance sheet upon issuance of a guarantee. In addition, FIN 45 requires disclosures about the guarantees that an entity has issued, including a reconciliation of changes in the entity's product warranty liabilities. The initial recognition and initial measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements of FIN 45 are effective for financial statements ending after December 15, 2002. The adoption of FIN 45 did not have a material impact on our consolidated financial statements.

In April 2003, the FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities.* SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. SFAS No. 149 clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative as discussed in SFAS No. 133 and when a derivative contains a financing component that warrants special reporting in the statement of cash flows. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, for hedging relationships designated after June 30, 2003, and to certain pre-existing contracts. The adoption of SFAS No. 149 did not have a material impact on our consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity.* SFAS No. 150 affects the issuer's accounting for three types of freestanding financial instruments; (a) mandatorily redeemable shares which the issuing company is obligated to buy back in exchange for cash or other assets, (b) put options and forward purchase contracts that do or may require the issuer to buy back some of its shares in exchange for cash or other assets, and (c) obligations that can be settled with shares, the monetary value of which is fixed, ties solely or predominantly to a variable such as a market index, or varies inversely with the value of the issuer's shares. SFAS No. 150 also requires disclosures about alternative ways of settling the instruments and the capital structure of entities. SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003 and for all periods beginning after June 15, 2003. The adoption of SFAS 150 did not have a material impact on our consolidated financial statements.

In December 2003, the FASB issued a revision to FASB Interpretation No. 46 (''FIN 46R''), *Consolidation of Variable Interest Entities.* FIN 46R replaces FASB Interpretation No. 46, *Consolidation of Variable Interest Entities,* which was issued in January 2003. FIN 46R requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. A variable interest entity either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources to the entity to support its activities. FIN 46R is effective immediately for all new variable interest entities created or acquired after December 31, 2003. The adoption of FIN 46 is not expected to have a material impact on our consolidated financial statements.

Factors Affecting Our Operating Results

In addition to the items mentioned above, the following issues could adversely affect our operating results or our stock price.

We have generated only a small amount of revenue from product and service offerings to date. We expect to continue to incur net losses and we may not achieve or maintain profitability.

We have incurred net losses since our inception and expect to continue to incur net losses. At December 28, 2003, our accumulated deficit was approximately $117.5 million, and we incurred a net loss of $27.1 million for the fiscal year ended December 28, 2003. We expect to continue to incur net losses and negative cash flow for the foreseeable future. The magnitude of our net losses will depend, in part, on the rate of growth, if any, of our revenue and on the level of our expenses. We expect to continue incurring significant expenses for research and development, for developing our manufacturing capabilities and for sales and marketing efforts to commercialize our products. In addition, we expect that our selling and marketing expenses will increase at a higher rate in the future as a result of the launch of our BeadLab and BeadStation SNP genotyping system and gene expression systems. As a result, we expect that our operating expenses will increase significantly as we grow and, consequently, we will need to generate significant additional revenue to achieve profitability. Even if we achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis.

Our success depends upon the increasing availability of genetic information and the continued emergence and growth of markets for analysis of genetic variation and function.

We design our products primarily for applications in the life sciences and pharmaceutical industries. The usefulness of our technology depends in part upon the availability of genetic data and its usefulness in identifying or treating disease. We are initially focusing on markets for analysis of genetic variation and function, namely SNP genotyping and gene expression profiling. Our first products are being sold into the SNP genotyping and focused-gene expression markets. Both of these markets are new and emerging, and they may not develop as quickly as we anticipate, or reach their full potential. Other methods of analysis of genetic variation and function may emerge and displace the methods we are developing. Also, researchers may not seek or be able to convert raw genetic data into medically valuable information through the analysis of genetic variation and function. If useful genetic data is not available or if our target markets do not develop in a timely manner, demand for our products may grow at a slower rate than we expect, and we may never become profitable.

We are an early stage company with a limited history of commercial sales of systems and consumable products, and our success depends on our ability to develop commercially successful products and on market acceptance of our new and unproven technologies.

We may not possess all of the resources, capability and intellectual property necessary to develop and commercialize all the products or services that may result from our technologies. We only recently sold our first genotyping systems, and some of our other technologies are in the early stages of commercialization or are still in development. You should evaluate us in light of the uncertainties and complexities affecting an early stage company developing tools for the life sciences and pharmaceutical industries. We must conduct a substantial amount of additional research and development before some of our products will be ready for sale. Problems frequently encountered in connection with the development or early commercialization of products and services using new and unproven technologies might limit our ability to develop and successfully commercialize these products and services. In addition, we may need to enter into agreements to obtain intellectual property necessary to commercialize some of our products or services.

Historically, life sciences and pharmaceutical companies have analyzed genetic variation and function using a variety of technologies. Compared to the existing technologies, our technologies are new and relatively unproven. In order to be successful, our products must meet the commercial requirements of the life sciences and pharmaceutical industries as tools for the large-scale analysis of genetic variation and function.

Market acceptance will depend on many factors, including:

- our ability to demonstrate to potential customers the benefits and cost effectiveness of our products and services relative to others available in the market;
- the extent and effectiveness of our efforts to market, sell and distribute our products;
- our ability to manufacture products in sufficient quantities with acceptable quality and reliability and at an acceptable cost; and
- the willingness and ability of customers to adopt new technologies requiring capital investments.

We have limited experience in manufacturing commercial products and services.

We have limited experience manufacturing our products in the volumes that will be necessary for us to achieve significant commercial sales. We have only recently begun manufacturing products on a commercial scale and operating our internal SNP genotyping service product line. For example, in the past we have experienced variations in manufacturing conditions that have temporarily reduced production yields. Due to the intricate nature of manufacturing products that contain DNA, we may encounter similar or previously unknown manufacturing difficulties in the future that could significantly reduce production yields, impact our ability to sell these products, or to produce them economically, may prevent us from achieving expected performance levels or cause us to set prices that hinder wide adoption by customers.

If we are unable to develop our manufacturing capability, we may not be able to launch or support our products in a timely manner, or at all.

We currently possess only one facility capable of manufacturing our products and services for both sale to our customers and internal use. If a natural disaster were to significantly damage our facility or if other events were to cause our operations to fail, these events could prevent us from developing and manufacturing our products and services.

If we are unable to find third-party manufacturers to manufacture components of our products, we may not be able to launch or support our products in a timely manner, or at all.

The nature of our products requires customized components that currently are available from a limited number of sources. For example, we currently obtain the fiber optic bundles and BeadChip slides included in our products from single vendors. If we are unable to secure a sufficient supply of those or other product components, we will be unable to meet demand for our products. We may need to enter into contractual relationships with manufacturers for commercial-scale production of some of our products, or develop these capabilities internally, and we cannot assure you that we will be able to do this on a timely basis, for sufficient quantities or on commercially reasonable terms. Accordingly, we may not be able to establish or maintain reliable, high-volume manufacturing at commercially reasonable costs.

Our current sales, marketing and technical support organization may limit our ability to sell our products.

We currently have limited sales and marketing and technical support services and have only recently established a small direct sales force and customer support team. In order to effectively

commercialize our genotyping and gene expression systems and other products to follow, we will need to expand our sales, marketing and technical support staff both domestically and internationally. We may not be successful in establishing or maintaining either a direct sales force or distribution arrangements to market our products and services. In addition, we compete primarily with much larger companies, that have larger sales and distribution staffs and a significant installed base of products in place, and the efforts from a limited sales and marketing force may not be sufficient to build the market acceptance of our products required to support continued growth of our business.

We expect intense competition in our target markets, which could render our products obsolete or substantially limit the volume of products that we sell. This would limit our ability to compete and achieve profitability. If we cannot continuously develop and commercialize new products, our revenues may not grow as intended.

We compete with life sciences companies that design, manufacture and market instruments for analysis of genetic variation and function and other applications using technologies such as two-dimensional electrophoresis, capillary electrophoresis, mass spectrometry, flow cytometry, microfluidics, and mechanically deposited, inkjet and photolithographic arrays. We anticipate that we will face increased competition in the future as new companies enter the market with new technologies. The markets for our products are characterized by rapidly changing technology, evolving industry standards, changes in customer needs, emerging competition and new product introductions. For example, we expect Affymetrix to release a 100k SNP genotyping chip and several competitors have begun selling a single chip for whole human genome expression which may compete with our SNP genotyping service and product offerings and our gene expression product offerings. One or more of our competitors may render our technology obsolete or uneconomical. Our competitors have greater financial and personnel resources, broader product lines, a more established customer base and more experience in research and development than we have. Furthermore, the life sciences and pharmaceutical companies, which are our potential customers and strategic partners, could develop competing products. If we are unable to develop enhancements to our technology and rapidly deploy new product offerings, our business, financial condition and results of operations will suffer.

We may encounter difficulties in managing our growth. These difficulties could increase our losses.

We expect to experience rapid and substantial growth in order to achieve our operating plans, which will place a strain on our human and capital resources. If we are unable to manage this growth effectively, our losses could increase. Our ability to manage our operations and growth effectively requires us to continue to expend funds to enhance our operational, financial and management controls, reporting systems and procedures and to attract and retain sufficient numbers of talented employees. If we are unable to scale up and implement improvements to our manufacturing process and control systems in an efficient or timely manner, or if we encounter deficiencies in existing systems and controls, then we will not be able to make available the products required to successfully commercialize our technology. Failure to attract and retain sufficient numbers of talented employees will further strain our human resources and could impede our growth.

Any inability to adequately protect our proprietary technologies could harm our competitive position.

Our success will depend in part on our ability to obtain patents and maintain adequate protection of our intellectual property in the United States and other countries. If we do not protect our intellectual property adequately, competitors may be able to use our technologies and thereby erode our competitive advantage. The laws of some foreign countries do not protect proprietary rights to the same extent as the laws of the United States, and many companies have encountered significant problems in protecting their proprietary rights abroad. These problems can be caused by the absence of rules and methods for defending intellectual property rights.

The patent positions of companies developing tools for the life sciences and pharmaceutical industries, including our patent position, generally are uncertain and involve complex legal and factual questions. We will be able to protect our proprietary rights from unauthorized use by third parties only to the extent that our proprietary technologies are covered by valid and enforceable patents or are effectively maintained as trade secrets. We will apply for patents covering our technologies and products, as we deem appropriate. However, our patent applications may be challenged and may not result in issued patents. Our existing patents and any future patents we obtain may not be sufficiently broad to prevent others from practicing our technologies or from developing competing products. There also is risk that others may independently develop similar or alternative technologies or design around our patented technologies.

In April 2003, Applied Biosystems served us with an amended complaint alleging patent infringement, asserting that our genotyping products infringe several patents owned by Applied Biosystems. Others may challenge or invalidate our patents or claim that we infringe the rights of third party patents, however, we are not aware of any other such parties that currently intend to pursue patent infringement claims against us. Also, our patents may fail to provide us with any competitive advantage. We may need to initiate additional lawsuits to protect or enforce our patents, or litigate against third party claims, which would be expensive and, if we lose, may cause us to lose some of our intellectual property rights and reduce our ability to compete in the marketplace.

We also rely upon trade secret protection for our confidential and proprietary information. We have taken security measures to protect our proprietary information. These measures, however, may not provide adequate protection for our trade secrets or other proprietary information. We seek to protect our proprietary information by entering into confidentiality agreements with employees, collaborators and consultants. Nevertheless, employees, collaborators or consultants may still disclose our proprietary information, and we may not be able to meaningfully protect our trade secrets. In addition, others may independently develop substantially equivalent proprietary information or techniques or otherwise gain access to our trade secrets.

Litigation or other proceedings or third party claims of intellectual property infringement could require us to spend significant time and money and could prevent us from selling our products or services.

Our commercial success depends in part on our non-infringement of the patents or proprietary rights of third parties and the ability to protect our own intellectual property. Applied Biosystems has served us with an amended complaint alleging patent infringement and other third parties have or may assert that we are employing their proprietary technology without authorization. In addition, third parties have or may obtain patents in the future and claim that use of our technologies infringes these patents. We could incur substantial costs and divert the attention of our management and technical personnel in defending ourselves against any of these claims. We may incur the same costs and diversions in enforcing our patents against others. Furthermore, parties making claims against us may be able to obtain injunctive or other relief, which effectively could block our ability to further develop, commercialize and sell products, and could result in the award of substantial damages against us. In the event of a successful claim of infringement against us, we may be required to pay damages and obtain one or more licenses from third parties, or be prohibited from selling certain products. We may not be able to obtain these licenses at a reasonable cost, or at all. In that event, we could encounter delays in product introductions while we attempt to develop alternative methods or products. Defense of any lawsuit or failure to obtain any of these licenses could prevent us from commercializing available products, and the prohibition of sale of any of our products could materially affect our ability to grow and to attain profitability.

We may need additional capital in the future. If additional capital is not available on acceptable terms, we may have to curtail or cease operations.

Our future capital requirements will be substantial and will depend on many factors including our ability to successfully market our genetic analysis systems and services, the need for capital expenditures to support and expand our business, the progress and scope of our research and development projects, the filing, prosecution and enforcement of patent claims, the success of our legal proceedings with Applied Biosystems and the appeal of a wrongful termination lawsuit. We anticipate that our existing capital resources will enable us to maintain currently planned operations for at least 18 to 24 months. However, we premise this expectation on our current operating plan, which may change as a result of many factors. Consequently, we may need additional funding sooner than anticipated. Our inability to raise capital would seriously harm our business and product development efforts. In addition, we may choose to raise additional capital due to market conditions or strategic considerations even if we believe we have sufficient funds for our current or future operating plans. To the extent that additional capital is raised through the sale of equity, the issuance of these securities could result in dilution to our stockholders.

We currently have no credit facility or committed sources of capital other than an equipment lease line with $1.7 million unused and available as of December 28, 2003. To the extent operating and capital resources are insufficient to meet future requirements; we will have to raise additional funds to continue the development and commercialization of our technologies. These funds may not be available on favorable terms, or at all. If adequate funds are not available on attractive terms, we may be required to curtail operations significantly or to obtain funds by entering into financing, supply or collaboration agreements on unattractive terms.

If we lose our key personnel or are unable to attract and retain additional personnel, we may be unable to achieve our goals.

We are highly dependent on our management and scientific personnel, including Jay Flatley, our president and chief executive officer, David Barker, our vice president and chief scientific officer, and John Stuelpnagel, our senior vice president of operations. The loss of their services could adversely impact our ability to achieve our business objectives. We will need to hire additional qualified personnel with expertise in molecular biology, chemistry, biological information processing, sales, marketing and technical support. We compete for qualified management and scientific personnel with other life science companies, universities and research institutions, particularly those focusing on genomics. Competition for these individuals, particularly in the San Diego area, is intense, and the turnover rate can be high. Failure to attract and retain management and scientific personnel would prevent us from pursuing collaborations or developing our products or technologies.

Our planned activities will require additional expertise in specific industries and areas applicable to the products developed through our technologies, including the life sciences and healthcare industries. Thus, we will need to add new personnel, including management, and develop the expertise of existing management. The failure to do so could impair the growth of our business.

A significant portion of our sales are to international customers.

Approximately $14.4 million of our 2003 revenues were derived from customers outside the United States. We intend to continue to expand our international presence and export sales to international customers and we expect the total amount of non-U.S. sales to continue to grow. Export sales entail a variety of risks, including:

- currency exchange fluctuations;
- unexpected changes in legislative or regulatory requirements of foreign countries into which we import our products;

- difficulties in obtaining export licenses or other trade barriers and restrictions resulting in delivery delays; and
- significant taxes or other burdens of complying with a variety of foreign laws.

In addition, sales to international customers typically result in longer payment cycles and greater difficulty in accounts receivable collection. We are also subject to general geopolitical risks, such as political, social and economic instability and changes in diplomatic and trade relations. One or more of these factors could have a material adverse effect on our business, financial condition and operating results.

We expect that our results of operations will fluctuate. This fluctuation could cause our stock price to decline.

A significant portion of our current revenue is derived from a few large, individual transactions such as the sale of production genotyping systems and large genotyping services contracts, including our work on the International HapMap Project. Because these transactions do not occur regularly and there is a lengthy sales cycle for such transactions, revenue of these types may not occur on a consistent or frequent basis. In addition, our total amount of revenues is subject to fluctuations in demand from seasonality impacts, the timing and amount of U.S. government grant funding programs, the timing and size of research projects our customers perform and changes in overall spending levels in the life sciences industry. Given the difficulty in predicting the timing and magnitude of sales for our products, we may experience quarter-to-quarter fluctuations in revenue resulting in the potential for a sequential decline in quarterly revenue. A large portion of our expenses are relatively fixed, including expenses for facilities, equipment and personnel. In addition, we expect operating expenses to continue to increase significantly. Accordingly, if revenue does not grow as anticipated, we may not be able to reduce our operating losses. Due to the possibility of fluctuations in our revenue and expenses, we believe that quarterly comparisons of our operating results are not a good indication of our future performance. If our operating results fluctuate or do not meet the expectations of stock market analysts and investors, our stock price probably would decline.

Item 7A. ***Quantitative and Qualitative Disclosure about Market Risk.***

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio. The fair market value of fixed rate securities may be adversely impacted by fluctuations in interest rates while income earned on floating rate securities may decline as a result of decreases in interest rates. Under our current policies, we do not use interest rate derivative instruments to manage exposure to interest rate changes. We ensure the safety and preservation of our invested principal funds by limiting default risk, market risk and reinvestment risk. We mitigate default risk by investing in investment grade securities. A hypothetical 100 basis point adverse move in interest rates along the entire interest rate yield curve would not materially affect the fair value of our interest sensitive financial instruments.

Our equipment financings, amounting to $0.3 million as of December 28, 2003, are all at fixed rates and therefore, have no exposure to changes in interest rates. In January 2002, we assumed a $26.0 million mortgage in connection with the purchase of a new facility and related land. The interest rate on this loan is fixed for a 10-year period and consequently there is no exposure to increasing market interest rates.

We have not had any significant exposure to foreign currency rate fluctuations, nor do we have any foreign currency hedging instruments in place.

Item 8. ***Financial Statements and Supplementary Data.***

The Report of Independent Auditors, Financial Statements and Notes to Financial Statements begin on page F-1 immediately following the signature page and are incorporated here by reference.

Our fiscal year is 52 or 53 weeks ending on the Sunday closest to December 31. Our quarters are 13 or 14 weeks ending on the Sunday closest to March 31, June 30 and September 30.

Item 9. ***Changes In and Disagreements With Accountants on Accounting and Financial Disclosure.***

Not applicable.

Item 9A. ***Controls and Procedures.***

We have established and maintain disclosure controls and procedures to ensure that we record, process, summarize, and report information we are required to disclose in our periodic reports filed with the Securities and Exchange Commission in the manner and within the time periods specified in the SEC's rules and forms. We also design our disclosure controls to ensure that the information is accumulated and communicated to our management, including the chief executive officer and the chief financial officer, as appropriate to allow timely decisions regarding required disclosure. We also maintain internal controls and procedures to ensure that we comply with applicable laws and our established financial policies. We design our internal controls to provide reasonable assurance that (1) our transactions are properly authorized; (2) our assets are safeguarded against unauthorized or improper use; and (3) our transactions are properly recorded and reported in conformity with accounting principles generally accepted in the United States.

We have evaluated the design and operation of our disclosure controls and procedures to determine whether they are effective in ensuring that the disclosure of required information is timely made in accordance with the Exchange Act and the rules and regulations of the Securities and Exchange Commission. This evaluation was made under the supervision and with the participation of management, including our chief executive officer and chief financial officer as of December 28, 2003. Our management does not expect that our disclosure controls or our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Notwithstanding, we have designed our internal control system with a level of controls that we believe will prevent material errors in our consolidated financial statements.

The chief executive officer and chief financial officer have concluded, based on their review, that our disclosure controls and procedures, as defined at Exchange Act Rules 13a-14(c) and 15d-14(c), are effective to ensure that information required to be disclosed by us in reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and that our internal controls are effective to provide reasonable assurance that our financial statements are fairly presented in conformity with accounting principles generally accepted in the United States. No significant changes were made to our internal controls or other factors that could significantly affect these controls during the fourth quarter of 2003.

PART III

Item 10. *Directors and Executive Officers of the Registrant.*

Identification of Directors

Our certificate of incorporation and bylaws provide for a classified board of directors consisting of three classes of directors with staggered three-year terms. The board currently consists of seven persons, with two classes consisting of two directors each and the third class consisting of three directors. Robert T. Nelsen has informed the board that he will not serve on the board after the annual meeting to be held on May 20, 2004. As a result, his term will expire as of the annual meeting, and the board will consist of six persons following the 2004 annual meeting.

Daniel M. Bradbury, 42, has been a director since January 2004. Since June 2003, Mr. Bradbury has served as Chief Operating Officer of Amylin Pharmaceuticals, a biopharmaceutical company. He served in various other positions with that company from 1994 to 2003. From 1984 to 1994, Mr. Bradbury held a number of positions at SmithKline Beecham Pharmaceuticals. Mr. Bradbury is a director of Peninsula Pharmaceuticals. Mr. Bradbury holds a B.Pharm. (Hons.) from Nottingham University and a Diploma in Management Studies from Harrow and Ealing Colleges of Higher Education and is a member of the Royal Pharmaceutical Society of Great Britain.

Jay T. Flatley, 51, has served as our President, Chief Executive Officer and a director since October 1999. Prior to joining Illumina, Mr. Flatley was co-founder, President, Chief Executive Officer and a director of Molecular Dynamics, a life sciences company, from May 1994 to September 1999. He served in various other positions with that company from 1987 to 1994. From 1985 to 1987, Mr. Flatley was Vice President of Engineering and Vice President of Strategic Planning at Plexus Computers, a UNIX computer company. Mr. Flatley holds a B.A. in Economics from Claremont McKenna College and a B.S. and M.S. in Industrial Engineering from Stanford University.

R. Scott Greer, 45, has been a director since May 2001. Mr. Greer has served as Chairman of the Board of Abgenix, Inc. since May 2000, as a director since June 1996 and as its Chief Executive Officer from June 1996 to May 2002. From June 1996 until December 2000, he served as its President. He also serves as a director of CV Therapeutics, Inc. and Sirna Therapeutics, Inc. From July 1994 to July 1996, Mr. Greer was Senior Vice President of Corporate Development at Cell Genesys, Inc. From April 1991 to July 1994, Mr. Greer was Vice President of Corporate Development and from April 1991 to September 1993 Mr. Greer was Chief Financial Officer of Cell Genesys. From 1986 to 1991, Mr. Greer held various positions at Genetics Institute, Inc., a biotechnology company, including Director, Corporate Development. Mr. Greer received a B.A. in Economics from Whitman College and an M.B.A. from Harvard University and was a certified public accountant.

Robert T. Nelsen, 40, has been a director since June 1998. Since July 1994, Mr. Nelsen has served as a senior principal of venture capital funds associated with ARCH Venture Partners, a venture capital firm, including ARCH Venture Fund III, L.P., a stockholder of the Company. From April 1987 to July 1994, Mr. Nelsen was Senior Manager at ARCH Development Corporation, a company affiliated with the University of Chicago, where he was responsible for new company formation. Mr. Nelsen is a director of Adolor. Mr. Nelsen holds a B.S. in Biology and Economics from the University of Puget Sound and an M.B.A. from the University of Chicago.

William H. Rastetter, Ph.D., 55, has been a director since November 1998. Since November 2003, Dr. Rastetter has served as the Executive Chairman of Biogen Idec Inc, a biopharmaceutical company. He served as Chief Executive Officer of IDEC Pharmaceuticals Corporation from December 1986 through November 2003 and as Chairman of the board of directors from May 1996 to November 2003. Additionally, he served as President of IDEC Pharmaceuticals from 1986 through 2002. From 1982 to 1986, Dr. Rastetter served in various positions at Genentech and previously he was an associate professor at the Massachusetts Institute of Technology. Dr. Rastetter holds a S.B. in

Chemistry from the Massachusetts Institute of Technology and received his M.A. and Ph.D. in Chemistry from Harvard University.

John R. Stuelpnagel, D.V.M., 46, one of our founders, is our Sr. Vice President of Operations and has been a director since April 1998. From October 1999 to April 2002, he served as our Vice President of Business Development. From April 1998 to October 1999, he served as our acting President and Chief Executive Officer and was acting Chief Financial Officer through April 2000. While founding Illumina, Dr. Stuelpnagel was an associate with CW Group, a venture capital firm, from June 1997 to September 1998 and with Catalyst Partners, a venture capital firm, from August 1996 to June 1997. Dr. Stuelpnagel received his B.S. in Biochemistry and his Doctorate in Veterinary Medicine from the University of California, Davis and his M.B.A. from the University of California, Los Angeles.

David R. Walt, Ph.D., 51, one of our founders, has been a director and Chairman of our Scientific Advisory Board since June 1998. Dr. Walt has been the Robinson Professor of Chemistry at Tufts University since September 1995. Dr. Walt has published over 100 papers and holds over 20 patents. Dr. Walt holds a B.S. in Chemistry from the University of Michigan and received his Ph.D. in Organic Chemistry and Pharmacology from the State University of New York at Stony Brook.

Board Committees and Meetings

The board of directors held five meetings during the fiscal year ended December 28, 2003. The board of directors has an audit committee and a compensation committee. Each director attended or participated in 75% or more of the aggregate of (i) the total number of meetings of the board of directors and (ii) the total number of meetings held by all committees of the board on which such director served during the 2003 fiscal year.

The audit committee currently consists of three directors, Mr. Greer, Mr. Nelsen and Dr. Rastetter, each of whom is independent as defined under Rule 4200 of the National Association of Securities Dealers' listing standards and Rule 10A-3 of the Exchange Act. The Board of Directors has determined that all audit committee members are financially literate under the current listing standards of the National Association of Securities Dealers. The Board also determined that R. Scott Greer qualifies as an ''audit committee financial expert'' as defined by the SEC rules adopted pursuant to the Sarbanes-Oxley Act of 2002. The audit committee is responsible for approving the services performed by our independent auditors and reviewing our accounting practices and systems of internal accounting controls. The audit committee held eight meetings during 2003. The audit committee is governed by a written charter approved by the board of directors.

The compensation committee currently consists of Mr. Nelsen and Dr. Rastetter. The compensation committee is primarily responsible for reviewing and approving our general compensation policies and setting compensation levels for our executive officers. The compensation committee also has the authority to administer our 2000 employee stock purchase plan and our 2000 stock plan. The compensation committee held one meeting during 2003.

Director Compensation

Each non-employee director receives an annual cash retainer fee of $10,000 per year, which is paid quarterly. Non-employee directors also receive $2,000 for each Board meeting attended and $1,000 for each Board committee meeting attended. We also reimburse our non-employee directors for their expenses incurred in connection with attending board and committee meetings. Several directors have purchased shares of our common stock pursuant to restricted stock purchase agreements, subject to repurchase rights in our favor which lapse over time. David R. Walt, as a member of our Scientific Advisory Board, has received an annual consulting fee of $50,000, which will terminate in April 2004.

Under our 2000 stock plan, as amended, directors who are not our officers or employees receive:

- one-time option grants of 20,000 shares vesting annually over four years upon joining the board, which are to be automatically granted on the date of the first board meeting attended, with exercise prices equal to the fair market value of our common stock on the date of grant; and

- annual option grants of 10,000 shares vesting annually over four years, which are to be automatically granted on the date of each annual stockholder meeting with exercise prices equal to the fair market value of our common stock on the date of grant.

On the date of the annual meeting, our existing non-employee board members, Mr. Bradbury, Mr. Nelsen, and Dr. Rastetter and, if re-elected, Mr. Greer and Dr. Walt, will automatically receive option grants of 10,000 shares of our common stock. The exercise price per share under each such option will be equal to the fair market value per share of common stock on the grant date.

Identification of Executive Officers

Information concerning our executive officers is set forth under ''Executive Officers'' in Part I of this Annual Report on Form 10-K.

Compliance with Section 16(a) of the Exchange Act

The members of our board of directors, our executive officers and persons who hold more than 10% of our outstanding common stock are subject to the reporting requirements of Section 16(a) of the Securities Exchange Act which require them to file reports with respect to their ownership of our common stock and their transactions in such common stock. Based solely upon our review of copies of Section 16(a) reports, which we received from such persons for their transactions during the 2003 fiscal year, we believe that all reporting requirements under Section 16(a) for such fiscal year were met in a timely manner by these individuals, with the following exception, a Form 4 covering the sale of 5,275 shares of the Company's stock by Noemi Espinosa was filed 15 days late on December 11, 2003.

Code of Ethics

The Company has adopted a Code of Ethics that applies to all officers and employees, including its principal executive officer and principal accounting and financial officer. This code of ethics is filed as Exhibit 14 to this annual report on Form 10-K.

Item 11. *Executive Compensation.*

Summary of Cash and Certain Other Compensation

The following table provides summary information concerning the compensation earned by our chief executive officer and each of our four other most highly compensated executive officers whose salary and bonus for the 2003 fiscal year was in excess of $100,000, for services rendered in all capacities, to Illumina. No executive officer who would have otherwise been includable in such table on the basis of salary and bonus earned for the 2003 fiscal year has been excluded by reason of his or her termination of employment or change in executive status during that fiscal year. The individuals included in the following table are referred to as named executive officers.

Summary 2003 Compensation Table

		Annual Compensation ($)			Long Term Compensation Awards Securities Underlying
Name and Principal Positions	Year	Salary	Bonus(1)	Other Annual Compensation	Options (#)
Jay T. Flatley, ...	2003	$360,400	$ 96,107	$22,453(2)	150,000
President and Chief	2002	340,000	119,000	7,547(2)	—
Executive Officer	2001	299,519	82,500	—	150,000
David L. Barker, ...	2003	220,000	22,000	—	40,000
Vice President and	2002	210,000	15,750	—	—
Chief Scientific Officer	2001	200,000	10,000	—	75,000
Noemi C. Espinosa, ...	2003	220,000	14,667	4,154(3)	25,000
Vice President of	2002	210,000	12,600	4,038(3)	—
Intellectual Property	2001	200,000	10,000	—	25,000
Timothy M. Kish,.....	2003	250,000	33,333	—	50,000
Vice President of Finance	2002	236,250	17,719	—	—
and Chief Financial Officer	2001	225,000	11,250	—	75,000
John R. Stuelpnagel, ...	2003	250,000	33,333	7,231(3)	75,000
Senior Vice President	2002	220,000	22,000	3,885(3)	—
of Operations	2001	189,712	9,500	7,673(3)	75,000

(1) Bonuses are earned in the year indicated and paid in February of the following year.

(2) This amount represents an allowance for relocation and housing.

(3) Payment for flexible time off.

Stock Option Grants

We grant options to our executive officers under our 2000 stock plan. As of January 31, 2004, options to purchase a total of 5,952,627 shares of our common stock were outstanding under the stock plan and options to purchase 6,299,552 shares of our common stock remained available for future grant.

The following tables show for the 2003 fiscal year, information regarding options granted to, exercised by, and held at year end by, each of the named executive officers. No stock appreciation rights were granted to the named executive officers during the 2003 fiscal year.

The exercise price of each option was equal to the closing sales price of our common stock as reported on the Nasdaq Stock Market on the date of grant. The exercise price may be paid in cash or through a cashless exercise procedure involving a same-day sale of the purchased shares. The options vest ratably over a 60-month period, beginning March 2003. Each of the options has a maximum term of 10 years measured from the applicable grant date, subject to earlier termination if the optionee's service with us ceases. In the event that we are acquired by merger or asset sale, each outstanding

option which is not to be assumed by the acquiring entity will become immediately fully vested and exercisable.

The potential realizable value is calculated based on the 10-year term of the option at the time of grant. Stock price appreciation of 5% and 10% is assumed under the SEC rules and does not represent our prediction of our stock price performance. The potential realizable value at 5% and 10% appreciation are calculated by assuming that the stock price on the date of grant appreciates at the indicated annual rate, compounded annually for the entire term of the option and that the option is exercised and sold on the last day of its term for the appreciated stock price. There can be no assurance provided to any named executive officer or other holder of our securities that the actual stock price appreciation over the 10-year term will be at the assumed 5% and 10% levels or at any other defined level. Unless the market price of the common stock appreciates over the option term, no value will be realized from the option grants made to the named executive officers. On December 26, 2003, the last trading day of our 2003 fiscal year, the closing sales price of our common stock, as reported on the Nasdaq National Market, was $7.01.

Percentages shown under ''Percentage of Total Options Granted in 2003'' are based on an aggregate of 1,199,275 options granted to employees of Illumina under our stock option plans during 2003.

	Individual Grants					
Name	Number of Securities Underlying Options Granted	Percentage of Total Options Granted to Employees in Fiscal Year	Exercise Price ($/Share)	Expiration Date	Value at Assumed Annual Rates of Stock Appreciation for Option Term 5% ($)	10% ($)
Jay T. Flatley	150,000	12.51%	$2.77	02/10/2013	261,306	662,200
David L. Barker, Ph.D.	40,000	3.34%	2.77	02/10/2013	69,682	176,587
Noemi C. Espinosa	25,000	2.08%	2.77	02/10/2013	43,551	110,367
Timothy M. Kish	50,000	4.17%	2.77	02/10/2013	87,102	220,733
John R. Stuelpnagel, D.V.M	75,000	6.25%	2.77	02/10/2013	130,653	331,100

Aggregate Option Exercises in 2003 and Option Values at December 28, 2003

The following table presents the number and value of securities underlying unexercised options that are held by each of the named executive officers. No options were exercised by any of the named executive officers and no stock appreciation rights were outstanding during the 2003 fiscal year.

Amounts shown under the column ''Value of Unexercised In-the-Money Options at December 28, 2003'' are based on the closing price of our common stock of $7.01 on December 26, 2003, the last trading day of our 2003 fiscal year, as reported on the Nasdaq National Market, less the exercise price paid for such shares, without taking into account any taxes that may be payable in connection with the transaction, multiplied by the number of shares underlying the option.

	Number of Securities Underlying Unexercised Options at December 28, 2003		Value of Unexercised In-The-Money Options at December 28, 2003	
Name	Exercisable	Unexercisable	Exercisable	Unexercisable
Jay T. Flatley	51,694	248,406	$133,126	$655,874
David L. Barker, Ph.D.	18,123	96,877	39,950	206,150
Noemi C. Espinosa	9,061	40,939	22,657	108,843
Timothy M. Kish	8,333	116,667	35,332	253,168
John R. Stuelpnagel, D.V.M	23,540	126,460	64,261	330,239

Employment Contracts, Termination of Employment and Change in Control Arrangements

We have not entered into employment agreements with any of our named executive officers.

We have entered into restricted stock purchase agreements with several of our executive officers, including each of our named executive officers, providing that upon the closing of an acquisition of Illumina for cash or publicly traded securities, the lapsing of our repurchase right accelerates as to 50% of each officer's shares of common stock then subject to our repurchase right and, with respect to the remaining 50%, on the first anniversary of the closing date of the acquisition. If the acquirer terminates the officer's employment without cause within one year of the closing date, our repurchase right lapses with respect to all shares.

The compensation committee of the board of directors, as plan administrator of our stock plans, has the authority to provide for accelerated vesting of any outstanding options or waiver of forfeiture restrictions of unvested stock held by our executive officers, for any reason, including upon a change of control.

Compensation Committee Interlocks and Insider Participation

Our executive compensation program has been administered by the compensation committee of our board of directors. As of December 28, 2003, the compensation committee consisted of Mr. Nelsen and Dr. Rastetter. Neither of these individuals was an employee or an officer of ours.

None of our current executive officers has ever served as a member of a board of directors or compensation committee of any other entity that has or has had one or more executive officers serving as a member of our board of directors or compensation committee during the last fiscal year.

Board Compensation Committee Report on Executive Compensation

The compensation committee's responsibility is to administer and review the base salaries, annual incentive compensation and long-term incentives of our executive officers, including our chief executive officer, and to establish the general compensation policies for such individuals. The compensation committee also has the authority to make discretionary option grants to our executive officers under our 2000 stock plan.

Compensation Philosophy. Our philosophy is to maintain an executive compensation program that allows us to attract, retain and reward executive officers who contribute to our long-term success and to link that compensation to both individual performance and the value created for our stockholders. We have adopted a challenging strategy with an aggressive set of underlying goals and our success will in large part be determined by the quality of personnel we are able to recruit. A competitive compensation program will be a crucial part of recruiting the people required to help us achieve these goals.

Our compensation program consist of three elements; base salary, incentive bonuses and long-term equity incentives. In general, our goal is to provide a total compensation package that is competitive with the biotechnology and life science instrumentation companies with which we compete for talent.

Base Salary. The salaries for executive officers for 2003 were generally determined on an individual basis by the compensation committee. Determinations of appropriate base salary levels are made based on level of responsibility, prior experience and breadth of knowledge as well as competitive pay practices in our industry. Initial salary levels are set at the market average when compared to leading companies in our industry, adjusted for size. Subsequent changes to base salary are based on individual performance measured against pre-established objectives and competitive factors at the time.

Incentive Bonus. The compensation committee in its discretion may award bonuses to executive officers. The intent of the bonus program is to motivate and reward executives for performance as

measured against well defined performance goals. The goals are based on both individual milestones that vary with the individual's position as well as our overall financial performance.

Long-Term Equity Incentives. Stock options and stock ownership are a key element in our total compensation program as it links the interests of the executive with the long-term interests of the stockholders and emphasizes the creation of stockholder value. Prior to our initial public offering, executives were provided the opportunity to purchase restricted stock at the date of hire and at other times after that date. Subsequent to our initial public offering, we have granted stock options to executives under the 2000 stock plan at both the time of hire and as subsequent awards. Grants are awarded based on a number of factors, including our achievement of specific milestones, the individual's level of responsibility, the amount and term of stock or options already held by the individual, the individual's contributions to the achievement of our financial and strategic objectives, and industry practices and norms. The size of option grants to executives is determined by the compensation committee. Options are granted at 100% of the fair market value on the date of grant. Option grants to executives generally vest over periods ranging from five to eight years, with opportunities in some cases for earlier vesting based upon the achievement of specified goals.

CEO Compensation. The compensation of Jay T. Flatley, our chief executive officer, is established consistent with Illumina's general compensation philosophy. In setting that salary, the compensation committee considered several factors, including the achievement of company goals during 2003, such as exceeding the 2003 sales goal for SNP genotyping systems and the launch of several new products, as well as the level of leadership and management required to complete development of our technology and commercialize our products. Mr. Flatley's salary was increased from $340,000 in 2002 to $360,400 in 2003 in recognition of these and other competitive factors. Mr. Flatley also received a $96,107 bonus in 2003 based on the same incentive plan as the other executive officers.

Compliance with Internal Revenue Code Section 162(m). Section 162(m) of the Internal Revenue Code disallows a tax deduction to publicly held companies for compensation paid to specified executive officers, to the extent that compensation exceeds $1 million per covered officer in any fiscal year. The limitation applies only to compensation that is not considered to be performance-based. Non-performance based compensation paid to our executive officers for the 2003 fiscal year did not exceed the $1 million limit per officer. The compensation committee does not anticipate that the non-performance based compensation to be paid to our executive officers for fiscal year 2004 will exceed that limit. Our stock option plans have been structured so that any compensation deemed paid in connection with the exercise of option grants made under those plan with an exercise price equal to the fair market value of the option shares on the grant date will qualify as performance-based compensation which will not be subject to the $1 million limitation. The compensation committee's present intention is to grant future compensation that does not exceed the limitations of Section 162(m), although the compensation committee reserves the right to award compensation that does not comply with these limits on a case-by-case basis.

It is the opinion of the compensation committee that the executive compensation policies and plans provide the necessary total remuneration program to properly align our performance and the interests of our stockholders through the use of competitive and equitable executive compensation in a balanced and reasonable manner, for both the short and long-term.

We conclude our report with the acknowledgement that no member of the compensation committee is a current officer or employee of Illumina.

COMPENSATION COMMITTEE
Robert T. Nelsen
William H. Rastetter, Ph.D.

Audit Committee Report

The audit committee oversees our financial reporting process on behalf of our board of directors. Management has primary responsibility for the financial reporting process including the systems of internal controls. In fulfilling its oversight role, the audit committee monitors and advises the board of directors on the integrity of the Company's financial statements and disclosures, the independent auditor's qualifications and independence, the adequacy of the Company's internal controls, and the Company's compliance with legal and regulatory requirements. The audit committee has the following responsibilities, among others:

- reviewing with management and the independent auditor the audited financial statements in the Annual Report and the reviewed financial statements in the quarterly reports, including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the financial statements;
- reviewing with management and the independent auditor the earnings press releases as well as other financial information provided to the public;
- reviewing with management and the independent auditor significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements;
- reviewing with management and the independent auditor the Company's application of critical accounting policies including consistency from period to period and compatibility with generally accepted accounting principles;
- reviewing with the independent auditor matters relating to the conduct of the audit, including the overall scope of the audit, any difficulties encountered in the course of the audit work, any restriction on the scope of the audit, and any significant disagreements with management;
- assessing auditor independence and absence of conflicts of interest;
- recommending, for shareholder approval, the independent auditor to examine the Company's accounts, controls and financial statements;
- pre-approving any audit and permitted non-audit services provided to the Company by its independent auditor;
- obtaining from the independent auditor a written report on the Company's internal accounting controls;
- reviewing with management the Company's system of internal accounting controls and disclosure controls; and
- establishing procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters.

The audit committee meets with the independent auditors, with and without our management present, to discuss the results of their examinations, their evaluations of our internal controls, and the overall quality of our financial reporting.

Based on the reviews and discussions referred to above, the audit committee recommended to the board of directors that the audited financial statements be included in our annual report on Form 10-K for the fiscal year ended December 28, 2003, for filing with the Securities and Exchange Commission.

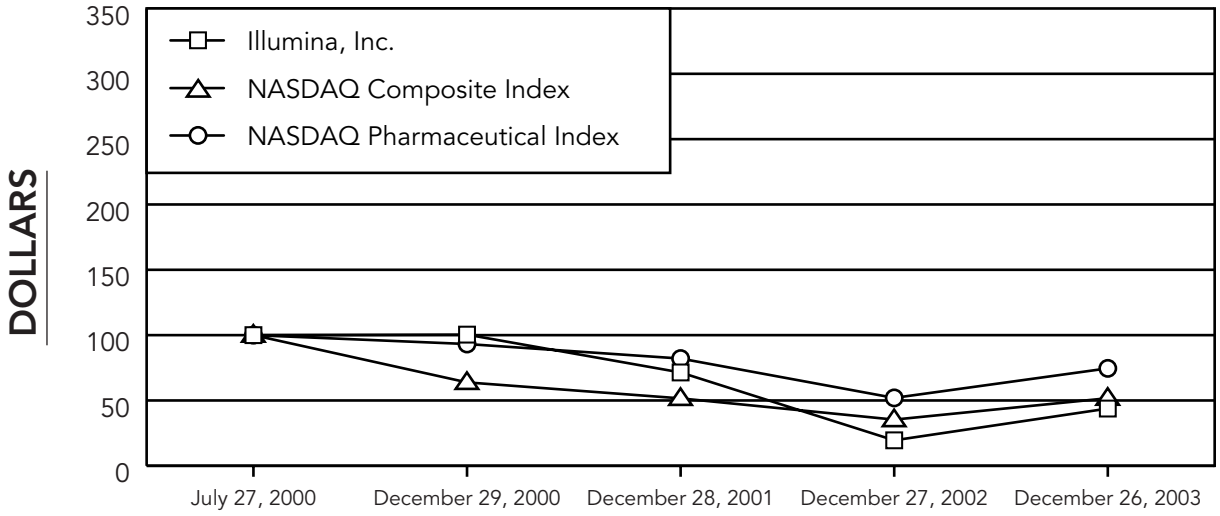
The undersigned members of the audit committee have submitted this report to the board of directors:

AUDIT COMMITTEE
R. Scott Greer
Robert T. Nelsen
William H. Rastetter, Ph.D.

Stock Performance Graph

The graph depicted below shows a comparison of our cumulative total stockholder returns for our common stock, the NASDAQ Stock Market Index, and the NASDAQ Pharmaceutical Index, from the date of our initial public offering on July 27, 2000 through December 26, 2003. The graph assumes that $100 was invested on July 27, 2000, in our common stock and in each index, and that all dividends were reinvested. No cash dividends have been declared on our common stock. Stockholder returns over the indicated period should not be considered indicative of future stockholder returns.

COMPARISON OF TOTAL RETURN AMONG ILLUMINA, INC., THE NASDAQ COMPOSITE INDEX AND THE NASDAQ PHARMACEUTICAL INDEX



	July 27, 2000	December 29, 2000	December 28, 2001	December 27, 2002	December 26, 2003
Illumina, Inc.	100.00	100.39	71.44	19.50	43.81
NASDAQ Composite Index	100.00	63.84	51.60	35.34	51.73
NASDAQ Pharmaceutical Index	100.00	93.20	82.08	51.96	74.57

Item 12. ***Security Ownership of Certain Beneficial Owners and Management.***

The following table sets forth information known to us with respect to the beneficial ownership of our common stock as of January 31, 2004 for:

- each of our directors;
- each of the named executive officers listed in the summary compensation table;
- each stockholder known by us to own beneficially more than 5% of our common stock; and
- all of our directors and executive officers as a group.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock subject to stock options and warrants currently exercisable or exercisable within 60 days from January 31, 2004 are deemed to be outstanding for computing the percentage ownership of the person holding these options and the percentage ownership of any group of which the holder is a member, but are not deemed outstanding for computing the percentage of any other person. Except as indicated by footnote, and subject to community property laws where applicable, the persons named in the table have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them. Except as otherwise noted below, the address of each person listed on the table is 9885 Towne Centre Drive, San Diego, CA 92121. Some of the shares of common stock held by our directors, officers and consultants are subject to repurchase rights in our favor. For a description of these repurchase rights, see the footnotes below.

		Beneficial Ownership	
Name and Address	Shares Issuable Pursuant to Options Exercisable Within 60 days of January 31, 2004	Number of Shares (including number shown in first column)	Percentage of Total(1)
DIRECTORS AND EXECUTIVE OFFICERS			
Jay T. Flatley(2)	67,219	1,059,722	3.2
David L. Barker, Ph.D.(3)	22,081	275,256	*
Noemi C. Espinosa(4)	11,561	229,924	*
Timothy M. Kish(5)	12,833	407,397	1.2
John R. Stuelpnagel, D.V.M.(6)	31,248	748,211	2.3
Daniel M. Bradbury	—	—	*
R. Scott Greer	12,500	16,500	*
Robert T. Nelsen(7)	7,500	3,333,193	10.1
William H. Rastetter, Ph.D.(8)	7,500	83,012	*
David R. Walt, Ph.D.(9)	7,500	1,409,838	4.3
All directors and executive officers as a group (15 persons)	619,884	8,180,078	24.4
5% STOCKHOLDERS			
ARCH Venture Partners, LLC(10) 8725 West Higgins Road, Suite 290 Chicago, IL 60631	—	3,315,298	10.1
Capital Group International, Inc.(11) 11100 Santa Monica Blvd. Los Angeles, CA 90025	—	3,293,750	10.0
Entities affiliated with CW Group(12) 1041 Third Avenue New York, NY 10021	—	3,005,511	9.1

* Represents beneficial ownership of less than 1% of the outstanding shares of our common stock.

(1) Percentage ownership is based on the 32,900,523 shares of common stock outstanding on January 31, 2004.

(2) Includes 16,500 shares beneficially owned by Mr. Flatley's children. As of January 31, 2004, we have the right to repurchase 170,833 of Mr. Flatley's shares upon termination of Mr. Flatley's services to the Company, which repurchase right lapses over time.

(3) Includes 3,300 shares beneficially owned by a trust for which Dr. Barker is the trustee. As of January 31, 2004, we have the right to repurchase 58,334 of Dr. Barker's shares upon termination of Dr. Barker's services to the Company, which repurchase right lapses over time.

(4) As of January 31, 2004, we have the right to repurchase 53,750 of Ms. Espinosa's shares upon termination of Ms. Espinosa's services to the Company, which repurchase right lapses over time.

(5) Includes 6,000 shares beneficially owned by Mr. Kish's children. As of January 31, 2004, we have the right to repurchase 93,750 of Mr. Kish's shares upon termination of Mr. Kish's services to the Company, which repurchase right lapses over time.

(6) As of January 31, 2004, we have the right to repurchase 60,500 of Dr. Stuelpnagel's shares upon termination of Dr. Stuelpnagel's services to the Company, which repurchase right lapses over time.

(7) Consists of 3,315,298 shares owned by ARCH Venture Fund III, L.P., 10,395 shares owned by Mr. Nelsen and 7,500 shares exercisable within 60 days under options held by Mr. Nelsen. Mr. Nelsen, a director of Illumina, is a managing director of the general partner of ARCH Venture Fund III, L.P. and disclaims beneficial ownership of the shares owned by that fund, except shares attributable to his partnership interests.

(8) As of January 31, 2004, we have the right to repurchase 1,042 of Dr. Rastetter's shares upon termination of Dr. Rastetter's services to the Company, which repurchase right lapses over time.

(9) Includes 303,980 shares beneficially owned by Dr. Walt's wife, 60,000 shares owned by OSCI, Inc. and 31,540 shares beneficially owned by Dr. Walt's children. Dr. Walt is a principal in OSCI, Inc. Dr. Walt disclaims beneficial ownership of the shares held by OSCI, Inc.

(10) Based solely on information contained in Schedule 13G filed by Arch Venture Partners, LLC on February 11, 2004.

(11) Based solely on information contained in Schedule 13G filed by Capital Group International, Inc. on February 13, 2004.

(12) Based solely on information contained in Form 4 filed by CW Ventures III LP on November 12, 2003.

In February 2004, three of our executive officers, Jay T. Flatley, David L. Barker and John R. Stuelpnagel, and one of our directors, David R. Walt, adopted prearranged stock trading plans for the purpose of selling limited amounts of their company stock during a period of approximately 18 months. These written plans were adopted in accordance with Rule 10b5-1 under the Securities and Exchange Act of 1934.

Equity Compensation Plan Information

The following table presents information about our common stock that may be issued upon the exercise of options, warrants and rights under all our existing equity compensation plans as of December 28, 2003. We currently have two equity compensation plans, the 2000 employee stock purchase plan and the 2000 stock plan, Prior to our initial public offering we granted options under the 1998 stock incentive plan. All of these plans have been approved by our stockholders. Options

outstanding include options granted under both the 1998 stock incentive plan and the 2000 stock plan.

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options	(b) Weighted-Average Exercise Price of Outstanding Options	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)
Equity compensation plans approved by security holders	5,229,874	$6.95	5,536,135
Equity compensation plans not approved by security holders	—	—	—
Total	5,229,874	$6.95	5,536,135

Please refer to Footnote 5 in notes to consolidated financial statements included in our annual report on Form 10-K for the year ended December 28, 2003 for a description of our equity compensation plans.

Item 13. ***Certain Relationships and Related Transactions.***

We entered into a license agreement with Tufts University in 1998 in connection with the license of patents filed by Dr. David Walt, one of our directors. Dr. Walt is the Robinson Professor of Chemistry at Tufts. Under that agreement, we pay royalties to Tufts upon the commercial sale of products based on the licensed technology. It is our understanding that Tufts University pays a portion of the royalties received from us to Dr. Walt, the amount of which is controlled solely by Tufts University. We also provided Tufts University with $100,000 per year in funding for five years ending in July 2003 for research support. All future transactions between us and our officers, directors, principal stockholders and affiliates will be approved by a majority of the independent and disinterested members of our board of directors, and will be on terms no less favorable to us than could be obtained from unaffiliated third parties.

Our bylaws provide that we will indemnify our directors and executive officers and may indemnify other officers, employees and other agents to the fullest extent permitted by the Delaware law. We are also empowered under our bylaws to enter into indemnification contracts with our directors and officers and to purchase insurance on behalf of any person whom we are required or permitted to indemnify. Pursuant to this provision, we have entered into indemnity agreements with each of our directors and officers.

In addition, our certificate of incorporation provides that to the fullest extent permitted by Delaware law, our directors will not be liable for monetary damages for breach of their fiduciary duty of care to Illumina and its stockholders. This provision in the certificate of incorporation does not eliminate the duty of care, and in appropriate circumstances equitable remedies such as an injunction or other forms of nonmonetary relief would remain available under Delaware law. Each director will continue to be subject to liability for breach of the director's duty of loyalty to Illumina, for acts or omissions not in good faith or involving intentional misconduct or knowing violations of law, for acts or omissions that the director believes to be contrary to the best interests of Illumina or its stockholders, for any transaction from which the director derived an improper personal benefit, for acts or omissions involving a reckless disregard for the director's duty to Illumina or its stockholders when the director was aware or should have been aware of a risk of serious injury to Illumina or its stockholders, for acts or omissions that constitute an unexcused pattern of inattention that amounts to an abdication of the director's duty to Illumina or its stockholders, for improper transactions between the director and

Illumina and for improper distributions to stockholders and loans to directors and officers. This provision also does not affect a director's responsibilities under any other laws, such as the federal securities laws or state or federal environmental laws.

Item 14. ***Principal Accountant Fees and Services.***

Audit Fees

The aggregate fees billed by Ernst & Young LLP for professional services rendered for the audit of our annual financial statements, the quarterly reviews of the financial statements included in our Forms 10-Q and an A-133 audit required by our government grants were $118,000 and $90,113 for fiscal years 2003 and 2002, respectively.

Audit-Related Fees

The aggregate fees billed by Ernst & Young LLP for audit-related services as defined by the commission were $17,720 and $3,500 for fiscal years 2003 and 2002, respectively.

Tax Fees

The aggregate fees billed by Ernst & Young LLP for professional services rendered for the preparation of our tax returns and tax planning and advice were $25,520 and $20,278 for fiscal years 2003 and 2002, respectively. In 2004 and beyond, all tax related services will be performed by parties other than Ernst & Young.

All Other Fees

Ernst & Young LLP did not perform any professional services other than as stated under the captions Audit Fees, Audit-Related Fees and Tax Fees for fiscal year 2003 or 2002.

Pre Approval Policies and Procedures

The audit committee has adopted a policy that requires advance approval of all audit services and permitted non-audit services to be provided by the independent auditor as required by the Exchange Act. The audit committee must approve the permitted service before the independent auditor is engaged to perform it.

PART IV

Item 15. ***Exhibits, Financial Statement Schedules and Reports on Form 8-K.***

(a) The following documents are filed as a part of this report:

(1) *Consolidated Financial Statements:*

	Page
Index to Consolidated Financial Statements	F-1
Report of Ernst & Young LLP, Independent Auditors	F-2
Consolidated Balance Sheets as of December 28, 2003 and December 29, 2002	F-3
Consolidated Statements of Operations for the years Ended December 28, 2003, December 29, 2002 and December 30, 2001	F-4
Consolidated Statements of Stockholders Equity for the period from December 31, 2000 to December 28, 2003	F-5
Consolidated Statements of Cash flows for the years Ended December 28, 2003, December 29, 2002 and December 30, 2001	F-6
Notes to Consolidated Financial Statements	F-7

(2) *Financial Statement Schedules:*

Valuation and Qualifying Account and Reserves for the three year period ended December 28, 2003	F-26

(3) *Exhibits:*

Exhibit Number	Description of Document
2.1(1)	Form of Merger Agreement between Illumina, Inc., a California corporation, and Illumina, Inc., a Delaware corporation.
3.1(2)	Amended and Restated Certificate of Incorporation.
3.2(1)	Bylaws.
3.3(5)	Certificate of Designation for Series A Junior Participating Preferred Stock (included as an exhibit to exhibit 4.3).
4.1(1)	Specimen Common Stock Certificate.
4.2(1)	Amended and Restated Investors Rights Agreement, dated November 5, 1999, by and among the Registrant and certain stockholders of the Registrant.
4.3(5)	Rights Agreement, dated as of May 3, 2001, between the Company and Equiserve Trust Company, N.A.
+10.1(1)	Form of Indemnification Agreement between the Registrant and each of its directors and officers.
+10.2(1)	1998 Incentive Stock Plan.
+10.3(2)	2000 Employee Stock Purchase Plan (Filed as Exhibit 99.2).
10.4(1)	Sublease Agreement dated August 1998 between Registrant and Gensia Sicor Inc. for Illumina's principal offices.
10.5(1)	Joint Development Agreement dated November 1999 between Registrant and PE Corporation (with certain confidential portions omitted).
10.6(1)	Asset Purchase Agreement dated November 1998 between Registrant and nGenetics, Inc. (with certain confidential portions omitted).
10.7(1)	Asset Purchase Agreement dated March 2000 between Registrant and Spyder Instruments, Inc. (with certain confidential portions omitted).

Exhibit Number	Description of Document
10.8(1)	License Agreement dated May 1998 between Tufts and Registrant (with certain confidential portions omitted).
10.9(1)	Master Loan and Security Agreement, dated March 6, 2000, by and between Registrant and FINOVA Capital Corporation.
+10.10(3)	2000 Stock Plan (Filed as Exhibit 99.1).
10.11(1)	Eastgate Pointe Lease, dated July 6, 2000, between Diversified Eastgate Venture and Registrant.
10.12(1)	Option Agreement and Joint Escrow Instructions, dated July 6, 2000, between Diversified Eastgate Venture and Registrant.
10.13(4)	First Amendment to Joint Development Agreement dated March 27, 2001 between Registrant and PE Corporation, now known as Applied Biosystems Group (with certain confidential portions omitted).
10.14(6)	First Amendment to Option Agreement and Escrow Instructions dated May 25, 2001 between Diversified Eastgate Venture and Registrant.
10.15(7)	Second Amendment to Option Agreement and Escrow Instructions dated July 18, 2001 between Diversified Eastgate Venture and Registrant.
10.16(7)	Third Amendment to Option Agreement and Escrow Instructions dated September 27, 2001 between Diversified Eastgate Venture and Registrant.
10.17(7)	First Amendment to Eastgate Pointe Lease dated September 27, 2001 between Diversified Eastgate Venture and Registrant.
10.18(8)	Replacement Reserve Agreement, dated as of January 10, 2002, between the Company and BNY Western Trust Company as Trustee for Washington Capital Joint Master Trust Mortgage Income Fund.
10.19(8)	Loan Assumption and Modification Agreement, dated as of January 10, 2002, between the Company, Diversified Eastgate Venture and BNY Western Trust Company as Trustee for Washington Capital Joint Master Trust Mortgage Income Fund.
10.20(8)	Tenant Improvement and Leasing Commission Reserve Agreement, dated as of January 10, 2002, between the Company and BNY Western Trust Company as Trustee for Washington Capital Joint Master Trust Mortgage Income Fund.
+10.21(8)	2000 Employee Stock Purchase Plan as amended on March 21, 2002.
+10.22(8)	2000 Stock Plan as amended on March 21, 2002.
10.23(9)	License Agreement dated January 2002 between Amersham Biosciences Corp. and Registrant (with certain confidential portions omitted).
10.24(9)	License Agreement dated June 2002 between Dade Behring Marburg GmbH and Registrant (with certain confidential portions omitted).
14	Code of Ethics
21	Subsidiaries of the Company.
23.1	Consent of Ernst & Young LLP, Independent Auditors.
24.1	Power of Attorney (included on the signature page).
31	Certification under Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification under Section 906 of the Sarbanes-Oxley Act of 2002

\+ Management contract or corporate plan or arrangement

(1) Incorporated by reference to the same numbered exhibit filed with our Registration Statement on Form S-1 (333-33922) filed April 3, 2000, as amended.

(2) Incorporated by reference to the same numbered exhibit filed with our Annual Report on Form 10-K for the year ended December 31, 2000.

(3) Incorporated by reference to the corresponding exhibit filed with our Registration Statement on Form S-8 filed March 29, 2001.

(4) Incorporated by reference to the same numbered exhibit filed with our Form 10-Q for the quarterly period ended March 31, 2001 filed May 8, 2001.

(5) Incorporated by reference to the same numbered exhibit filed with our Registration Statement on Form 8-A (000-30361) filed May 14, 2001.

(6) Incorporated by reference to the same numbered exhibit filed with our Form 10-Q for the quarterly period ended June 30, 2001 filed August 13, 2001.

(7) Incorporated by reference to the same numbered exhibit filed with our Form 10-Q for the quarterly period ended September 30, 2001 filed November 14, 2001.

(8) Incorporated by reference to the same numbered exhibit filed with our Form 10-Q for the quarterly period ended March 31, 2002 filed May 13, 2002.

(9) Incorporated by reference to the same numbered exhibit filed with Amendment No. 1 to our Registration Statement on Form S-3 (333-111496) filed March 2, 2004.

(b) Reports on Form 8-K

Report on Form 8-K filed on October 16, 2003 for press release dated October 16, 2003 announcing Illumina, Inc.'s financial results for the three and nine months ended September 28, 2003.

Supplemental Information

No Annual Report to stockholders or proxy materials has been sent to stockholders as of the date of this report. The Annual Report to stockholders and proxy material will be furnished to our stockholders subsequent to the filing of this report and we will furnish such material to the SEC at that time.

SIGNATURES

Pursuant to the requirements of the Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 12, 2004.

ILLUMINA, INC.

By: /s/ JAY T. FLATLEY
Jay T. Flatley
President and Chief Executive Officer

March 12, 2004

POWER OF ATTORNEY

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ JAY T. FLATLEY Jay T. Flatley	President and Chief Executive Officer Director (Principal Executive Officer)	March 12, 2004
/s/ TIMOTHY M. KISH Timothy M. Kish	Chief Financial Officer (Principal Financial and Accounting Officer)	March 12, 2004
/s/ JOHN R. STUELPNAGEL John R. Stuelpnagel	Senior Vice President of Operations Director	March 12, 2004
/s/ DANIEL M. BRADBURY Daniel M. Bradbury	Director	March 12, 2004
/s/ R. SCOTT GREER R. Scott Greer	Director	March 12, 2004

/s/ ROBERT T. NELSEN Robert T. Nelsen	Director	March 12, 2004
/s/ WILLIAM H. RASTETTER William H. Rastetter	Director	March 12, 2004
/s/ DAVID R. WALT David R. Walt	Director	March 12, 2004

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REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Illumina, Inc.

We have audited the accompanying consolidated balance sheets of Illumina, Inc. as of December 28, 2003 and December 29, 2002, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years ended December 28, 2003, December 29, 2002 and December 30, 2001. Our audits also include the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Illumina, Inc. at December 28, 2003 and December 29, 2002, and the results of its operations and its cash flows for the years ended December 28, 2003, December 29, 2002 and December 30, 2001, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ ERNST & YOUNG LLP

San Diego, California
January 23, 2004

ILLUMINA, INC.

CONSOLIDATED BALANCE SHEETS

	December 28, 2003	December 29, 2002
	(In thousands, except share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 12,465	$ 2,037
Investments, available for sale	20,317	51,727
Restricted cash and investments	100	12,530
Accounts receivable, net	4,549	3,253
Interest receivable	249	478
Inventory, net	2,022	2,299
Prepaid expenses and other current assets	716	495
Total current assets	40,418	72,819
Property and equipment, net	45,777	48,279
Long-term restricted investments	12,191	—
Intangible and other assets, net	848	808
Total assets	$ 99,234	$121,906
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,030	$ 1,770
Accrued liabilities	5,540	3,798
Accrued litigation judgment	—	8,052
Current portion of long-term debt	366	340
Current portion of equipment financing	253	337
Total current liabilities	8,189	14,297
Long-term debt, less current portion	24,999	25,367
Noncurrent portion of equipment financing	—	253
Advance payment from former collaborator (see note 6)	10,000	10,000
Litigation judgment	8,658	—
Other long term liabilities	—	245
Commitments		
Stockholders' equity:		
Common stock, $.01 par value, 120,000,000 shares authorized, 32,886,693 shares issued and outstanding at December 28, 2003, 32,500,222 shares issued and outstanding at December 29, 2002	329	325
Additional paid-in capital	165,314	164,483
Deferred compensation	(1,103)	(3,617)
Accumulated other comprehensive income	335	977
Accumulated deficit	(117,487)	(90,424)
Total stockholders' equity	47,388	71,744
Total liabilities and stockholders' equity	$ 99,234	$121,906

See accompanying notes.

ILLUMINA, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 28, 2003	Year Ended December 29, 2002	Year Ended December 30, 2001
	(In thousands except per share amounts)		
Revenue			
Product revenue	$ 18,378	$ 4,103	$ 897
Service revenue	6,496	3,305	99
Research revenue	3,161	2,632	1,490
Total revenue	28,035	10,040	2,486
Costs and expenses:			
Cost of product and service revenue	10,037	3,536	557
Research and development	22,511	26,848	20,735
Selling, general and administrative	18,899	9,099	5,663
Amortization of deferred compensation and other stock-based compensation charges	2,454	4,360	5,850
Litigation judgment	756	8,052	—
Total costs and expenses	54,657	51,895	32,805
Loss from operations	(26,622)	(41,855)	(30,319)
Interest income	1,821	3,805	6,198
Interest expense	(2,262)	(2,281)	(702)
Net loss	$(27,063)	$(40,331)	$(24,823)
Net loss per share, basic and diluted	$ (0.85)	$ (1.31)	$ (0.83)
Shares used in calculating net loss per share, basic and diluted	31,925	30,890	29,748
The composition of stock-based compensation is as follows:			
Research and development	$ 1,289	$ 2,399	$ 3,114
Selling, general and administrative	1,165	1,961	2,736
	$ 2,454	$ 4,360	$ 5,850

See accompanying notes.

ILLUMINA, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

	Common stock		Additional Paid-in Capital	Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount					
	(In thousands)						
Balance at December 31, 2000	31,965	$320	$163,079	$(14,029)	$ —	$ (25,270)	$124,100
Issuance of common stock for cash, net of repurchased shares	269	2	913	—	—	—	915
Amortization of deferred compensation	—	—	—	5,850	—	—	5,850
Reversal of deferred compensation related to unvested stock options and restricted stock of terminated employees	—	—	(96)	96	—	—	—
Comprehensive loss:							
Unrealized gain on investments	—	—	—	—	749	—	749
Net loss	—	—	—	—	—	(24,823)	(24,823)
Comprehensive loss	—	—	—	—	—	—	(24,074)
Balance at December 30, 2001	32,234	322	163,896	(8,083)	749	(50,093)	106,791
Issuance of common stock for cash, net of repurchased shares	266	3	693	—	—	—	696
Amortization of deferred compensation	—	—	—	4,360	—	—	4,360
Reversal of deferred compensation related to unvested stock options and restricted stock of terminated employees	—	—	(106)	106	—	—	—
Comprehensive loss:							
Unrealized gain on investments	—	—	—	—	228	—	228
Net loss	—	—	—	—	—	(40,331)	(40,331)
Comprehensive loss	—	—	—	—	—	—	(40,103)
Balance at December 29, 2002	32,500	325	164,483	(3,617)	977	(90,424)	71,744
Issuance of common stock for cash	408	4	899	—	—	—	903
Repurchase of restricted common stock	(21)	—	(8)	—	—	—	(8)
Amortization of deferred compensation	—	—	12	2,442	—	—	2,454
Reversal of deferred compensation related to unvested stock options and restricted stock of terminated employees	—	—	(72)	72	—	—	—
Comprehensive loss:							
Unrealized loss on investments	—	—	—	—	(702)	—	(702)
Foreign currency translation adjustment	—	—	—	—	60	—	60
Net loss	—	—	—	—	—	(27,063)	(27,063)
Comprehensive loss	—	—	—	—	—	—	(27,705)
Balance at December 28, 2003	32,887	$329	$165,314	$ (1,103)	$ 335	$(117,487)	$ 47,388

ILLUMINA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 28, 2003	Year Ended December 29, 2002	Year Ended December 30, 2001
		(In thousands)	
Cash flows from operating activities			
Net loss	$(27,063)	$(40,331)	$(24,823)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	4,545	4,531	1,474
Loss on disposal of property and equipment	175	—	—
Amortization of premium on investments	432	609	439
Amortization of deferred compensation and other stock-based compensation charges	2,454	4,360	5,850
Changes in operating assets and liabilities:			
Accounts receivable	(1,296)	(2,878)	(119)
Interest receivable	229	413	(215)
Inventory	277	(1,328)	(900)
Prepaid expenses and other current assets	(221)	(258)	(39)
Advance payment from former collaborator	—	—	5,000
Other assets	(151)	211	166
Accounts payable	260	(205)	1,248
Accrued liabilities	1,742	1,262	718
Accrued litigation judgment	606	8,052	—
Other long term liabilities	(245)	(31)	276
Net cash used in operating activities	(18,256)	(25,593)	(10,925)
Cash flows from investing activities			
Purchase of investment securities	(1,940)	(116,568)	(166,762)
Sales and maturities of investment securities	32,456	141,551	80,068
Purchase of property and equipment	(2,032)	(26,830)	(14,972)
Acquisition of intangible assets	(16)	(794)	—
Net cash provided by (used in) investing activities	28,468	(2,641)	(101,666)
Cash flows from financing activities			
Proceeds from long-term debt	—	26,000	—
Payments on long-term debt	(342)	(293)	—
Payments of equipment financing	(337)	(297)	(261)
Proceeds from issuance of common stock, net of repurchased shares	895	696	915
Net cash provided by financing activities	216	26,106	654
Net increase (decrease) in cash and cash equivalents	10,428	(2,128)	(111,937)
Cash and cash equivalents at beginning of the year	2,037	4,165	116,102
Cash and cash equivalents at end of the year	$ 12,465	$ 2,037	$ 4,165
Supplemental disclosures of cash flow information:			
Cash paid during the year for interest	$ 2,222	$ 2,263	$ 133

See accompanying notes.

1. Organization and Summary of Significant Accounting Policies

Organization and Business

Illumina, Inc. (the ''Company'') was incorporated on April 28, 1998. The Company is developing next-generation tools that will permit the large-scale analysis of genetic variation and function. The information provided by these analyses will help to enable the development of personalized medicine, a key goal of genomics. The Company believes its proprietary BeadArray™ technology will provide the throughput, cost effectiveness and flexibility necessary to enable researchers in the life sciences and pharmaceutical industries to perform the billions of tests necessary to extract medically valuable information from advances in genomics. This information is expected to correlate genetic variation and gene function with particular disease states, enhancing drug discovery, allowing diseases to be detected earlier and more specifically and permitting better choices of drugs for individual patients.

Basis of Presentation

The consolidated financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America and include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses incurred during the reporting period. Actual results could differ from those estimates

Certain Risks and Uncertainties

As further discussed in Note 6, Applied Biosystems sent a notification to the Company alleging that the Company had breached the joint development agreement entered into in November 1999 and seeking to compel arbitration pursuant to that agreement. This notification alleged that the Company's production-scale genotyping products and services are collaboration products developed under the joint development agreement, and that the Company's commercial activities with respect to its genotyping products and services are unlawful, unfair or fraudulent. Among other relief, Applied Biosystems is seeking compensatory damages of $30 million, disgorgement of all revenues received from sales of these products and services and a prohibition of future sales of these products or services. The Company has been directed to enter into a binding arbitration with Applied Biosystems to resolve the dispute, which could be completed as early as September 2004. This arbitration could result in a range of potential outcomes, based solely on the judgment and discretion of the arbitrator, including (1) the award of all damages and injunctive relief sought by Applied Biosystems; (2) the award of all damages and relief sought by the Company; or (3) a partial award of damages and/or injunctive relief to either party. The Company has not accrued for any potential losses in this case because it believes that an adverse determination is not probable, and potential losses cannot be reasonably estimated. In addition, the Company's financial statements include a $10 million advance payment from Applied Biosystems that would have been deducted from the profits otherwise payable to the Company from Applied Biosystems had the collaboration been successful and which could offset the impact on the Company's consolidated results of operations of an adverse arbitration determination up to that amount. However, any unfavorable arbitration determination, and in particular any significant cash amounts required to be paid by the Company or prohibition of the sale of its products or services,

could result in a material adverse effect on the Company's business, financial condition and results of operations.

Cash and Cash Equivalents

Cash and cash equivalents are comprised of highly liquid investments with a remaining maturity of less than three months from the date of purchase.

Investments

The Company applies Statement of Financial Accounting Standards (''SFAS'') No. 115, *Accounting for Certain Investments in Debt and Equity Securities,* to its investments. Under SFAS No. 115, the Company classifies its investments as ''Available-for-Sale'' and records such assets at estimated fair value in the balance sheet, with unrealized gains and losses, if any, reported in stockholders' equity. The Company invests its excess cash balances in marketable debt securities, primarily government securities and corporate bonds and notes, with strong credit ratings. The Company limits the amount of investment exposure as to institutions, maturity and investment type. The cost of securities sold is determined based on the specific identification method. Gross realized gains totaled $342,693 and $810,201 for the years ended December 28, 2003 and December 29, 2002, respectively. Gross realized losses totaled $141 and $27,467 for the years ended December 28, 2003 and December 29, 2002, respectively.

Restricted Cash and Investments

At December 28, 2003, restricted cash and investments consist of $100,000 in a money market fund for a bond deposit with the San Diego Superior Court related to the Applied Biosystems litigation (see note 6). At December 29, 2002, restricted cash and investments also included securities that are used as collateral against a letter of credit that have since been classified as long term.

Long-term restricted investments consist of corporate debt securities that are used as collateral against a letter of credit (see note 7).

Fair Value of Financial Instruments

Financial instruments, including cash and cash equivalents, investments, accounts receivable, accounts payable, and accrued liabilities are carried at cost, which management believes approximates fair value.

Collectibility of Accounts Receivable

We evaluate the collectibility of our trade and financing receivables based on a combination of factors. We regularly analyze our customer accounts, and, when we become aware of a specific customer's inability to meet its financial obligations to us, we record a specific reserve for bad debt to reduce the related receivable to the amount we reasonably believe is collectible. We also record reserves for bad debt for all other customers based on historical experience. We re-evaluate such reserves on a regular basis and adjust our reserves as needed.

Inventories

Inventories are stated at the lower of standard cost (which approximates actual cost) or market. Inventory includes raw materials and finished goods that may be used in the research and development process and such items are expensed as consumed.

Property and Equipment

Property and equipment are stated at cost, subject to review of impairment, and depreciated over the estimated useful lives of the assets (generally three to seven years for equipment and five to forty years for buildings) using the straight-line method. Amortization of leasehold improvements is computed over the shorter of the lease term or the estimated useful life of the related assets.

License Agreements

Intangible assets consist of three license agreements. In accordance with Accounting Principles Board (''APB'') Opinion No. 17, *Accounting for Intangible Assets,* license agreements are recorded at cost. The rights related to one of the license agreements are amortized over its estimated useful life (five years) and the rights related to the other two agreements are amortized based on sales of related product and are expected to be fully amortized by the end of fiscal 2005. The cost of these license agreements was $809,450 and the Company has amortized $193,333 through December 28, 2003. Amortization expense for the years ending December 28, 2003 and December 29, 2002 was $185,000 and $8,333, respectively. The Company recorded no amortization expense related to these license agreements in the year ended December 30, 2001.

Long-Lived Assets

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* if indicators of impairment exist, the Company assesses the recoverability of the affected long-lived assets by determining whether the carrying value of such assets can be recovered through undiscounted future operating cash flows. If impairment is indicated, the Company measures the future discounted cash flows associated with the use of the asset and adjusts the value of the asset accordingly. While the Company's current and historical operating and cash flow losses are indicators of impairment, the Company believes the future cash flows to be received from the long-lived assets recorded at December 28, 2003 will exceed the assets' carrying value, and accordingly the Company has not recognized any impairment losses through December 28, 2003.

Reserve for Product Warranties

The Company generally provides a one year warranty on genotyping and gene expression systems. At the time revenue is recognized, the Company establishes an accrual for estimated warranty expenses associated with system sales. This expense is recorded as a component of cost of revenue.

Revenue Recognition

The Company records revenue in accordance with the guidelines established by SEC Staff Accounting Bulletin No. 101 (''SAB 101''). Under SAB 101, revenue cannot be recorded until all the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; the seller's price to the buyer is fixed or determinable; and collectibility is reasonably assured. Product revenue consists of sales of oligonucleotides, array matrices, assay reagents, genotyping systems and gene expression systems. Service revenue consists of revenue received for performing SNP genotyping services. Revenue for product sales is recognized generally upon shipment and transfer of title to the customer, provided no significant obligations remain and collection of the receivables is reasonably assured. BeadLab genotyping system revenue is recognized when earned, which is generally upon shipment, installation, training and fulfillment of contractually defined acceptance criteria. Reserves are provided for anticipated product warranty expenses at the time the associated revenue is recognized. Revenue for genotyping services is recognized generally at the time the genotyping analysis data is delivered to the customer. The Company has been awarded

$9.1 million from the National Institutes of Health to perform genotyping services in connection with the International HapMap Project. A portion of the revenue from this project is earned at the time the related costs are incurred while the remainder of the revenue is earned upon the delivery of genotyping data. Research revenue consists of amounts earned under research agreements with government grants, which is recognized in the period during which the related costs are incurred. All revenues are recognized net of applicable allowances for returns or discounts.

The Company received $10 million of non-refundable research funding from Applied Biosystems in connection with a licensing and development contract entered into in 1999. This amount was originally recorded as deferred revenue in accordance with the provisions of SAB 101 and would have been recognized as revenue at a contractually defined rate of 25% of the defined operating profit earned from sales of the products covered by the collaboration agreement, had such sales occurred. At present, the Company does not believe a collaboration product will be commercialized under the partnership agreement, and there are legal proceedings between the parties as more fully described in Note 6. The $10 million of research funding has been reclassified to an advance payment from former collaborator until the legal proceedings have been resolved.

Shipping and Handling Expenses

Shipping and handling expenses are included in cost of product sales and totaled approximately $143,000, $50,000 and $9,000 for the years ended December 28, 2003, December 29, 2002 and December 30, 2001, respectively.

Research and Development

Expenditures relating to research and development, including costs related to patent prosecution, are expensed in the period incurred.

Software Development Costs

The Company applies Statement of Financial Accounting Standards No. 86, *Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed,* to capitalize costs related to marketed software. To date, the Company has only marketed software that is an incidental component to its SNP genotyping and gene expression systems. Accordingly, the Company capitalizes software costs that are incurred after the later of 1) the establishment of technological feasibility of the software or 2) the completion of all research and development activities for the other components of the product. Through December 28, 2003, the period between achieving either of these milestones and the general release date of the products has been very brief and production costs thereafter were not significant. Accordingly, the Company has not capitalized any qualifying software development costs in the accompanying consolidated financial statements. The costs of developing routine enhancements are expensed as research and development costs as incurred because of the short time between the determination of technological feasibility and the date of general release of the related products.

The Company applies Statement of Position (''SOP'') No. 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use.* For the years ended 2003 and 2002, the Company capitalized approximately $94,000 and $833,000, respectively, in costs incurred to acquire and develop software associated with the implementation of its Enterprise Resource Planning and Laboratory Information Management systems. These costs are amortized over the estimated useful life of the software of seven years, beginning when the software is ready for its intended use.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising costs were approximately $440,000 for 2003, $267,000 for 2002 and $57,000 for 2001.

Income Taxes

A deferred income tax asset or liability is computed for the expected future impact of differences between the financial reporting and tax bases of assets and liabilities, as well as the expected future tax benefit to be derived from tax loss and credit carryforwards. Deferred income tax expense is generally the net change during the year in the deferred income tax asset or liability. Valuation allowances are established when realizability of deferred tax assets is uncertain. The effect of tax rate changes is reflected in tax expense during the period in which such changes are enacted.

Foreign Currency Translation

The functional currencies of the Company's wholly owned subsidiaries are their respective local currencies. Accordingly, all balance sheet accounts of these operations are translated to U.S. dollars using the exchange rates in effect at the balance sheet date, and revenues and expenses are translated using the average exchange rates in effect during the period. The gains and losses from foreign currency translation of these subsidiaries' financial statements are recorded directly as a separate component of stockholders' equity under the caption ''Accumulated other comprehensive income.''

Stock-Based Compensation

At December 28, 2003, the Company has three stock-based employee and non-employee director compensation plans, which are described more fully in Note 5. As permitted by SFAS No. 123, *Accounting for Stock-Based Compensation*, the Company accounts for common stock options granted, and restricted stock sold, to employees, founders and directors using the intrinsic value method and, thus, recognizes no compensation expense for options granted, or restricted stock sold, with exercise prices equal to or greater than the fair value of the Company's common stock on the date of the grant. The Company has recorded deferred stock compensation related to certain stock options, and restricted stock, which were granted prior to the Company's initial public offering with exercise prices below estimated fair value (see Note 5), which is being amortized on an accelerated amortization methodology in accordance with Financial Accounting Standards Board Interpretation Number (''FIN'') 28.

Pro forma information regarding net loss is required by SFAS No. 123 and has been determined as if the Company had accounted for its employee stock options and employee stock purchases under the fair value method of that statement. The fair value for these options was estimated at the dates of grant using the fair value option pricing model (Black Scholes) with the following weighted-average assumptions for 2003, 2002 and 2001:

	Year Ended December 28, 2003	Year Ended December 29, 2002	Year Ended December 30, 2001
Weighted average risk-free interest rate	3.03%	3.73%	4.65%
Expected dividend yield	0%	0%	0%
Weighted average volatility	103%	104%	119%
Estimated life (in years)	5	5	5
Weighted average fair value of options granted	$3.31	$4.39	$7.51

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the vesting period. The Company's pro forma information is as follows (in thousands except per share amounts):

	Year Ended December 28, 2003	Year Ended December 29, 2002	Year Ended December 30, 2001
Net loss as reported	$(27,063)	$(40,331)	$(24,823)
Add: Stock-based compensation expense recorded	2,454	4,360	5,850
Less: Assumed stock compensation expense	(8,576)	(8,479)	(7,059)
Pro forma net loss	$(33,185)	$(44,450)	$(26,032)
Basic and Diluted net loss per share:			
As reported	$ (0.85)	$ (1.31)	$ (0.83)
Pro forma	$ (1.04)	$ (1.44)	$ (0.88)

The pro forma effect on net loss presented is not likely to be representative of the pro forma effects on reported net income or loss in future years because these amounts reflect less than five years of vesting.

Deferred compensation for options granted, and restricted stock sold, to consultants has been determined in accordance with SFAS No. 123 and Emerging Issues Task Force 96-18 as the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measured. Deferred charges for options granted, and restricted stock sold, to consultants are periodically remeasured as the underlying options vest.

Comprehensive Loss

In accordance with SFAS No. 130, *Reporting Comprehensive Income*, the Company has disclosed comprehensive loss as a component of stockholders' equity.

Net Loss per Share

Basic and diluted net loss per common share are presented in conformity with SFAS No. 128, *Earnings per Share*, for all periods presented. In accordance with SFAS No. 128, basic and net loss per share is computed using the weighted-average number of shares of common stock outstanding during the period, less shares subject to repurchase. Diluted net loss per share is typically computed using the weighted average number of common and dilutive common equivalent shares from stock options using the treasury stock method. However, for all periods presented, diluted net loss per share is the same as basic net loss per share because the Company reported a net loss and therefore the inclusion

of weighted average shares of common stock issuable upon the exercise of stock options would be antidilutive.

	Year Ended December 28, 2003	Year Ended December 29, 2002	Year Ended December 30, 2001
		(In thousands)	
Weighted-average shares outstanding	32,733	32,390	32,136
Less: Weighted-average shares of common stock subject to repurchase	(808)	(1,500)	(2,388)
Weighted-average shares used in computing net loss per share, basic and diluted	31,925	30,890	29,748

The total number of shares excluded from the calculation of diluted net loss per share, prior to application of the treasury stock method for options and warrants, was 5,809,649, 5,556,455 and 5,352,950 for the years ended December 28, 2003, December 29, 2002 and December 30, 2001, respectively.

Fiscal Year

The Company's fiscal year is 52 or 53 weeks ending the Sunday closest to December 31.

Effect of New Accounting Standards

In November 2002, the FASB Emerging Issues Task Force (''EITF'') issued its consensus concerning *Revenue Arrangements with Multiple Deliverables* (''EITF 00-21''). EITF 00-21 addresses how to determine whether a revenue arrangement involving multiple deliverables should be divided into separate units of accounting, and, if separation is appropriate, how the arrangement consideration should be measured and allocated to the identified accounting units. EITF 00-21 is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The adoption of EITF 00-21 did not have a material impact on the Company's consolidated financial statements.

In November 2002, the FASB issued FIN 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.* FIN 45 requires a liability to be recorded in the guarantor's balance sheet upon issuance of a guarantee. In addition, FIN 45 requires disclosures about the guarantees that an entity has issued, including a reconciliation of changes in the entity's product warranty liabilities. The initial recognition and initial measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements of FIN 45 are effective for financial statements ending after December 15, 2002. The adoption of FIN 45 did not have a material impact on the Company's consolidated financial statements.

In April 2003, the FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities.* SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. SFAS No. 149 clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative as discussed in SFAS No. 133 and when a derivative contains a financing component that warrants special reporting in the statement of cash flows. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, for hedging relationships designated after June 30, 2003, and to certain pre-existing contracts. The adoption of SFAS No. 149 did not have a material impact on the Company's consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity.* SFAS No. 150 affects the issuer's accounting for three types of freestanding financial instruments; (a) mandatorily redeemable shares which the issuing company is obligated to buy back in exchange for cash or other assets, (b) put options and forward purchase contracts that do or may require the issuer to buy back some of its shares in exchange for cash or other assets, and (c) obligations that can be settled with shares, the monetary value of which is fixed, ties solely or predominantly to a variable such as a market index, or varies inversely with the value of the issuer's shares. SFAS No. 150 also requires disclosures about alternative ways of settling the instruments and the capital structure of entities. SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003 and for all periods beginning after June 15, 2003. The adoption of SFAS 150 did not have a material impact on the Company's consolidated financial statements.

In December 2003, the FASB issued a revision to FASB Interpretation No. 46 (''FIN 46R''), *Consolidation of Variable Interest Entities.* FIN 46R replaces FASB Interpretation No. 46, *Consolidation of Variable Interest Entities,* which was issued in January 2003. FIN 46R requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. A variable interest entity either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources to the entity to support its activities. FIN 46R is effective immediately for all new variable interest entities created or acquired after December 31, 2003. The adoption of FIN 46 is not expected to have a material impact on the Company's consolidated financial statements.

2. Balance Sheet Account Details

Investments, including restricted investments, consist of the following (in thousands):

	December 28, 2003			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Market Value
US Treasury securities	$ 6,340	$253	$ —	$ 6,593
Corporate debt securities	13,480	244	—	13,724
	19,820	497	—	20,317
Long term restricted corporate debt securities	12,413	—	(222)	12,191
Total	$32,233	$497	$(222)	$32,508

	December 29, 2002			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Market Value
US Treasury securities	$ 9,359	$ 113	$ —	$ 9,472
Corporate debt securities	41,328	961	(34)	42,255
	50,687	1,074	(34)	51,727
Restricted corporate debt securities	12,493	—	(63)	12,430
Total	$63,180	$1,074	$(97)	$64,157

Investment maturities at December 28, 2003 are as follows:

	Investments	Market Value Long-Term Restricted Investments	Total
Within one year	$ 3,280	$ —	$ 3,280
After one year through five years	14,549	12,191	26,740
After five years through ten years	685	—	685
Mortgage backed securities	1,803	—	1,803
Total	$20,317	$12,191	$32,508

Accounts receivable consist of the following (in thousands):

	December 28, 2003	December 29, 2002
Accounts receivable from product and service sales	$4,388	$3,076
Accounts receivable from government grants	260	263
Other receivables	79	59
	4,727	3,398
Allowance for doubtful accounts	(178)	(145)
Total	$4,549	$3,253

Inventory consists of the following (in thousands):

	December 28, 2003	December 29, 2002
Raw materials	$ 829	$1,552
Work in process	931	407
Finished goods	262	340
Total	$2,022	$2,299

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

	December 28, 2003	December 29, 2002
Land	$ 10,361	$10,361
Buildings	29,479	29,477
Leasehold improvements	174	—
Laboratory and manufacturing equipment	9,221	8,373
Computer equipment and software	5,130	4,599
Furniture and fixtures	1,966	1,821
	56,331	54,631
Accumulated depreciation and amortization	(10,554)	(6,352)
Total	$ 45,777	$48,279

Accrued liabilities consist of the following (in thousands):

	December 28, 2003	December 29, 2002
Compensation	$2,608	$2,156
Professional fees	1,437	965
Taxes	523	366
Reserve for product warranties	230	—
Other	742	311
Total	$5,540	$3,798

3. Warranties

The Company generally provides a one year warranty on genotyping and gene expression systems. At the time revenue is recognized, the Company establishes an accrual for estimated warranty expenses associated with system sales. This expense is recorded as a component of cost of revenue.

Changes in the Company's warranty liability during the year ended December 28, 2003 are as follows (in thousands):

Balance at December 29, 2002	$ —
Additions charged to cost of revenue	230
Balance at December 28, 2003	$230

4. Commitments and Long-term Debt

Building Loan

In July 2000, the Company entered into a 10-year lease to rent space in two newly constructed buildings that are now occupied by the Company. That lease contained an option to purchase the buildings together with certain adjacent land that has been approved for construction of an additional building. The Company exercised that option and purchased the properties in January 2002 and assumed a $26 million, 10-year mortgage on the property at a fixed interest rate of 8.36%. The Company is required to make monthly payments of $208,974 representing interest and principal through February 2012 at which time a balloon payment of $21.2 million will be due.

At December 28, 2003, annual future minimum payments under the building loan are as follows (in thousands):

2004	$ 2,508
2005	2,508
2006	2,508
2007	2,508
2008	2,508
Thereafter	28,979
Total minimum payments	41,519
Less amount representing interest	(16,154)
Total present value of minimum payments	25,365
Less current portion	(366)
Non-current portion	$ 24,999

The Company leases approximately 19,000 square feet of space to a tenant under a lease expiring in June 2004. Rental income is recorded as an offset to the Company's allocated overhead costs. For the years ended December 28, 2003, December 29, 2002, and December 30, 2001, rental income was $695,282, $679,468 and $108,812, respectively.

Capital Leases

In April 2000, the Company entered into a $3,000,000 loan arrangement to be used at its discretion to finance purchases of capital equipment. The loan is secured by the capital equipment financed. As of December 28, 2003, $1,682,318 remains available under this loan arrangement. Cost and accumulated depreciation of equipment under capital leases at December 28, 2003 is $1,287,789 and $1,060,278, respectively. Depreciation of equipment under capital leases is included in depreciation expense.

At December 28, 2003, annual future minimum rental payments under the Company's capital leases are as follows (in thousands):

2004	$ 263
Total minimum payments	263
Less amount representing interest	(10)
Total present value of minimum payments	253
Less current portion	(253)
Non-current portion	$ 0

Operating Leases

The Company leases office space under non-cancelable operating leases that expire at various times through December 2006. These leases contain renewal options ranging from 2 to 3 years. At

December 28, 2003, annual future minimum payments under these operating leases are as follows (in thousands):

2004	$360
2005	65
2006	37
Total	$462

Rent expense for the years ended December 28, 2003, December 29, 2002 and December 30, 2001 was $238,065, $141,361 and $1,495,395, respectively.

5. Stockholders' Equity

Common stock

As of December 28, 2003, the Company had 32,886,693 shares of common stock outstanding, of which 4,888,500 shares were sold to employees and consultants subject to restricted stock agreements. The restricted common shares vest in accordance with the provisions of the agreements, generally over five years. All unvested shares are subject to repurchase by the Company at the original purchase price. As of December 28, 2003, 579,775 shares of common stock were subject to repurchase.

Warrants

In connection with a lease financing facility in 1998, the Company issued the lessor warrants to purchase 43,183 shares of common stock at $.926 per share. These warrants were exercised in February 2001.

Stock Options

In June 2000, the Company's board of directors and stockholders adopted the 2000 Stock Plan. The 2000 Stock Plan amended and restated the 1998 Incentive Stock Plan and increased the shares reserved for issuance by 4,000,000 shares. In addition, the 2000 Stock Plan provides for an automatic annual increase in the shares reserved for issuance by the lesser of 5% of outstanding shares of the Company's common stock on the last day of the immediately preceding fiscal year, 1,500,000 shares or such lesser amount as determined by the Company's board of directors.

In 1998, the Company adopted the 1998 Incentive Stock Plan (the ''Plan'') and had reserved 5,750,000 shares of common stock for grants under the Plan. The Plan provided for the grant of incentive and nonstatutory stock options, stock bonuses and rights to purchase stock to employees, directors or consultants of the Company. The Plan provided that incentive stock options to be granted only to employees at no less than the fair value of the Company's common stock, as determined by the board of directors at the date of the grant. Options generally vest 20% one year from the date of grant and ratably each month thereafter for a period of 48 months and expire ten years from date of grant. In December 1999, the Company modified the plan to allow for acceleration of vesting in the event of an acquisition or merger.

A summary of the Company's stock option activity from December 31, 2000 through December 28, 2003 follows:

	Options	Weighted-Average Exercise Price
Outstanding at December 31, 2000	1,507,396	$ 8.57
Granted	2,166,100	$ 8.78
Exercised	(163,523)	$ 0.84
Cancelled	(129,177)	$11.26
Outstanding at December 30, 2001	3,380,796	$ 8.97
Granted	1,467,500	$ 5.62
Exercised	(137,727)	$ 0.46
Cancelled	(287,788)	$11.81
Outstanding at December 29, 2002	4,422,781	$ 7.94
Granted	1,241,175	$ 3.31
Exercised	(102,590)	$ 1.25
Cancelled	(331,492)	$ 8.36
Outstanding at December 28, 2003	5,229,874	$ 6.95

At December 28, 2003, options to purchase approximately 1,794,872 shares were exercisable and 5,536,135 shares remain available for future grant.

Following is a further breakdown of the options outstanding as of December 28, 2003:

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price of Options Exercisable
$0.03 - 2.62	514,311	6.45	$ 0.81	293,233	$ 0.36
$2.75 - 2.77	569,500	9.12	$ 2.77	92,495	$ 2.77
$2.91 - 4.09	723,857	9.28	$ 3.74	68,732	$ 3.72
$4.10 - 5.00	612,410	8.29	$ 4.57	213,594	$ 4.68
$5.25 - 5.99	837,000	7.87	$ 5.94	156,395	$ 5.96
$6.00 - 8.30	676,344	7.79	$ 7.28	290,480	$ 7.39
$8.35 - 10.25	637,700	7.53	$ 9.26	296,280	$ 9.29
$10.30 - 16.25	290,500	7.30	$12.50	157,839	$12.67
$18.75 - 22.56	181,500	7.02	$20.52	106,440	$20.51
$30.06 - 45.00	186,752	6.78	$30.47	119,384	$30.49
	5,229,874			1,794,872	

2000 Employee Stock Purchase Plan

In February 2000, the board of directors and stockholders adopted the 2000 Employee Stock Purchase Plan (the ''Purchase Plan''). A total of 1,458,946 shares of the Company's common stock have been reserved for issuance under the Purchase Plan. The Purchase Plan permits eligible employees to purchase common stock at a discount, but only through payroll deductions, during defined offering

periods. The price at which stock is purchased under the Purchase Plan is equal to 85% of the fair market value of the common stock on the first or last day of the offering period, whichever is lower. The initial offering period commenced in July 2000. In addition, the Purchase Plan provides for annual increases of shares available for issuance under the Purchase Plan beginning with fiscal 2001. 304,714, 128,721 and 64,674 shares were issued under the 2000 Employee Stock Purchase Plan during fiscal 2003, 2002 and 2001, respectively.

Deferred Stock Compensation

Since the inception of the Company, in connection with the grant of certain stock options and sales of restricted stock to employees, founders and directors through July 25, 2000, the Company has recorded deferred stock compensation totaling approximately $17.7 million, representing the difference between the exercise or purchase price and the fair value of the Company's common stock as estimated by the Company's management for financial reporting purposes on the date such stock options were granted or restricted common stock was sold. Deferred compensation is included as a reduction of stockholders' equity and is being amortized to expense over the vesting period of the options and restricted stock. During the year ended December 28, 2003, the Company recorded amortization of deferred stock compensation expense of approximately $2.5 million.

Shares Reserved for Future Issuance

At December 28, 2003, the Company has reserved shares of common stock for future issuance as follows (in thousands):

2000 Stock Plan	10,766
2000 Employee Stock Purchase Plan	961
	11,727

Stockholder Rights Plan

On May 3, 2001, the Board of Directors of the Company declared a dividend of one preferred share purchase right (a ''Right'') for each outstanding share of common stock of the Company. The dividend was payable on May 14, 2001 (the ''Record Date'') to the stockholders of record on that date. Each Right entitles the registered holder to purchase from the Company one unit consisting of one-thousandth of a share of its Series A Junior Participating Preferred Stock at a price of $100 per unit. The Rights will be exercisable if a person or group hereafter acquires beneficial ownership of 15% or more of the outstanding common stock of the Company or announces an offer for 15% or more of the outstanding common stock. If a person or group acquires 15% or more of the outstanding common stock of the Company, each Right will entitle its holder to purchase, at the exercise price of the right, a number of shares of common stock having a market value of two times the exercise price of the right. If the Company is acquired in a merger or other business combination transaction after a person acquires 15% or more of the Company's common stock, each Right will entitle its holder to purchase, at the Right's then-current exercise price, a number of common shares of the acquiring company which at the time of such transaction have a market value of two times the exercise price of the right. The Board of Directors will be entitled to redeem the Rights at a price of $0.01 per Right at any time before any such person acquires beneficial ownership of 15% or more of the outstanding common stock. The rights expire on May 14, 2011 unless such date is extended or the rights are earlier redeemed or exchanged by the Company.

6. Collaborative Agreements

Applied Biosystems Group (part of Applera Corporation)

In November 1999, the Company entered into a joint development agreement with Applied Biosystems Group (''Applied Biosystems'') under which the companies would jointly develop a SNP genotyping system that would combine the Company's BeadArray technology with Applied Biosystems' assay chemistry and scanner technology. Under this agreement, the Company was primarily responsible for developing and manufacturing the arrays and Applied Biosystems was primarily responsible for developing and manufacturing the instruments, SNP assay reagents, and software and for marketing the system worldwide. In conjunction with the agreement, Applied Biosystems purchased 1,250,000 shares of Series C convertible preferred stock at $4.00 per share. In addition, Applied Biosystems agreed to provide the Company with non-refundable research and development support of $10 million, all of which was provided by December 2001. Upon commercialization of the system, the Company would have received a share of the operating profits resulting from the sale of all components of these systems. The Company had originally deferred recognition of revenue from the research funding of $10 million provided by Applied Biosystems, and would have recognized such amounts as revenue at a contractually defined rate of 25% of the total profit share the Company earned from the sales of collaboration products, had such sales occurred. As of December 28, 2003 this amount has been reclassified to an advance payment from former collaborator.

In July 2002, Applied Biosystems indicated that the planned mid-2002 launch of this genotyping system would be delayed a second time. This delay was related to Applied Biosystems' inability to optimize and multiplex the SNP assay reagents. The Company does not believe that Applied Biosystems has any intention of continuing to develop a collaboration product with the Company, and Applied Biosystems has recently launched a competing product. As a result of the delay in developing the collaboration product, the Company launched its own production scale genotyping system in July 2002 utilizing the Company's arrays and an independently developed scanner and assay method.

In December 2002, Applied Biosystems filed a complaint, then later in March 2003 amended and refiled a complaint, for a patent infringement suit against the Company in the federal court in Northern California asserting infringement of several patents related to Applied Biosystems' patented assay intended for use in the collaboration. Applied Biosystems seeks a judgment granting it damages for infringement, treble damages alleging that such infringement is willful and a permanent injunction restraining the Company from the alleged infringement. The Company has answered the complaint, asserting various defenses, including that it does not infringe the patents or that the patents are invalid, and asserting counterclaims against Applied Biosystems seeking declaratory judgment relief related to the patents being asserted against it, and seeking damages from Applied Biosystems for its unfair and unlawful conduct which constitutes attempted monopolization in violation of the antitrust laws.

Also in December 2002, Applied Biosystems sent a notification to the Company alleging that the Company had breached the joint development agreement entered into in November 1999 and seeking to compel arbitration pursuant to that agreement. This notification alleged that the Company's production-scale genotyping products and services are collaboration products developed under the joint development agreement, and that the Company's commercial activities with respect to its genotyping products and services are unlawful, unfair or fraudulent. Among other relief, Applied Biosystems is seeking compensatory damages of $30 million, disgorgement of all revenues received from sales of these products and services and a prohibition of future sales of these products or services.

In December 2002, the Company filed a suit alleging breach of contract, breach of the implied covenant of good faith and fair dealing, unfair competition and other allegations against Applied

Biosystems in San Diego Superior Court, and a motion for a temporary restraining order to prevent the arbitration of our joint development agreement sought by Applied Biosystems. In December 2003, the Company notified Applied Biosystems that it terminated the joint development agreement.

In December 2003, after having granted temporary and preliminary injunctions staying the arbitration, the San Diego Superior Court directed Applied Biosystems and the Company to resolve the contract dispute in a binding arbitration procedure. While a definitive schedule has not yet been set, the Company believes that the arbitration process could be completed as early as September 2004. The Company will vigorously defend against the claims alleged by Applied Biosystems but the outcome of an arbitration proceeding is inherently uncertain and the Company cannot be sure that it will prevail. This arbitration could result in a range of potential outcomes, based solely on the judgment and discretion of the arbitrator, including (1) the award of all damages and injunctive relief sought by Applied Biosystems; (2) the award of all damages and relief sought by the Company; or (3) a partial award of damages and/or injunctive relief to either party. The Company has not accrued for any potential losses in this case because it believes that an adverse determination is not probable, and potential losses cannot be reasonably estimated. In addition, the Company's financial statements include a $10 million advance payment from Applied Biosystems that would have been deducted from the profits otherwise payable to the Company from Applied Biosystems had the collaboration been successful and which could offset the impact on the Company's consolidated results of operations of an adverse arbitration determination up to that amount. However, any unfavorable arbitration determination, and in particular any significant cash amounts required to be paid by the Company or prohibition of the sale of its products or services, could result in a material adverse effect on the Company's business, financial condition and results of operations.

The Company is in the early stages of proceedings in the patent case. In February 2004, the federal district court in Northern California ordered that the patent case be stayed pending completion of the arbitration process. The Company intends to vigorously defend against the claims alleged by Applied Biosystems and continue to pursue its counterclaims against Applied Biosystems. However, the Company cannot be sure that it will prevail in these matters. Any unfavorable determination, and in particular any significant cash amounts required to be paid by us or prohibition of the sale of the Company's products or services, could result in a material adverse effect on its business, financial condition and results of operations.

Other Agreements

The Company is the recipient of a grant from the National Institutes of Health covering its participation in the International HapMap Project, which is a $100 million, internationally funded successor project to the Human Genome Project that will help identify a map of genetic variations that may be used to perform disease-related research. The Company could receive up to $9.1 million of funding for this project which covers basic research activities, the development of SNP assays and the genotyping to be performed on those assays. The Company recognized revenue under this grant of $3.7 million in 2003 and, as of the end of 2003, had approximately $5.4 million of funding remaining related to this project which is expected to be received in 2004, depending on the actual amount of work that is performed by the Company.

7. Litigation Judgment

In June 2002, the Company recorded a $7.7 million charge to cover total damages and estimated expenses awarded by a jury related to a termination-of-employment lawsuit. The Company believes that the termination was lawful in all respects and that the verdict was unsupported by evidence presented at the trial. The Company plans to vigorously defend its position on appeal. A notice of

appeal in this case was filed on October 10, 2002, and the appeal process is ongoing. During the appeal process, the court requires the Company to incur interest charges on the judgment amount at statutory rates until the case is resolved. For the years ended December 28, 2003 and December 29, 2002, the Company recorded litigation expense of $756,000 and $352,000, respectively, for interest.

As a result of the Company's decision to appeal the ruling, the Company filed a surety bond with the court equal to 1.5 times the judgment amount or approximately $11.3 million. Under the terms of the bond, the Company is required to maintain a letter of credit for 90% of the bond amount to secure the bond. Further, the Company was required to deposit approximately $12.5 million of marketable securities as collateral for the letter of credit and accordingly, these funds will be restricted from use for general corporate purposes until the appeal process is completed. If a judgment is due, the Company expects payment will occur within 12 to 18 months. In 2003, the Company reclassified the restricted investments to long term on the balance sheet along with the accrued litigation judgment.

8. Income Taxes

At December 28, 2003, the Company has federal and state tax net operating loss carryforwards of approximately $69,475,000 and $27,008,000, respectively. The federal and state tax loss carryforwards will begin expiring in 2018 and 2006 respectively, unless previously utilized. The Company also has federal and state research and development tax credit carryforwards of approximately $3,116,000 and $2,586,000 respectively, which will begin to expire in 2018, unless previously utilized.

Pursuant to Sections 382 and 383 of the Internal Revenue Code, annual use of the Company's net operating loss and credit carryforwards may be limited in the event of a cumulative change in ownership of more than 50% within a three year period.

Significant components of the Company's deferred tax assets as of December 28, 2003 and December 29, 2002 are shown below (in thousands). A valuation allowance has been established as of December 28, 2003 and December 29, 2002 to offset the net deferred tax assets as realization of such assets has not met the ''more likely than not'' threshold required under FAS 109.

	December 28, 2003	December 29, 2002
Deferred tax assets:		
Net operating loss carryforwards	$ 25,869	$ 21,222
Research and development and other credit carryforwards	5,111	3,873
Advance payment from former collaborator	4,074	4,078
Capitalized research and development	1,348	—
Other	7,032	2,131
Total deferred tax assets	43,434	31,304
Valuation allowance for deferred tax assets	(43,434)	(31,304)
Net deferred taxes	$ —	$ —

Reconciliation of the statutory federal income tax to the Company's effective tax:

	Year Ended		
	December 28, 2003	December 29, 2002	December 30, 2001
Tax at federal statutory rate	$(9,472)	$(14,116)	$(8,688)
State, net of federal benefit	(1,434)	(2,115)	(1,138)
Research and development credits	(1,374)	(1,239)	(1,368)
Change in valuation allowance	11,893	14,241	8,604
Permanent differences	738	1,234	1,757
Other	(351)	1,995	833
Provision for income taxes	$ —	$ —	$ —

9. Retirement Plan

The Company has a 401(k) savings plan covering substantially all of its employees. Company contributions to the plan are discretionary and no such contributions were made during the years ended December 28, 2003, December 29, 2002 and December 30, 2001.

10. Segment Information and Geographic Data

The Company has determined that, in accordance with SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information* it operates in one segment as it only reports operating results on an aggregate basis to chief operating decision makers of the Company. The Company had sales by region as follows for the years ended December 28, 2003, December 29, 2002 and December 30, 2001 (in thousands):

	December 28, 2003	December 29, 2002	December 30, 2001
United States	$13,666	$ 8,731	$2,486
Europe	5,909	1,047	—
Asia	5,557	246	—
Other	2,903	16	—
Total	$28,035	$10,040	$2,486

Exclusive of revenue recorded from the National Institutes of Health, the Company had one customer that provided approximately 18% of total revenue in the year ended December 28, 2003, another customer that contributed approximately 22% of total revenue in the year ended December 29, 2002 and no customers that contributed 10% or more of revenue in the year ended December 30, 2001. Revenue from the National Institutes of Health accounted for 21%, 19% and 48% of total revenue for the years ended December 28, 2003, December 29, 2002 and December 30, 2001, respectively.

11. Quarterly Financial Information (unaudited)

The following financial information reflects all normal recurring adjustments, except as noted below, which are, in the opinion of management, necessary for a fair statement of the results of interim

periods. Summarized quarterly data for fiscal 2003 and 2002 are as follows (in thousands except per share data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2003:				
Total revenues	$ 4,276	$ 4,769	$ 8,249	$10,741
Total cost of revenue	1,910	2,026	2,681	3,420
Net loss	(8,960)	(8,592)	(5,511)	(4,000)
Historical net loss per share, basic and diluted	(0.28)	(0.27)	(0.17)	(0.12)
2002:				
Total revenues	$ 1,269	$ 1,900	$ 2,985	$ 3,886
Total cost of revenue	339	596	965	1,636
Net loss	(8,667)	(16,447)	(7,602)	(7,615)
Historical net loss per share, basic and diluted	(0.28)	(0.54)	(0.24)	(0.24)

In the second quarter of 2002 the Company recorded a $7.7 million charge to cover total damages and estimated expenses related to a termination-of-employment lawsuit.

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS AND RESERVES FOR THE THREE YEARS ENDED DECEMBER 28, 2003

	Allowance for Doubtful Accounts	Reserve for Obsolete and Excess Inventory	Reserve for Product Warranty
		(Thousands)	
Balance at December 31, 2000	$ —	$ —	$ —
Charged to expense	32	—	—
Balance at December 30, 2001	32	—	—
Charged to expense	115	73	—
Utilizations	(2)	—	—
Balance at December 29, 2002	145	73	—
Charged to expense	118	466	230
Utilizations	(85)	(73)	—
Balance at December 28, 2003	$178	$466	$230

Corporate Directory

BOARD OF DIRECTORS

Jay T. Flatley
President and Chief Executive Officer
Illumina

John R. Stuelpnagel, D.V.M.
Senior Vice President of Operations
Illumina

R. Scott Greer
Chairman of the Board
Abgenix, Inc.

Robert T. Nelsen
Senior Partner
ARCH Venture Partners

Daniel Bradbury
Chief Operating Officer
Amylin Pharmaceuticals

William H. Rastetter, Ph.D.
Executive Chairman
Biogen Idec

David R. Walt, Ph.D.
Robinson Professor of Chemistry
Tufts University

EXECUTIVE OFFICERS

Jay T. Flatley
President and Chief Executive Officer

John R. Stuelpnagel, D.V.M.
Senior Vice President of Operations

David L. Barker, Ph.D.
Vice President and Chief Scientific Officer

Paulette D. Cabral
Vice President of Human Resources

David C. Douglas
Vice President of Manufacturing

Noemi C. Espinosa
Vice President of Intellectual Property

Robert C. Kain
Vice President of Engineering

Timothy M. Kish
Vice President and Chief Financial Officer

Arnold Oliphant, Ph.D.
Vice President of Scientific Operations

Tristan Orpin
Vice President of Worldwide Sales

Corporate Information

CORPORATE HEADQUARTERS

9885 Towne Centre Drive
San Diego, CA 92121
+1 858.202.4500
www.illumina.com

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TRANSFER AGENT

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Canton, MA 02121
+1 781.575.3400
www.equiserve.com

LEGAL COUNSEL

Heller Ehrman White & McAuliffe LLP
Menlo Park, CA 94025

FORM 10-K

Included with this report is a copy of the Company's Form 10-K filed with the Securities and Exchange Commission. Additional copies are available by contacting Illumina's Investor Relations Department.

www.illumina.com
investor@illumina.com
+1 858.202.4750

ANNUAL MEETING

The Company's Annual Meeting of Stockholders will be held at the Company's corporate headquarters at 10 a.m. on May 20, 2004.

SELECTED COMMON STOCK DATA

The Company's common stock, par value $.01, has been traded under the symbol ILMN since July 28, 2000 on the National Association of Securities Dealers Automated Quotation (Nasdaq) National Market System.

As of March 26, 2004, there were approximately 153 record holders of the Company's common stock. The Company has not paid any cash dividends since its inception and does not anticipate paying any cash dividends in the foreseeable future.

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: this report may contain forward-looking statements that involve risks and uncertainties. Among the important factors which could cause actual results to differ materially from those in the forward-looking statements are Illumina's ability to fully develop its BeadArray technologies, the costs and outcome of Illumina's litigation with Applied Biosystems, the Company's ability to develop and deploy new genomics applications for its platform technology, the ability to manufacture Sentrix arrays and other consumables in a manner sufficient to compel market trial and purchase, and other factors detailed in the Company's filings with the Securities and Exchange Commission including its recent filings on Forms 10-K and 10-Q or in information disclosed in public conference calls, the date and time of which are released beforehand. Illumina disclaims any intent or obligation to update these forward-looking statements beyond the date of this report.

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Illumina, Inc.
9885 Towne Centre Drive
San Diego, CA 92121
www.illumina.com

EXHIBIT 2.b

ILLUMINA, INC. 2004 ANNUAL REPORT

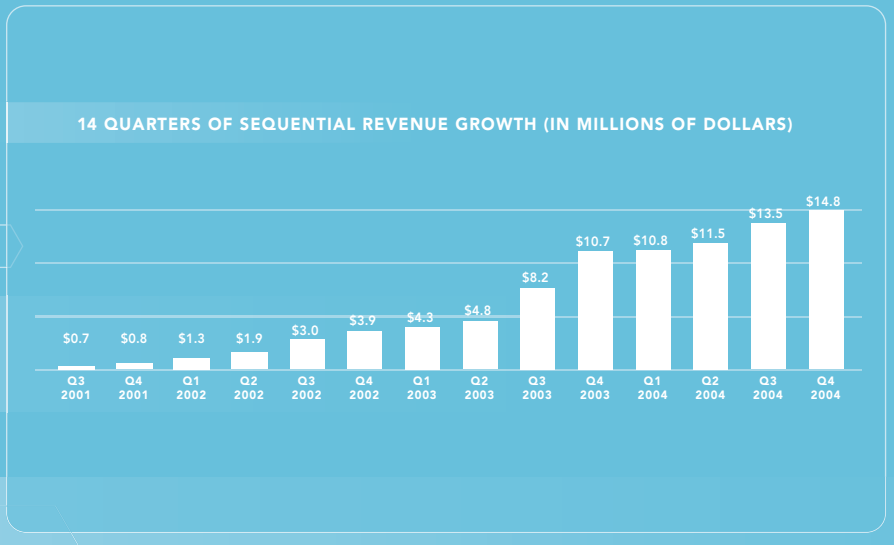
illumina®

THE LEADING EDGE OF GENETIC ANALYSIS

2004 Annual Report

ILLUM-1998

Illumina is keeping customers on the leading edge of research by enabling better performance, higher value, and multiple applications on a single microarray platform.



By almost any measure, Illumina had a terrific year in 2004.

We delivered strong financial results for stockholders and powerful product performance for customers. We ended the year with an exciting pipeline that will drive system and consumable sales growth in 2005 and beyond. We also laid the strategic groundwork for continued long-term success. Throughout the year, our employee team worked tirelessly to execute on an ambitious set of milestones to keep Illumina on the leading edge of genetic analysis.

CEO Jay Flatley and on left, John Stuelpnagel, COO.

2004 HIGHLIGHTS

We set five specific investor milestones for 2004. The first related to cash burn, with a target of less than $15 million. Thanks to strong revenue growth of over 80% compared to 2003 and high gross margins, we burned just $12 million, ending the year with $67 million in cash.

We aimed to sign 20 genotyping service contracts in 2004 and dramatically exceeded this number by booking 52 such agreements. Some of these projects were quite sizable, requiring tens of millions of genotypes. This is consistent with an important trend whereby researchers are forming consortia to combine sample collections, achieving greater statistical power and increasing their chances of making key discoveries.

A third milestone related to system sales. We executed well above our 20-system goal, shipping a total of 42 benchtop BeadStations and three production BeadLabs. We now have a global installed base of over 50 systems. In addition, we implemented an upgrade path that allows customers to purchase a BeadStation and then add robotics, LIMS and other components to increase the level of system automation and the sophistication of sample tracking. Illumina systems and software support a growing list of applications and array formats, satisfying a broad range of research demands.

A fourth milestone involved the International HapMap Project. Illumina was a major project participant, with responsibility for developing assays for approximately 15% of the SNP markers mapped in the Project's first phase. Over 60% of the total project in this phase was completed using Illumina technology. By the end of 2004, we had developed and screened, along with HapMap partners using Illumina technology, over 600,000 assays compared to our 400,000-assay milestone.

The initial scope of the HapMap Project is now closed and the final efforts will be focused on bioinformatically identifying the so-called "tagSNPs" that have the highest value in performing genome-wide scans and disease-association studies. Researchers will soon begin deploying these investigative tools—many of which are based on Illumina assays—to design and conduct bigger projects using larger sample sets, with the potential for truly seminal discovery.

A fifth milestone, shipping our multi-sample, genome-wide expression arrays, slipped until March of this year, when we announced broad commercial availability and began putting these products in the hands of customers around the world. Our Sentrix Human-6 and HumanRef-8 BeadChips are delivering to the marketplace an industry-leading combination of performance, throughput and value.

We made several key appointments in 2004 and early 2005, naming Karin Eastham and Paul Grint to our Board of Directors and Bill Rastetter non-executive Chairman of the Board. We named Scott Kahn our new Chief Information Officer, and also promoted John Stuelpnagel to Chief Operating Officer.

. . . delivering to the marketplace an industry-leading combination of throughput and performance.

Before 2004 drew to a close, we signed a significant oligonucleotide collaboration agreement with Invitrogen Corporation, a large life science company also located in the San Diego area. Under the terms of the agreement, Invitrogen will invest $3.4 million in Illumina's Oligator® DNA synthesis facility to extend our capabilities into tube-based oligos—a segment that is four times larger than the plate-size segment we currently serve. Illumina will turn over all oligo sales and marketing responsibility to Invitrogen, which has approximately 350 salespeople around the world and offices in more than 70 countries. Profits from collaboration products will be split equally between the two companies.

We have set a joint target with Invitrogen to achieve annual oligo revenue of $100 million in a few years—far beyond that which either company could have achieved alone. Beyond the ideal strategic fit, this deal allows Illumina to focus all future commercial investments in building out sales and marketing resources to support our genetic analysis systems, arrays and reagents.

Researchers can now utilize a single microarray platform and migrate easily from one application to another.

ILLUM-2002

We believe we can leverage our investment in infrastructure and technology to accelerate new product development.

ILLUM-2003

PRIMING OUR GROWTH

Our benchtop BeadStation systems gained good traction in 2004. We expect to nearly double our installed base in 2005, driven principally by new array products and assay methods. These new applications should also increase reagent consumption at current system locations.

One example—introduced in January 2005—is our DASL™ assay, a powerful new approach for generating gene expression profiles from partially degraded RNAs such as those found in formalin-fixed, paraffin-embedded (FFPE) samples. An estimated 400 million FFPE samples exist in North America for cancer alone. Many of these samples represent known clinical outcomes, or endpoints, a potential gold mine of information when linked with the underlying gene expression profiles and an exciting prospect for the validation and testing of biomarkers associated with cancer and other complex diseases. We believe the DASL assay will open up a new avenue for gene expression at high multiplex and low cost per sample.

We plan to launch our Infinium™ assay in the second quarter. The Infinium assay enables dense genome-wide genotyping, virtually unconstrained selection of SNP markers and multiplex levels that are limited only by the number of beads on the BeadChip. Our first Infinium product will contain over 100,000 markers, nearly 30,000 of which are located in genes. This product will be ideally suited for large-scale, disease-association studies. Before the middle of 2006, we expect to launch products in this family containing 250,000, 500,000 and 1,000,000 markers.

By the middle of this year, Illumina will have developed high-value assay and bead-based array products that support both genotyping and gene expression, with whole-genome and focused approaches, fixed and custom content, and on two different BeadArray™ platforms: the Array Matrix and the BeadChip.

This achievement carries a twofold implication.

First, our customers will benefit from the remarkable flexibility, performance and cost points of Illumina technology. Researchers will be able to utilize a single microarray platform and migrate easily from one application to another at varying scales of sample throughput and overall project scope.

We have the ability to offer SNP content with the highest information value.

The implication is equally profound for Illumina. We've invested significant resources developing key competencies and fine-tuning our manufacturing infrastructure to support the creation of a very broad portfolio of offerings. We expect to leverage that infrastructure and accelerate cycle times for new product development. For example, we will develop and ship two additional whole-genome expression products in 2005, one for mouse and one for rat.

SETTING THE STAGE TO ENTER NEW MARKETS

A number of our 2004 system sales include associated agreements that provide rights to biomarkers discovered and validated with Illumina technology. These agreements are the beginning of a commercial strategy that will take advantage of emerging market opportunities involving the use of microarrays for clinical research and molecular diagnostics.

In April of this year, we took another critical step in that direction with our acquisition of CyVera Corporation.

CyVera is developing a digital microbead platform that is highly complementary with our existing BeadArray technology. CyVera's rod-shaped beads can support both nucleic acid and protein probe content. The technology is ideally suited to address the growing markets in low to mid-multiplex applications, ranging from ten to 1000 targets—a perfect complement to Illumina's denser microarray solutions that offer multiplex levels of 384 to over 200,000 targets.

CyVera technology will be integrated into an expanded portfolio of offerings based on BeadArray technology and high-performance assay solutions. The first products from CyVera are expected to be available in the second half of 2006. As a result, Illumina will be positioned to offer a comprehensive approach to biomarker discovery and in-vitro and molecular diagnostic markets, including those that require low as well as high-complexity testing.

The emerging molecular diagnostic market is an exciting opportunity with significant revenue potential. In order to best leverage our technology and capture significant value from this opportunity, we will seek collaborators and partners with a strong breadth and depth of experience in the diagnostics market.

BEYOND THE NUMBERS

Beside financial measures, one of our most important measures of success and, in fact, a hallmark of the Illumina brand, is the relationships we build with customers. We're highly focused on building collaborative interactions and doing so in the context of helping scientists generate compelling results.

Fundamental to our success is our employee team. We are continually impressed both by the innovation and the sheer dedication of our human resources. As we developed our new whole-genome offerings and expanded manufacturing capabilities over the past year, we asked much of our employees. In every case, they have responded and risen to each challenge—underscoring the power of our shared goal of enabling personalized medicine.

In closing, we'd like to quote a large customer who characterized Illumina as ". . . the group of the future. Their technology is outstanding, their accuracy and precision is superb and the customer service is incredibly responsive."

We aim to keep it that way.

Thank you for your ongoing support.

JAY T. FLATLEY
President, Chief Executive Officer and
Acting Chief Financial Officer

JOHN R. STUELPNAGEL, D.V.M.
Senior Vice President and Chief Operating Officer

Invitrogen will invest $3.4 million in Illumina's Oligator® facility to extend DNA synthesis capability into tube-based products.

ILLUM-2006

2004 RESULTS: form 10-K >

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended January 2, 2005

or

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

For the transition period from to .

Commission file number: 000-30361

Illumina, Inc.

(Exact name of Registrant as Specified in Its Charter)

Delaware	**33-0804655**
(State or other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*
9885 Towne Centre Drive, San Diego, California	**92121**
(Address of Principal Executive Offices)	*(zip code)*

Registrant's telephone number, including area code: (858) 202-4500

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

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

Common Stock, $.01 par value
(Title of class)

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ☑ No ☐

As of January 31, 2005, there were 38,124,708 shares of the Registrant's Common Stock outstanding. The aggregate market value of the Common Stock held by non-affiliates of the Registrant (based on the closing price for the Common Stock on the Nasdaq National Market on June 30, 2004) was approximately $211,848,212. This amount excludes an aggregate of 4,291,431 shares of common stock held by officers and directors and each person known by the Registrant to own 10% or more of the outstanding common stock. Exclusion of shares held by any person should not be construed to indicate that such person possesses the power, direct or indirect, to direct or cause the direction of management or policies of the Registrant, or that such person is controlled by or under common control with the Registrant

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement for the annual meeting of stockholders expected to be held on May 19, 2005 are incorporated by reference into Part III of this Report.

ILLUMINA, INC.

FORM 10-K
For the fiscal year ended JANUARY 2, 2005

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PART I

Item 1. *Business.*

This Annual Report on Form 10-K may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. These statements relate to future events or our future financial performance. We have attempted to identify forward-looking statements by terminology including ''anticipates,'' ''believes,'' ''can,'' ''continue,'' ''could,'' ''estimates,'' ''expects,'' ''intends,'' ''may,'' ''plans,'' ''potential,'' ''predicts,'' ''should'' or ''will'' or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks outlined under ''Factors Affecting Operating Results,'' contained in Item 7 — ''Management's Discussion and Analysis of Financial Condition and Results of Operation,'' that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels or activity, performance or achievements expressed or implied by these forward-looking statements. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We are not under any duty to update any of the forward-looking statements after the date we file this Annual Report on Form 10-K or to conform these statements to actual results, unless required by law.

Illumina®, Array of Arrays™, BeadArray™, DASL™, GoldenGate®, Infinium™, Sentrix® and Oligator® are our trademarks. This report also contains brand names, trademarks or service marks of companies other than Illumina, and these brand names, trademarks and service marks are the property of their respective holders.

Available Information

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports are available free of charge on our website, *www.illumina.com*. The information on our website is not incorporated by reference into this report. Such reports are made available as soon as reasonably practicable after filing with the Securities and Exchange Commission. The SEC also maintains an Internet site at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that electronically file with the SEC.

Overview

We are a leading developer and marketer of next-generation tools for the large-scale analysis of genetic variation and function. Understanding genetic variation and function is critical to the development of personalized medicine, a key goal of genomics. Our tools provide information that could be used to improve drugs and therapies, customize diagnoses and treatment, and cure disease.

The sequencing of the human genome has driven demand for tools that can assist researchers in processing the billions of tests necessary to convert raw genetic data into medically valuable information. This requires functional analysis of highly complex biological systems, involving a scale of experimentation not previously practical. Using our technologies, we have developed a comprehensive line of products that can address the scale of experimentation and the breadth of functional analysis required to help achieve the goals of molecular medicine.

Our patented BeadArray technology uses microscopic beads randomly deposited in wells to achieve a level of miniaturization that allows for a new scale of experimentation. A microarray is a collection of miniaturized test sites arranged on a surface that permits many tests, or assays, to be performed in parallel. We assemble our arrays using relatively inexpensive materials. Our proprietary manufacturing process allows us to easily adapt the arrays to a broad range of applications, including both genotyping and gene expression. These characteristics allow us to create next-generation arrays with a unique combination of high throughput, cost effectiveness and flexibility. In addition, our complementary Oligator technology permits parallel synthesis of the millions of different pieces of DNA necessary to perform large-scale genetic analysis on arrays.

We provide both products and services that utilize our proprietary technologies. During 2001, we launched our commercial genotyping service product line which combines our BeadArray technology with an automated, laboratory information management system, or LIMS, controlled process to provide high throughput identification of the most common form of genetic variation, known as single nucleotide polymorphisms, or SNPs. We also began the sale of custom synthesized pieces of DNA called oligonucleotides, or oligos, using our proprietary Oligator technology.

In 2002, we announced the launch of our production-scale BeadLab. This integrated turnkey system is built around our proprietary BeadArray technology. Included in the system are the BeadArray Reader, GoldenGate assay protocols, LIMS and analytical software, fluid-handling robotics, and access to Sentrix arrays and our reagent kits for analyzing genetic sequences. Our Sentrix Array Matrix is a collection of individual arrays arranged in an Array of Arrays pattern compatible with standard microtiter plates, our reagent kit uses highly multiplexed GoldenGate assay protocols which allow up to 1536 SNPs to be analyzed at one time in a sample and our BeadArray Reader is a proprietary scanner used to read the results of the experiments captured on our arrays. When installed, the BeadLab is able to routinely produce up to 1.4 million genotypes per day.

Also in 2002, we were named the largest U.S. participant in the $100 million first phase of the International HapMap Project funded by the National Institutes of Health. This project is an internationally funded successor project to the Human Genome Project that is creating a map of genetic variations that may be used to perform disease-related research. This map of the human genome will allow more rapid and efficient large-scale genetic association studies aimed at discovering variants contributing to human disease and differential response to drug treatments. We are one of five funded first phase U.S. participants in a worldwide initiative that includes research groups in Canada, China, Japan, Nigeria and the United Kingdom. We are directly responsible for screening over 15% of the assays in the first phase of this project. This effort leverages our Oligator DNA synthesis capability and the production-scale throughput of our genotyping services operation. Our BeadLab is being used by organizations responsible for creating over 60% of the assays in the first phase of this project, which we expect to be completed in early 2005.

In early 2003, we completed the installation of and recorded revenue for our first BeadLab, and as of January 2, 2005, we have installed nine BeadLabs.

In 2003, we announced the launch of several new products, including 1) a new array format, the Sentrix BeadChip, which significantly expands market opportunities for our BeadArray technology and provides increased experimental flexibility for life science researchers; 2) a gene expression product line on both the Sentrix Array Matrix and the Sentrix BeadChip that allows researchers to analyze a focused set of genes across eight to 96 samples on a single array; and 3) a benchtop SNP genotyping and gene expression system, the BeadStation, for performing moderate-scale genotyping and gene expression using our technology. The BeadStation includes our BeadArray Reader, analysis software and assay reagents and is designed to match the throughput requirements and variable automation needs of individual research groups and core labs. Sales of these products began in early 2004 and, as of January 2, 2005, we have shipped 42 BeadStations.

In 2004, we announced the launch of new Sentrix BeadChips for whole-genome gene expression and whole-genome genotyping. The whole-genome gene expression BeadChips are designed to enable high-performance, cost-effective, whole-genome expression profiling of multiple samples on a single chip, resulting in a dramatic reduction in cost of whole-genome expression analysis while allowing researchers to expand the scale and reproducibility of large-scale biological experimentation. The whole-genome genotyping BeadChip can be scaled to unlimited levels of multiplexing without compromising data quality and will provide scientists the ability to query, in parallel, a high-value set of over 100,000 SNPs. In 2004, we also announced two new versions of the Sentrix Array Matrix designed for researchers who want to take advantage of our technology, but whose projects require fewer SNPs per sample than the number utilized on our standard 1536-plex array products.

In late 2004, we announced a strategic collaboration with Invitrogen Corporation to synthesize and distribute oligos. Under the agreement, we intend to expand our Oligator DNA synthesis technology, and Invitrogen will be responsible for sales, marketing and technical support. Profits from sales of collaboration products will be divided equally between the two companies.

In early 2005, we expanded our gene expression portfolio by announcing the launch of a new assay, DASL, for generating gene expression profiles from RNA samples including those containing partially degraded RNAs. We also announced a standard DASL cancer panel. Prior to our DASL assay, degraded RNA samples have been reliably assayed only with expensive, low-multiplex approaches.

In February 2005, we signed a definitive agreement and plan of merger with CyVera Corporation, a privately-held Connecticut-based company, pursuant to which CyVera will become a wholly-owned subsidiary of Illumina. CyVera's digital-microbead platform is highly complementary to our portfolio of products and services and upon closing of the transaction, will become an integral part of our BeadArray technology. The acquisition is expected to provide us with a comprehensive approach to bead-based assays for biomarker R&D and in-vitro and molecular diagnostic opportunities, including those that require low-complexity as well as high-complexity testing. The aggregate consideration for the transaction is $17.5 million, consisting of approximately 1.5 million shares of Illumina common stock and the payment of approximately $2.3 million of CyVera's liabilities at the closing. The closing is subject to customary closing conditions and is expected to occur by the end of March 2005. We expect the first products based on CyVera's technology to be available in the second half in 2006.

We are seeking to expand our customer base for our BeadArray technology; however, we can give no assurance that our sales efforts will continue to be successful.

We were incorporated in California in April 1998. We reincorporated in Delaware in July 2000. Our principal executive offices are located at 9885 Towne Centre Drive, San Diego, California 92121. Our telephone number is (858) 202-4500.

Industry Background

Genetic Variation and Function

Every person inherits two copies of each gene, one from each parent. The two copies of each gene may be identical, or they may be different. These differences are referred to as genetic variation. Examples of the physical consequences of genetic variation include differences in eye and hair color. Genetic variation can also have important medical consequences, including predisposition to disease and differential response to drugs. Genetic variation affects diseases, including cancer, diabetes, cardiovascular disease and Alzheimer's disease. In addition, genetic variation may cause people to respond differently to the same drug. Some people may respond well, others may not respond at all, and still others may experience adverse side effects. The most common form of genetic variation is a Single Nucleotide Polymorphism, or SNP. A SNP is a variation in a single position in a DNA sequence. It is estimated that the human genome contains between three and six million SNPs.

While in some cases a single SNP will be responsible for medically important effects, it is now believed that the genetic component of most major diseases is the result of the interaction of many SNPs. Therefore, it is important to investigate many SNPs together in order to discover medically valuable information.

Current efforts to understand genetic variation and function have primarily centered around SNP genotyping and gene expression profiling.

SNP Genotyping

SNP genotyping is the process of determining which SNPs are present in each of the two copies of a gene, or other portion of DNA sequence, within an individual or other organism. The use of SNP genotyping to obtain meaningful statistics on the effect of an individual SNP or a collection of SNPs, and to apply that information to clinical trials and diagnostic testing, requires the analysis of millions of SNP genotypes and the testing of large populations for each disease. For example, a single large clinical trial could involve genotyping 200,000 SNPs per patient in 1,000 patients, thus requiring 200 million assays. Using previously available technologies, this scale of SNP genotyping was both impractical and prohibitively expensive.

Large-scale SNP genotyping will be used for a variety of applications, including genomics-based drug development, clinical trial analysis, disease predisposition testing, and disease diagnosis. SNP genotyping can also be used outside of healthcare, for example in the development of plants and animals with desirable commercial characteristics. These markets will require billions of SNP genotyping assays annually.

Gene Expression Profiling

Gene expression profiling is the process of determining which genes are active in a specific cell or group of cells and is accomplished by measuring mRNA, the intermediary between genes and proteins. Variation in gene expression can cause disease, or act as an important indicator of disease or predisposition to disease. By comparing gene expression patterns between cells from different environments, such as normal tissue compared to diseased tissue or in the presence or absence of a drug, specific genes or groups of genes that play a role in these processes can be identified. Studies of this type, used in drug discovery, require monitoring thousands, and preferably tens of thousands, of mRNAs in large numbers of samples. Once a smaller set of genes of interest has been identified, researchers can then examine how these genes are expressed or suppressed across numerous samples, for example, within a clinical trial. The high cost of current gene expression methods has limited the development of the gene expression market.

As gene expression patterns are correlated to specific diseases, gene expression profiling is becoming an increasingly important diagnostic tool. Diagnostic use of expression profiling tools is anticipated to grow rapidly with the combination of the sequencing of various genomes and the availability of more cost-effective technologies.

Our Technologies

BeadArray Technology

We have developed a proprietary array technology that enables the large-scale analysis of genetic variation and function. Our BeadArray technology combines microscopic beads and a substrate in a simple proprietary manufacturing process to produce arrays that can perform many assays simultaneously. Our BeadArray technology provides a unique combination of high throughput, cost effectiveness, and flexibility. We achieve high throughput with a high density of test sites per array and our ability to format arrays in either a pattern arranged to match the wells of standard microtiter plates or in various configurations in the format of standard microscope slides. We maximize cost effectiveness by reducing consumption of expensive reagents and valuable samples, and from the low manufacturing costs associated with our technologies. Our ability to vary the size, shape and format of the well patterns and to create specific bead pools, or sensors, for different applications provides the flexibility to address multiple markets and market segments. We believe that these features have enabled our BeadArray technology to become a leading platform for the emerging high-growth market of SNP genotyping and expect they will enable us to become a key player in the gene expression market.

Our proprietary BeadArray technology combines microwells etched into a substrate and specially prepared beads that self-assemble into an array. We have deployed our BeadArray technology in two different Sentrix array formats, the Array Matrix and the BeadChip. Our first bead-based product was the Array Matrix which incorporates fiber optic bundles. We have the fiber optic bundles manufactured to our specifications, which we cut into lengths of less than one inch. Each bundle contains approximately 50,000 individual fibers and 96 of these bundles are placed into an aluminum plate, which forms an Array Matrix. BeadChips are fabricated in microscope slide-shaped sizes with varying numbers of sample sites per slide. Both formats are chemically etched to create tens of thousands of wells for each sample site.

In a separate process, we create sensors by affixing a specific type of molecule to each of the billions of microscopic beads in a batch. We make different batches of beads, with the beads in a given batch coated with one particular type of molecule. The particular molecules on a bead define that bead's function as a sensor. For example, we create a batch of SNP sensors by attaching a particular DNA sequence to each bead in the batch. We combine batches of coated beads to form a pool specific to the type of array we intend to create. A bead pool one milliliter in volume contains sufficient beads to produce thousands of arrays. One of the advantages of this technology is that it allows us to create universal arrays for SNP genotyping, and by varying the reagent kit, still be able to use the array to test for any combination of SNPs.

To form an array, a pool of coated beads is brought into contact with the array surface where they are randomly drawn into the wells, one bead per well. The tens of thousands of beads in the wells comprise our individual arrays. Because the beads assemble randomly into the wells, we perform a final procedure called decoding in order to determine which bead type occupies which well in the array. We employ several proprietary methods for decoding, a process that requires only a few steps to identify all the beads in the array. One beneficial by-product of the decoding process is a validation of each bead in the array. This quality control test characterizes the performance of each bead and can identify and eliminate use of any empty wells. We ensure that each bead type on the array is sufficiently represented by having multiple copies of each bead type. This improves the reliability and accuracy of the resulting data by allowing statistical processing of the results of identical beads.

An experiment is performed on the Array Matrix by preparing a sample, such as DNA from a patient, and introducing it to the array. The design features of our Array Matrix allow it to be simply dipped into a solution containing the sample, whereas our BeadChip allows processing of samples on a slide. The molecules in the sample bind to their matching molecules on the coated bead. The BeadArray Reader detects the matched molecules by shining a laser on the fiber optic bundle or on the BeadChip. Since the molecules in the sample have a structure that causes them to emit light in response to a laser, detection of a binding event is possible. This allows the measurement of the number of molecules bound to each coated bead, resulting in a quantitative analysis of the sample.

Oligator Technology

Genomic applications require many different short pieces of DNA that can be made synthetically, called oligonucleotides. For example, SNP genotyping typically requires three to four different oligonucleotides per assay. A SNP genotyping experiment analyzing 10,000 SNPs may therefore require 30,000 to 40,000 different oligonucleotides, contributing significantly to the expense of the experiment.

We have designed our proprietary Oligator technology for the parallel synthesis of many different oligonucleotides to meet the requirements of large-scale genomics applications. We believe that our Oligator technology is substantially more cost effective and provides higher throughput than available commercial alternatives. Our synthesis machines are computer controlled and utilize many robotic processes to minimize the amount of labor used in the manufacturing process. Each of these synthesizers can produce up to 3072 oligos in parallel, using very small amounts of material. We believe both of these attributes are substantial improvements over other existing technologies. In 2005, we intend to implement fourth-generation Oligator technology which will further expand our production capabilities and extend our technology into tube-based oligo products.

Key Advantages of Our BeadArray and Oligator Technologies

We believe that our BeadArray and Oligator technologies provide distinct advantages, in a variety of applications, over competing technologies, by creating cost-effective, highly miniaturized arrays with the following advantages:

High Throughput. The miniaturization of our BeadArray technology provides significantly greater information content per unit area than any other array known to us. To further increase throughput, we have formatted our arrays in a pattern arranged to match the wells of standard microtiter plates, allowing throughput levels of up to 150,000 unique assays per microtiter plate, as well as the use of laboratory robotics to speed process time. The Oligator's parallel synthesis capability allows us to manufacture the diversity of oligonucleotides necessary to support large-scale genomic applications.

Cost Effectiveness. Our array products substantially reduce the cost of experiments as a result of our proprietary manufacturing process and our ability to capitalize on cost reductions generated by advances in fiber optics, digital imaging and bead chemistry. In addition, these products require smaller reagent volumes than other array technologies, and therefore reduce reagent costs. Our cost-effective Oligator technology further reduces reagent costs, as well as the cost of coating beads.

Flexibility. A wide variety of conventional chemistries are available for attaching different molecules, such as DNA, RNA, proteins, and other chemicals to beads. By using beads, we are able to take advantage of these chemistries to create a wide variety of sensors, which we assemble into arrays using the same proprietary manufacturing process. In addition, we can have fiber optic bundles and BeadChips manufactured in multiple shapes and sizes with wells organized in various arrangements to optimize them for different markets and market segments. In combination, the use of beads and etched wells provides the flexibility and scalability for our BeadArray technology to be tailored to perform many applications in many different market segments, from drug discovery to diagnostics. Our Oligator technology allows us to manufacture a wide diversity of lengths and quantities of oligonucleotides.

Quality. The high density of beads in each array enables us to have multiple copies of each individual bead type. We measure the copies simultaneously and combine them into one data point. This allows us to make a comparison of each bead against its own population of identical beads, which permits the statistical calculation of a more reliable and accurate value for each data point. Finally, the manufacture of the array includes a proprietary decoding step that also functions as a quality control test of every bead on every array, improving the overall quality of the data.

Our Strategy

Our goal is to make our BeadArray platforms the industry standard for products and services utilizing array technologies. We plan to achieve this by:

- focusing on emerging high-growth markets;
- rapidly commercializing our BeadLab, BeadStation, Sentrix Array Matrix and BeadChip products;
- expanding our technologies into multiple product lines and market segments; and
- strengthening our technological leadership.

Products and Services

The first implementation of our BeadArray technology, the Sentrix Array Matrix, is a disposable matrix with 96 fiber optic bundles arranged in a pattern that matches the standard 96-well microtiter plate. Each fiber optic bundle performs more than 1,500 unique assays. Therefore, one Sentrix Array Matrix can perform nearly 150,000 individual assays simultaneously, more than any other commercial array system known to us. The BeadChip, introduced in 2003, is fabricated in multiple configurations to support multiple applications and scanning technologies.

We have provided genotyping services using our proprietary BeadArray technology since 2001. In addition, we have developed our first genotyping and gene expression products based on this technology. These products include disposable Sentrix Array Matrices and BeadChips, GoldenGate reagent kits for SNP genotyping, BeadArray Reader scanning instruments and an evolving portfolio of custom and standard gene expression products.

SNP Genotyping

In 2001, we introduced the first commercial application of our BeadArray technology by launching our SNP genotyping services product line. Since this launch we have had peak days in which we operated at over two million genotypes per day based on individual samples. To our knowledge, no other genotyping platform can achieve comparable levels of throughput while delivering such high accuracy and low cost.

We designed our first consumable BeadArray product, the Sentrix Array Matrix, for SNP genotyping. The Sentrix Array Matrix uses a universal format that allows it to analyze any set of SNPs. We have also developed reagent kits based on GoldenGate assay protocols and the BeadArray Reader, a laser scanner, which is used to read our array products.

Depending on throughput and automation requirements, our customers can select the system configuration to best meet their needs. For production-scale throughput, our BeadLab would be appropriate, and for moderate-scale throughput, our BeadStation would be selected. Our BeadLab includes our BeadArray Reader, combined with LIMS, standard operating procedures and analytical software and fluid handling robotics. This production-scale system was commercialized in late 2002 and when installed, this system can routinely produce up to 1.4 million genotypes per day.

The BeadStation, a system for performing moderate-scale genotyping designed to match the throughput requirements of individual research groups and core labs, was commercialized in late 2003. The BeadStation includes our BeadArray Reader and genotyping and/or gene expression analysis software. Our BeadStations are fully upgradeable to a full BeadLab through various steps that add automation, sample preparation equipment and LIMS capability.

For use in SNP genotyping, both the BeadLab and BeadStation utilize GoldenGate assay reagents and our Array Matrices and will soon support a high-density version of our BeadChip. The Sentrix BeadChip allows simultaneous processing of 16 samples and uses identical content as the Sentrix Array Matrix.

Also in 2003, we announced the availability of an assay set for genetic linkage analysis. This standard product has been deployed in our genotyping services operation and is also sold to customers who use our SNP genotyping systems. Genetic linkage analysis can help identify chromosomal regions with potential disease associations across a related set of samples.

In 2004, we announced a new Sentrix BeadChip for whole-genome genotyping. This BeadChip will provide scientists the ability to interrogate over 100,000 SNPs located in high-value genetic regions of the human genome.

Gene Expression Profiling

With the addition of application specific accessory kits, our production-scale BeadLabs and BeadStations are capable of performing a growing number of applications including gene expression profiling.

In 2003, we introduced our focused set gene expression products on both the Sentrix Array Matrix and Sentrix BeadChip platforms. For high-throughput projects, our system includes a BeadArray Reader for imaging Sentrix Array Matrices and BeadChips, a hybridization chamber and software for data extraction. For research projects that require moderate throughput, a version of the Sentrix BeadChip analyzes eight samples in parallel and can be scanned on a portion of the installed base of Axon Instruments' GenePix™ scanners. In addition, we have developed standard gene expression products for each of the human, mouse and arabidopsis genomes.

In 2004, we announced the Sentrix Human-6 and HumanRef-8 Expression BeadChip products. Both products will allow large-scale expression profiling of multiple samples on a single chip and are imaged using our BeadArray Reader. The Human-6 BeadChip is designed to analyze six discrete whole-human-genome samples on one chip, interrogating in each sample approximately 48,000 transcripts from the estimated 30,000 genes in the human genome. The HumanRef-8 BeadChip product analyzes eight samples in parallel against 24,000 transcripts from the roughly 22,000 genes represented in the consensus RefSeq database, a well-characterized whole-genome subset used broadly in genetic analysis. We expect that these new gene expression BeadChips will dramatically reduce the cost of whole-genome expression analysis, allowing researchers to expand the scale and reproducibility of large-scale biological experimentation.

In early 2005, we introduced the new DASL assay for generating gene expression profiles from RNA samples, including formalin-fixed, paraffin-embedded (FFPE) samples and other samples containing degraded RNAs. The DASL assay enables researchers to measure RNA abundance of over 500 genes in parallel per sample. We also released a standard DASL cancer panel. It has been estimated that there are over 400 million FFPE tissue samples archived in North America for cancer alone. Many of these samples represent known clinical outcomes which will yield important information when linked with underlying gene expression profiles. To date, degraded RNA samples have been reliably assayed only with expensive, low-multiplex approaches. Our DASL assay generates RNA profiles at high multiplex and at a low cost per sample as compared to existing technologies.

Scanning Instrumentation

The BeadArray Reader, an instrument we developed, is a key component of both our production-scale BeadLab and our benchtop BeadStation. This scanning equipment uses a laser to read the results of experiments that are captured on our arrays and was designed to be used in all areas of genetic analysis that use our Sentrix Array Matrices and Sentrix BeadChips.

High-Throughput Synthesis

We have put in place an oligonucleotide manufacturing facility that currently has the capability of producing approximately 20 million oligonucleotides per year. In addition to their use to coat beads, these oligonucleotides are components of the reagent kits for our BeadArray products and are used for assay development. Because our production capacity exceeds our internal needs, we began to offer oligonucleotides for sale to high volume users in 2001. We provide oligonucleotides in a wide range of lengths and in several scales, with the ability to add many types of modifications. We offer a range of quality control options and have implemented a laboratory information management system to control much of the manufacturing process. In 2003, we introduced the first standard product offerings in our Oligator product line, a whole-genome oligonucleotide reference set designed and optimized for spotted gene expression microarrays, and in 2004, we introduced a mouse genome oligo set, also for use on spotted gene expression arrays. We believe our Oligator technology is more cost effective than competing technologies, which has allowed us to market our oligonucleotides under a price leadership strategy while still achieving attractive gross margins. In 2005, in connection with a collaboration agreement with Invitrogen Corporation, we intend to implement fourth-generation Oligator technology which will further expand our production capabilities and extend our technology into tube-based oligo products.

Collaboration with Invitrogen Corporation

In December 2004, we entered into a strategic collaboration with Invitrogen Corporation. Through this collaboration, we intend to expand our Oligator DNA synthesis technology and combine that capability with Invitrogen's sales, marketing and distribution channels. Under the terms of the agreement, Invitrogen has agreed to pay us up to $3.4 million, which we plan to invest in our San Diego facility to enable implementation of fourth-generation Oligator technology and extend the technology into tube-based oligo products. In addition, the agreement provides for the transfer of our Oligator technology into two Invitrogen facilities outside North America. Profit from the sale of collaboration products will be divided equally between the two companies.

Research and Development

We have made substantial investments in research and development since our inception. We have assembled a team of skilled engineers and scientists who are specialists in biology, chemistry, informatics, instrumentation, optical systems, software, manufacturing and other related areas required to complete the development of our products. Our research and development efforts have focused primarily on the tasks required to optimize our BeadArray and Oligator technologies and to support commercialization of the products and services derived from these technologies. These efforts include among others:

- We enhanced the quality and manufacturing yield of our Sentrix Array Matrices and BeadChips. We are exploring ways to continue to increase the level of automation in the manufacturing process to further reduce the time and cost of producing arrays. We currently have the infrastructure in place to manufacture Sentrix Array Matrices and BeadChips in sufficient quantity to meet anticipated internal and external needs.

- We introduced a number of initiatives in 2002 and 2003 to improve the yield and quality of our oligonucleotides while reducing cost substantially. By refining our understanding of the design and operation of our Oligator technology, we have been able to make numerous changes in our process, which we believe provides us a more cost effective system than competing technologies. Our oligonucleotide manufacturing facility currently has the capability of producing approximately 20 million oligonucleotides per year. In 2005, we intend to expand our Oligator technology under a collaboration agreement with Invitrogen Corporation. This expansion will enable implementation of fourth-generation Oligator technology and extend the technology into tube-based oligo products.

- We have developed the BeadArray Reader, a laser scanning instrument that scans our Sentrix array platforms. Laser scanners provide the high sensitivity and resolution required to address the extremely dense geometries of our bead-based arrays. We made the first commercial shipments of our scanners in the first quarter of 2003 as part of our BeadLab.

- We completed development of and launched our Direct Hyb and DASL gene expression assays on both array formats. We believe the combination of our gene expression products flexibility and low-per-sample cost will enable larger and more meaningful gene expression studies.

- We have signed a definitive agreement to acquire CyVera Corporation, a company whose technology is highly complementary to our portfolio of products and services and upon closing of the transaction will become an integral part of our BeadArray technology. The acquisition is expected to provide us with a comprehensive approach to bead-based assays for biomarker R&D and in-vitro and molecular diagnostic opportunities, including those that require low-complexity as well as high-complexity testing.

- We have been exploring the underlying molecular biology and chemistry issues related to developing assays and performing experiments on our BeadArray platforms. By improving our processes and protocols, we have substantially increased the number of assays we can process simultaneously in a single sample on our arrays.

Our research and development expenses for the fiscal years 2004, 2003 and 2002 (exclusive of charges relating to stock based compensation of $0.8 million, $1.3 million and $2.4 million, respectively) were $21.1 million, $22.5 million and $26.8 million, respectively. We expect research and development expense to increase in 2005 as compared to 2004 as we continue to expand our research and product development efforts.

Government Grants

Government grants allow us to fund internal scientific programs and exploratory research. We retain ownership of all intellectual property and commercial rights generated during these projects, subject to a non-exclusive, non-transferable, paid-up license to practice, for or on behalf of the United States, inventions made with federal funds. This license is retained by the U.S. government as provided by applicable statutes and regulations. We do not believe that the retained license will have any impact on our ability to market our products, and we do not need government approval with respect to this license in order to enter into collaborations or other relationships with third parties. We are the recipient of a grant from the National Institutes of Health covering our participation in the first phase of the International HapMap Project, which is a $100.0 million, internationally funded successor project to the Human Genome Project that will help identify a map of genetic variations that may be used to perform disease-related research. We could receive up to $9.1 million of funding for this project which covers basic research activities, the development of SNP assays and the genotyping to be performed on those assays. As of the end of 2004, we had approximately $0.7 million of funding remaining related to this project, which is expected to be received in early 2005.

Intellectual Property

We have an extensive patent portfolio, including ownership of, or exclusive licenses to, 29 issued U.S. patents and 76 pending U.S. patent applications, including seven allowed applications that have not yet issued as patents, some of which derive from a common parent application. Our issued patents, which cover various aspects of our BeadArray, oligonucleotide synthesis and chemical detection technologies, expire between 2011 and 2020. We are seeking to extend this patent protection on our BeadArray, GoldenGate, Oligator, Sentrix and related technologies. We have received or filed counterparts for many of these patents and applications in one or more foreign countries.

We also rely upon trade secrets, know-how, copyright and trademark protection, as well as continuing technological innovation and licensing opportunities to develop and maintain our competitive position. Our success will depend in part on our ability to obtain patent protection for our products and processes, to preserve our copyrights and trade secrets, to operate without infringing the proprietary rights of third parties and to acquire licenses related to enabling technology or products used with our BeadArray, DASL, GoldenGate, Sentrix and Oligator technologies.

We are party to various exclusive and non-exclusive license agreements with third parties, which grant us rights to use key aspects of our array technology, assay methods, chemical detection methods, reagent kits and scanning equipment. We have exclusive licenses from Tufts University to patents that cover our use of BeadArray technology. These patents were filed by Dr. David Walt, a member of our board of directors, the Chairman of our Scientific Advisory Board and one of our founders. Our exclusive licenses expire with the termination of the underlying patents, which will occur between 2010 and 2020. In 2001, we entered into a non-exclusive license agreement with Amersham Biosciences that covers certain technology contained in our BeadArray Reader. In 2002, we obtained a non-exclusive license from Dade Behring Marburg GmbH that relates to certain components of our GoldenGate assay. We also have additional nonexclusive licenses from various third parties for other components of our products. In all cases, the agreements remain in effect over the term of the underlying patents, may be terminated at our request without further obligation and require that we pay customary royalties while the agreement is in effect.

Marketing and Distribution

Our current products address the genetic analysis portion of the life sciences market, in particular, experiments involving SNP genotyping and gene expression profiling. These experiments may be involved in many areas of biologic research including basic human disease research, pharmaceutical drug discovery and development, pharmacogenomics, toxicogenomics and agricultural research. Our potential customers include pharmaceutical, biotechnology, agrichemical, diagnostics and consumer products companies, as well as academic or private research centers. The genetic analysis market is relatively new and emerging and its size and speed of development will be ultimately driven by, among other items:

- the ability of the research community to extract medically valuable information from genomics and to apply that knowledge to multiple areas of disease-related research and treatment,
- the availability of sufficiently low cost, high-throughput research tools to enable the large amount of experimentation required to study genetic variation and function, and
- the availability of government and private industry funding to perform the research required to extract medically relevant information from genomic analysis.

We market and distribute our products directly to customers in North America, major European markets, Japan and Singapore. In each of these areas we have dedicated sales, service and application support personnel responsible for expanding and managing their respective customer bases. In markets outside of these areas, primarily the Pacific Rim countries, we sell our products and provide services to customers through distributors that specialize in life science products. We expect to significantly increase our sales and distribution resources during 2005 and beyond as we launch a number of new products and expand the number of customers that can use our products.

In late 2004, we entered into a strategic collaboration with Invitrogen Corporation with a goal of leveraging our strength in oligo synthesis with Invitrogen's extensive sales, marketing and distribution channels. We expect to transition all responsibility for oligo sales, marketing and technical support to Invitrogen in 2005.

Manufacturing

We manufacture our array platforms, reagent kits, scanning equipment and oligonucleotides in-house and believe that we currently have the ability to manufacture these in sufficient quantity to meet anticipated internal and external needs. We currently depend upon outside suppliers for materials used in the manufacture of our products. We intend to continue, and may extend, the outsourcing of portions of our manufacturing process to subcontractors where we determine it is in our best commercial interests.

During 2001, we moved into a new facility which allowed us to design the manufacturing areas to fit our specific processes, and optimize material flow and personnel movement. In addition, we have implemented information management systems for many of our manufacturing and services operations to manage all aspects of material and sample use. We adhere to access and safety standards required by federal, state and local health ordinances, such as standards for the use, handling and disposal of hazardous substances.

Competition

Although we expect that our BeadArray products and services will provide significant advantages over currently available products and services, we expect to encounter intense competition from other companies that offer products and services for the SNP genotyping and gene expression markets. These include companies such as Aclara Biosciences (recently acquired by ViroLogic), Affymetrix, Agilent, Amersham Biosciences (recently acquired by GE Corp.), Applied Biosystems, Beckman Coulter, Caliper Technologies, Luminex, ParAllele Bioscience, Perlegen Sciences, Sequenom and Third Wave Technologies. Many of these companies have or will have substantially greater financial, technical, research, and other resources and larger, more established marketing, sales, distribution and service organizations than we do. In addition, they may have greater name recognition than we do in the markets we need to address and in some cases a large installed base of systems. Each of these markets is very competitive and we expect new competitors to emerge and the intensity of competition to increase in the future. In order to effectively compete with these companies, we will need to demonstrate that our products have superior throughput, cost and accuracy advantages over the existing products. Rapid technological development may result in our products or technologies becoming obsolete. Products offered by us could be made obsolete either by less expensive or more effective products based on similar or other technologies. Although we believe that our technology and products will offer advantages that will enable us to compete effectively with these companies, we cannot assure you that we will be successful.

Segment and Geographic Information

We operate in one business segment, for the development, manufacture and commercialization of tools for genetic analysis. Our operations are treated as one segment as we only report operating results on an aggregate basis to chief operating decision makers of Illumina.

During 2004, $26.4 million, or 52%, of our total revenues came from customers outside the United States, as compared to $14.4 million, or 51%, in 2003. We expect that sales to international customers will continue to be an important and growing source of revenues. We have sales support resources in Western Europe and direct sales offices in Japan and Singapore. In addition, we have distributor relationships in various countries in the Pacific Rim region.

Information about the geographies in which we operate can be found in the Notes to Consolidated Financial Statements at Note 11, ''Segment Information, Geographic Data and Significant Customers.''

Seasonality

Historically, customer purchasing patterns have not shown significant seasonal variation, although demand for our products is usually lowest in the first quarter of the calendar year and highest in the fourth quarter of the calendar year as customers spend unused budget allocations before the end of the year.

Environmental Matters

We are dedicated to the protection of our employees and the environment. Our operations require the use of hazardous materials which subject us to a variety of federal, state and local environmental and safety laws and regulations. We believe we are in material compliance with current applicable laws and regulations; however, we could be held liable for damages and fines should contamination of the environment or individual exposures to hazardous substances occur. In addition, we cannot predict how changes in these laws and regulations, or the development of new laws and regulations, will affect our business operations or the cost of compliance.

Employees

As of January 2, 2005, we had a total of 278 employees, 60 of whom hold Ph.D. degrees and 37 of such Ph.D. degreed employees are engaged in full-time research and development activities. None of our employees is represented by a labor union. We consider our employee relations to be positive.

Executive Officers

Our executive officers as of February 28, 2005, are as follows:

Name	Age	Position
Jay T. Flatley	52	President, Chief Executive Officer and Director
David L. Barker, Ph.D.	63	Vice President, Chief Scientific Officer
Paulette D. Cabral	60	Vice President of Human Resources
David C. Douglas	50	Vice President of Manufacturing
Noemi C. Espinosa	46	Vice President of Intellectual Property
Robert C. Kain	44	Vice President of Engineering
Timothy M. Kish	53	Vice President, Chief Financial Officer
Arnold Oliphant, Ph. D	45	Vice President of Scientific Operations
Tristan B. Orpin	39	Vice President of Worldwide Sales
John R. Stuelpnagel, DVM	47	Founder, Senior Vice President, Chief Operating Officer and Director

Jay T. Flatley has served as our President, Chief Executive Officer and a Director since October 1999. Prior to joining Illumina, Mr. Flatley was co-founder, President, Chief Executive Officer and a Director of Molecular Dynamics, a life sciences company, from May 1994 to September 1999. He served in various other positions with that company from 1987 to 1994. From 1985 to 1987, Mr. Flatley was Vice President of Engineering and Vice President of Strategic Planning at Plexus Computers, a UNIX computer company. Mr. Flatley also serves as a director at GenVault. Mr. Flatley holds a B.A. in Economics from Claremont McKenna College and a B.S. and M.S. in Industrial Engineering from Stanford University.

David L. Barker, Ph.D., has served as our Vice President and Chief Scientific Officer since March 2000. Prior to joining us, Dr. Barker was Vice President and Chief Science Advisor at Amersham Pharmacia Biotech, a life sciences company, from September 1998 to March 2000. From May 1997 to September 1998, Dr. Barker was Vice President of Research and Business Development at Molecular Dynamics. From 1992 to 1997, he was Vice President of Scientific Development. From 1988 to 1995, he held various other positions with that company. Dr. Barker holds a B.S. in Chemistry from California Institute of Technology and received his Ph.D. in Biochemistry from Brandeis University.

Paulette D. Cabral has served as our Vice President of Human Resources since March 2001. Prior to joining us, Ms. Cabral was the Vice President of Human Resources at Marimba, Inc., an internet infrastructure company, from July 2000 to February 2001. From December 1996 to July 2000, Ms. Cabral held various human resource positions at Molecular Dynamics; from 1999 to 2000, she was Vice President of Human Resources. Previous to that she held various positions at Acuson Corporation and Spectra Physics. Ms. Cabral holds a B.A. in Sociology from San Jose State University.

David C. Douglas has served as our Vice President of Manufacturing since January 2001. Prior to joining us, Mr. Douglas was Vice President of Operations at POSDATA Inc., an information technology equipment company, from July 1989 to December 2000. From July 1988 to July 1989, Mr. Douglas was Test Operations Manager at Acuson Computed Sonography, a medical equipment company. Previous to that he held various positions at Plexus Computers and Spectra Physics. Mr. Douglas holds a B.S. in Electronics Engineering Technology from Oregon Institute of Technology.

Noemi C. Espinosa has served as our Vice President of Intellectual Property since May 2000 and our Corporate Secretary since January 2001. Prior to joining us, Ms. Espinosa was a partner with the firm of Brobeck, Phleger & Harrison LLP from January 1992 to April 2000, having joined the firm in 1990. From 1983 to 1990, Ms. Espinosa was associated with the intellectual property firm of Townsend & Townsend. Ms. Espinosa holds a B.S. in Chemical Engineering from San Jose State University and a J.D. from the University of California, Hastings College of Law. She is registered to practice before the United States Patent and Trademark Office.

Robert C. Kain has served as our Vice President of Engineering since December 1999. Prior to joining us, Mr. Kain was Senior Director of Engineering at Molecular Devices from July 1999 to December 1999. Previously, Mr. Kain served as Director of Microarray Engineering at Molecular Dynamics from August 1998 to July 1999 and in other positions from August 1996 to August 1998. From 1983 to 1988, Mr. Kain was employed at DatagraphiX, an information technology equipment company. Mr. Kain received his B.S. in Physics from San Diego State University and his M.B.A. from St. Mary's College.

Timothy M. Kish has served as our Vice President and Chief Financial Officer since May 2000. Prior to joining us, Mr. Kish was Vice President, Finance and Chief Financial Officer at Biogen, Inc., a biopharmaceutical company, from September 1993 to April 2000. He served as Corporate Controller of that company from 1986 to 1993. From 1983 to 1986, Mr. Kish was Director of Finance at Allied Health & Scientific Products Company, a subsidiary of Allied-Signal Corporation. Mr. Kish holds a B.B.A. from Michigan State University and an M.B.A. from the University of Minnesota.

Arnold Oliphant, Ph.D., has served as our Vice President of Scientific Operations since October 2000. Prior to joining us, Dr. Oliphant was Vice President of Functional Genomics at Myriad Genetics, a genomics company, from 1997 to September 2000 and was Process Development and Production Director from January 1995 to June 1997. From January 1992 to January 1995, Dr. Oliphant held several positions at Pioneer Hybrid International, a plant genetics company and prior to that was an Assistant Professor at the University of Utah. Dr. Oliphant received his B.A. in biology from the University of Utah and his Ph.D. in Genetics from the Harvard Medical School.

Tristan Orpin has served as our Vice President of Worldwide Sales since December 2002. Prior to joining us, Mr. Orpin was the Vice President of Sales and Marketing at Sequenom, a genomics company, from August 2001 to November 2002 and was Director of Sales and Marketing from September 1999 to August 2001. From December 1988 to September 1999, Mr. Orpin served in several senior sales and marketing positions at Bio-Rad Laboratories, a life sciences company. Mr. Orpin received his BSc. in Biochemistry from the University of Melbourne.

John R. Stuelpnagel, D.V.M., one of our founders, is our Senior Vice President and Chief Operating Officer and has been a director since April 1998. From October 1999 to April 2002, he served as our Vice President of Business Development. From April 1998 to October 1999, he served as our acting President and Chief Executive Officer and was acting Chief Financial Officer through April 2000. While founding Illumina, Dr. Stuelpnagel was an associate with CW Group, a venture capital firm, from June 1997 to September 1998 and with Catalyst Partners, a venture capital firm, from August 1996 to June 1997. Dr. Stuelpnagel received his B.S. in Biochemistry and his Doctorate in Veterinary Medicine from the University of California, Davis and his M.B.A. from the University of California, Los Angeles.

Item 2. ***Properties.***

Our principal research and development, manufacturing and administrative facilities occupy approximately 90,000 square feet of three buildings located in San Diego, California, which we purchased, along with eight acres of adjacent land, in January 2002. In connection with this purchase we assumed a $26 million, 10-year mortgage on the property at a fixed interest rate of 8.36%. In June 2004, we entered into a conditional agreement to sell our land and buildings for $42.0 million and to lease back such property for an initial term of ten years. The sale was completed in August 2004, at which time the lease was signed. We expect that these facilities will be sufficient for our San Diego based operations for the foreseeable future.

In February 2003, the Company began leasing approximately 3,300 square feet of office space in Tokyo and in January 2004, began leasing approximately 1,600 square feet of office space in Singapore. These facilities are used by local sales, marketing and field service personnel.

Item 3. ***Legal Proceedings.***

Termination-of-Employment Lawsuit

In March 2001, a complaint seeking damages of an unspecified amount was filed against us by a former employee in the Superior Court of the State of California in connection with the employee's termination of employment with Illumina. In July 2002 a California Superior Court judgment was rendered against the Company and we recorded a $7.7 million charge in our financial results for the second quarter of 2002 to cover total damages and remaining expenses. We appealed the decision, and in December 2004, the Fourth Appellate District Court of Appeal, in San Diego, California, reduced the amount of the award. We recorded interest expense on the $7.7 million during the appeal based on the statutory rate. As a result of the revised judgment, we reduced the $9.2 million liability on our balance sheet to $5.9 million and recorded a gain of $3.3 million as a litigation judgment in the fourth quarter of 2004.

Litigation with Applera Corporation's Applied Biosystems Group

In December 2002, Applied Biosystems initiated a patent infringement suit and sought to compel arbitration of an alleged breach of the joint development agreement. In December 2002, we filed a suit alleging breach of contract, breach of the implied covenant of good faith and fair dealing, unfair competition and other allegations against Applied Biosystems in San Diego Superior Court, and moved to prevent the arbitration of our joint development agreement sought by Applied Biosystems. In January 2004, we notified Applied Biosystems that we were terminating the joint development agreement.

In August 2004, we and Applera entered into a settlement and cross-license agreement. Under the terms of the agreement, we paid Applera a one-time payment of $8.5 million. The settlement agreement also provided for an exchange of royalty-free cross-licenses to certain intellectual property rights, termination of the joint development agreement, dismissal of the federal patent infringement action brought by Applied Biosystems, termination of the arbitration proceeding, and dismissal of our state court action against Applied Biosystems.

Our financial statements included a $10.0 million advance payment from Applied Biosystems that would have been deducted from the profits otherwise payable to us from Applied Biosystems. As a result of the settlement agreement, we removed this $10.0 million liability from our balance sheet, made a payment of $8.5 million to Applera and recorded a gain of $1.5 million as a litigation settlement.

Affymetrix Litigation

In July 2004, Affymetrix filed a complaint in the U.S. District Court for the District of Delaware alleging that certain of our products infringe six Affymetrix patents. The suit seeks an unspecified amount of monetary damages and a judgment enjoining the sale of products, if any, that are determined to be infringing these patents. In September 2004, we filed our answer and counterclaims to Affymetrix' complaint, seeking declaratory judgments from the court that we do not infringe the Affymetrix patents and that such patents are invalid, and filed counterclaims against Affymetrix for unfair competition and interference with actual and prospective economic advantage. We believe we have meritorious defenses against each of the infringement claims alleged by Affymetrix and intend to vigorously defend ourselves against this suit. However, we cannot be sure we will prevail in this matter. Any unfavorable determination, and in particular, any significant cash amounts required to be paid by us or prohibition of the sale of our products and services, could result in a material adverse effect on our business, financial condition and results of operations. While the parties have pending motions before the court, no trial date has yet been set for this case.

Item 4. ***Submission of Matters to a Vote of Security Holders.***

No matters were submitted to a vote of security holders during the fourth quarter of 2004.

PART II

Item 5. ***Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.***

Our common stock has been quoted on the Nasdaq National Market under the symbol ''ILMN'' since July 28, 2000. Prior to that time, there was no public market for our common stock. The following table sets forth, for the periods indicated, the quarterly high and low sales prices per share of the common stock as reported on the Nasdaq National Market. Our present policy is to retain earnings, if any, to finance future growth. We have never paid cash dividends and have no present intention to pay cash dividends in the foreseeable future.

	2003	
	High	Low
First Quarter	$4.01	$1.71
Second Quarter	4.25	1.75
Third Quarter	6.00	2.72
Fourth Quarter	9.00	5.09
	2004	
	High	**Low**
First Quarter	$10.24	$6.50
Second Quarter	8.88	6.07
Third Quarter	7.22	4.23
Fourth Quarter	9.65	6.16

At January 31, 2005, there were approximately 156 stockholders of record and the closing price per share of our common stock, as reported on the Nasdaq National Market on such date, was $9.69.

Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

We currently have no plans or programs to repurchase shares of our stock. However, in September 2004, we repurchased shares of unvested stock in connection with the termination of an employee as set forth below.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
September 1 to September 30, 2004	44,428	$0.28	N/A	N/A

Use of Proceeds

On July 27, 2000, we commenced our initial public offering pursuant to a Registration Statement on Form S-1 (File No. 333-33922) resulting in net offering proceeds of $101.3 million. We will continue to use proceeds from our initial public offering to fund operations. Through January 2, 2005, we have used approximately $19.5 million to purchase property, plant and equipment and approximately $44.4 million to fund general operating expenses. The remaining balance is invested in a variety of interest-bearing instruments including U.S. Treasury securities, corporate debt securities and money market accounts.

Item 6. ***Selected Financial Data.***

The following selected historical consolidated financial data have been derived from our audited consolidated financial statements. The balance sheet data as of January 2, 2005 and December 28, 2003 and statements of operations data for each of the three years in the period ended January 2, 2005 are derived from audited consolidated financial statements included in this Form 10-K. The balance sheet data as of December 29, 2002, December 30, 2001 and December 31, 2000 and statements of operations data for each of the two years in the period ended December 30, 2001 are derived from our audited consolidated financial statements that are not included in this report. You should read this table in conjunction with Item 7, ''Management's Discussion and Analysis of Financial Condition and Results of Operations,'' and Item 8, ''Financial Statements and Supplementary Data.''

Statements of Operations Data

	Year Ended January 2, 2005	Year Ended December 28, 2003	Year Ended December 29, 2002	Year Ended December 30, 2001	Year Ended December 31, 2000
		(In thousands, except per share data)			
Revenue:					
Product revenue	$40,497	$ 18,378	$ 4,103	$ 897	$ 42
Service revenue	8,075	6,496	3,305	99	—
Research revenue	2,011	3,161	2,632	1,490	1,267
Total revenue	50,583	28,035	10,040	2,486	1,309
Costs and expenses:					
Cost of product revenue	11,572	7,437	1,815	489	—
Cost of service revenue	1,687	2,600	1,721	68	—
Research and development	21,114	22,511	26,848	20,735	13,554
Selling, general and administrative	25,080	18,899	9,099	5,663	4,193
Amortization of deferred compensation and other non-cash compensation charges	844	2,454	4,360	5,850	6,797
Litigation judgment (settlement), net	(4,201)	756	8,052	—	—
Total costs and expenses	56,096	54,657	51,895	32,805	24,544
Loss from operations	(5,513)	(26,622)	(41,855)	(30,319)	(23,235)
Interest income	941	1,821	3,805	6,198	4,722
Interest and other expense	(1,653)	(2,262)	(2,281)	(702)	(93)
Net loss	$ (6,225)	$(27,063)	$(40,331)	$(24,823)	$(18,606)
Net loss per share, basic and diluted	$ (0.17)	$ (0.85)	$ (1.31)	$ (0.83)	$ (1.37)
Shares used in calculating net loss per share, basic and diluted	35,845	31,925	30,890	29,748	13,557

Balance Sheet Data

	January 2, 2005	December 28, 2003	December 29, 2002	December 30, 2001	December 31, 2000
			(In thousands)		
Cash, cash equivalents and current restricted cash and investments	$ 66,994	$ 32,882	$66,294	$93,786	$118,719
Working capital	64,643	32,229	58,522	91,452	126,260
Total assets	94,907	99,234	121,906	122,465	132,793
Long-term debt obligations	—	24,999	25,620	590	887
Accumulated deficit	(123,712)	(117,487)	(90,424)	(50,093)	(25,270)
Total stockholders' equity	72,262	47,388	71,744	106,791	124,100

See Note 1 of Notes to Consolidated Financial Statements for an explanation of the determination of the number of shares used to compute basic and diluted net loss per share.

Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operation.***

The following discussion and analysis should be read with ''Selected Financial Data'' and our consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K. The discussion and analysis in this Annual Report on Form 10-K may contain forward-looking statements that involve risks and uncertainties, such as statements of our plans, objectives, expectations and intentions. The cautionary statements made in this Annual Report on Form 10-K should be read as applying to all related forward-looking statements wherever they appear in this Annual Report on Form 10-K. Our actual results could differ materially from those discussed here. Factors that could cause or contribute to these differences include those discussed in ''Factors Affecting Operating Results'' below as well as those discussed elsewhere.

Overview

Illumina, Inc. was incorporated in April 1998. We develop and market next-generation tools for the large-scale analysis of genetic variation and function. Understanding genetic variation and function is critical to the development of personalized medicine, a key goal of genomics. Using our technologies, we have developed a comprehensive line of products that are designed to provide the throughput, cost effectiveness and flexibility necessary to enable researchers in the life sciences and pharmaceutical industries to perform the billions of tests necessary to extract medically valuable information from advances in genomics. This information is expected to correlate genetic variation and gene function with particular disease states, enhancing drug discovery, allowing diseases to be detected earlier and more specifically, and permitting better choices of drugs for individual patients.

In 2001, we began commercial sale of short pieces of DNA, or oligos, manufactured using our proprietary Oligator technology. We believe our Oligator technology is more cost effective than competing technologies, which has allowed us to market our oligonucleotides under a price leadership strategy while still achieving attractive gross margins. In 2001, we also initiated our SNP genotyping services product line. As a result of the increasing market acceptance of our high throughput, low cost BeadArray technology, we have entered into genotyping services contracts with many leading genotyping centers, and have been awarded $9.1 million from the National Institutes of Health to play a major role in the first phase of the International HapMap Project.

Our production-scale BeadLab is based on the system we developed that has been operational in our genotyping service product line since 2001. In addition to our Sentrix Array Matrices, it includes the BeadArray Reader, a proprietary scanner that uses a laser to read the results of experiments captured on our arrays, as well as the GoldenGate SNP genotyping assay which can analyze up to 1536 SNPs per DNA sample. This system is being marketed to a small number of high throughput genotyping users. As of January 2, 2005, we have installed and recorded revenue for nine BeadLabs.

In 2003, we announced the launch of several new products, including 1) a new array format, the Sentrix BeadChip, which significantly expands market opportunities for our BeadArray technology and provides increased experimental flexibility for life science researchers; 2) a gene expression product line on both the Sentrix Array Matrix and the Sentrix BeadChip that allows researchers to analyze a focused set of genes across eight to 96 samples on a single array; and 3) a benchtop SNP genotyping and gene expression system, the BeadStation, for performing moderate-scale genotyping and gene expression using our technology. The BeadStation includes our BeadArray Reader, analysis software and assay reagents and is designed to match the throughput requirements and variable automation needs of individual research groups and core labs. Sales of these products began in the first quarter of 2004 and, as of January 2, 2005, we have shipped 42 BeadStations.

In 2004, we announced the launch of new Sentrix BeadChips for whole-genome gene expression and whole-genome genotyping. The whole-genome gene expression BeadChips are designed to enable high-performance, cost-effective, whole-genome expression profiling of multiple samples on a single chip, resulting in a dramatic reduction in cost of whole-genome expression analysis while allowing researchers to expand the scale and reproducibility of large-scale biological experimentation. The whole-genome genotyping BeadChip can be scaled to unlimited levels of multiplexing without compromising data quality and will provide scientists the ability to query hundreds of thousands of SNPs in parallel. In 2004, we also announced two new versions of the Sentrix Array Matrix designed for researchers who want to take advantage of our technology, but whose projects require fewer SNPs per sample than the number utilized on our standard 1536-plex array products.

In late 2004, we announced a strategic collaboration with Invitrogen Corporation to synthesize and distribute oligos. Under the agreement, we intend to expand our Oligator DNA synthesis technology to include both plate and tube based capability and Invitrogen will be responsible for sales, marketing and technical support. Profits from sales of collaboration products will be divided equally between the two companies.

In early 2005, we expanded our gene expression portfolio by announcing the launch of a new assay, DASL, for generating gene expression profiles from RNA samples including those containing partially degraded RNAs. We also announced a standard DASL cancer panel. Prior to our DASL assay, degraded RNA samples have been reliably assayed only with expensive, low-multiplex approaches.

In February 2005, we signed a definitive agreement and plan of merger with CyVera Corporation, a privately-held Connecticut-based company, pursuant to which CyVera will become a wholly-owned subsidiary of Illumina. CyVera's digital-microbead platform is highly complementary to our portfolio of products and services and upon closing of the transaction, will become an integral part of our BeadArray technology. The acquisition is expected to provide us with a comprehensive approach to bead-based assays for biomarker R&D and in-vitro and molecular diagnostic opportunities, including those that require low-complexity as well as high-complexity testing. The aggregate consideration for the transaction is $17.5 million, consisting of approximately 1.5 million shares of Illumina common stock and the payment of approximately $2.3 million of CyVera's liabilities at the closing. The closing is subject to customary closing conditions and is expected to occur by the end of March 2005. We expect the first products based on CyVera's technology to be available in the second half in 2006.

We are seeking to expand our customer base for our BeadArray technology; however, we can give no assurance that our sales efforts will continue to be successful.

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Our revenues are subject to fluctuations due to the timing of sales of high-value products and service projects, the impact of seasonal spending patterns, the timing and amount of government grant funding programs, the timing and size of research projects our customers perform, changes in overall spending levels in the life science industry and other unpredictable factors that may affect our customer ordering patterns. Approximately 30% of our revenues for the year 2004 resulted from transactions that were funded under the International HapMap Project. We currently expect that most of the activities under this grant involving the Company and its customers will be completed in early 2005. We expect that the planned commercial launch of our whole genome genotyping and gene expression arrays, combined with the continued expansion of our existing product lines, will offset the loss of revenues funded by the HapMap grant and will drive future revenue growth. However, any significant delays in the commercial launch of these new products, unfavorable sales trends in our existing product lines, or impacts from the other factors mentioned above, could adversely affect our revenue growth in 2005 or cause a sequential decline in quarterly revenues. Due to the possibility of fluctuations in our revenue and net income or loss, we believe quarterly comparisons of our operating results are not a good indication of our future performance.

We have incurred substantial operating losses since our inception. As of January 2, 2005, our accumulated deficit was $123.7 million, and total stockholders' equity was $72.3 million. These losses have principally occurred as a result of the substantial resources required for the research, development and manufacturing scale up effort required to commercialize our products and services, as well as charges of $5.9 million related to a termination-of-employment lawsuit. We expect to continue to incur substantial costs for research, development and manufacturing scale up activities over the next several years. We will also need to significantly increase our selling, general and administrative costs as we build up our sales and marketing infrastructure to expand and support the sale of systems, other products and services. As a result of the expected increase in expenses, we will need to increase revenue significantly to achieve profitability.

Critical Accounting Estimates

General

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of financial statements requires that management make estimates, assumptions and judgments with respect to the application of accounting policies that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosures of contingent assets and liabilities. Actual results could differ from those estimates.

Our significant accounting policies are described in Note 1 to our consolidated financial statements. Certain accounting policies are deemed critical if 1) they require an accounting estimate to be made based on assumptions that were highly uncertain at the time the estimate was made, and 2) changes in the estimate that are reasonably likely to occur, or different estimates that we reasonably could have used, would have a material effect on our consolidated financial statements.

Management has discussed the development and selection of these critical accounting estimates with the Audit Committee of our Board of Directors, and the Audit Committee has reviewed the disclosure. In addition, there are other items within our financial statements that require estimation, but are not deemed critical as defined above.

We believe the following critical accounting policies reflect our more significant estimates and assumptions used in the preparation of the consolidated financial statements.

Revenue Recognition

Our sales are primarily from two sources: product revenue and services revenue. Product revenue consists of sales of oligonucleotides, arrays, assay reagents, genotyping systems and gene expression systems. Services revenue consists of revenue received for performing genotyping services and extended warranty sales. As described below, significant judgments and estimates must be made and used in connection with the revenue recognized in any accounting period.

We recognize revenue in accordance with the guidelines established by SEC Staff Accounting Bulletin (SAB) No. 104. Under SAB 104, revenue cannot be recorded until all of the following criteria have been met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; the seller's price to the buyer is fixed or determinable; and collectibility is reasonably assured.

Product delivery generally occurs when product is delivered to a common carrier or when the customer receives the product, depending on the nature of the arrangement and provided no significant obligations remain. BeadLabs are considered delivered upon shipment, installation, training and fulfillment of contractually defined acceptance criteria and we need to determine the completion of each of these deliverables before revenue can be recognized. Genotyping services are considered delivered generally at the time the genotyping data is delivered to the customer. We have been awarded $9.1 million from the National Institutes of Health to perform genotyping services in connection with the first phase of the International HapMap Project. A portion of the services related to this project is considered delivered at the time the related costs are incurred while the remainder is considered delivered upon the delivery of genotyping data.

In order to assess whether the price is fixed and determinable, we ensure there are no refund rights. If payment terms are based on future performance, we defer revenue recognition until the price becomes fixed and determinable. We assess collectibility based on a number of factors, including past transaction history with the customer and the creditworthiness of the customer. If we determine that collection of a payment is not reasonably assured, we defer revenue recognition until the time collection becomes reasonably assured, which is generally upon receipt of payment. Changes in judgments and estimates made in determining whether the criteria of SAB 104 have been met might result in a change in the timing or amount of revenue recognized.

Sales of our genotyping and gene expression systems include a standard one year warranty. We also sell separately priced maintenance (extended warranty) contracts, which are generally for one or two years, upon the expiration of the initial warranty. Revenue for extended warranty sales is recognized ratably over the term of the extended warranty. Reserves are provided for estimated product warranty expenses at the time the associated revenue is recognized. If we were to experience an increase in warranty claims or if costs of servicing our warrantied products were greater than our estimates, our gross margins could be adversely affected.

While the majority of our sales agreements contain standard terms and conditions, we do enter into agreements that contain multiple elements or non-standard terms and conditions. Emerging Issues Task Force No. 00-21 (''EITF 00-21''), ''Revenue Arrangements with Multiple Deliverables'', provides guidance on accounting for arrangements that involve the delivery or performance of multiple products, services, or rights to use assets within contractually binding arrangements. Significant contract interpretation is sometimes required to determine the appropriate accounting, including whether the deliverables specified in a multiple element arrangement should be treated as separate units of accounting for revenue recognition purposes, and if so, how the price should be allocated among the deliverable elements, when to recognize revenue for each element, and the period over which revenue should be recognized. We recognize revenue for delivered elements only when we believe the fair values of undelivered elements are known and there are no uncertainties regarding customer acceptance.

A third source of revenue, research revenue, consists of amounts earned under research agreements with government grants, which is recognized in the period during which the related costs are incurred. All revenues are recorded net of any applicable allowances for returns or discounts.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We evaluate the collectibility of our accounts receivable based on a combination of factors. We regularly analyze customer accounts, review the length of time receivables are outstanding and review historical loss rates. If the financial condition of our customers were to deteriorate, additional allowances could be required.

Inventory Valuation

We record adjustments to inventory for potentially excess, obsolete or impaired goods in order to state inventory at net realizable value. We must make assumptions about future demand, market conditions and the release of new products that will supercede old ones. We regularly review inventory for excess and obsolete products and components, taking into account product life cycle and development plans, product expiration and quality issues, historical experience and our current inventory levels. If actual market conditions are less favorable than anticipated, additional inventory adjustments could be required.

Contingencies

We are subject to legal proceedings primarily related to intellectual property matters. Based on the information available at the balance sheet dates and through consultation with our legal counsel, we assess the likelihood of any adverse judgments or outcomes of these matters, as well as the potential ranges of probable losses. If losses are probable and reasonably estimable, we will record a reserve in accordance with Statement of Financial Accounting Standards No. 5, ''Accounting for Contingencies''. Currently we have no such reserves recorded. Any reserves recorded in the future may change due to new developments in each matter.

Recently Issued Accounting Standards

In December 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123 (revised 2004), *Share Based Payment* (SFAS 123R), which is a revision of FASB Statement No. 123, *Accounting for Stock-Based Compensation* (SFAS 123). This statement supercedes APB Opinion 25, *Accounting for Stock Issued to Employees* (APB 25), and amends FASB Statement No. 95, *Statement of Cash Flows.* Generally, the approach in SFAS 123R is similar to the approach described in SFAS 123; however, SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. We currently utilize the Black-Scholes model to measure the fair value of stock options granted to employees under the pro forma disclosure requirements of FAS 123. While SFAS 123R permits companies to continue to use such model, it also permits the use of a ''lattice'' model. We have not yet determined which model we will use to measure the fair value of employee stock options under the adoption for SFAS 123R. The new standard is effective for periods beginning after June 15, 2005, and we expect to adopt SFAS 123R on July 4, 2005.

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We currently account for share-based payments to employees using APB 25's intrinsic value method and, as such, recognize no compensation cost for employee stock options granted with exercise prices equal to or greater than the fair value of our common stock on the date of the grant. Accordingly, the adoption of SFAS 123R's fair value method is expected to result in significant non-cash charges which will increase our reported operating expenses; however, it will have no impact on our cash flows. The impact of adoption of SFAS 123R cannot be predicted at this time because it will depend on the level of share-based payments granted in the future and the model we choose to use. However, had we adopted SFAS 123R in prior periods, the impact of that standard would have approximated the impact of SFAS 123 as described in the disclosure of pro forma net loss under Stock-Based Compensation in Note 1 to our consolidated financial statements.

Results of Operations

To enhance comparability, the following table sets forth audited Consolidated Statements of Operations data for the years ended January 2, 2005, December 28, 2003 and December 29, 2002 stated as a percentage of total revenue.

	Year Ended January 2, 2005	Year Ended December 28, 2003	Year Ended December 29, 2002
Revenue			
Product revenue	80%	66%	41%
Service revenue	16	23	33
Research revenue	4	11	26
Total revenue	100	100	100
Costs and expenses:			
Cost of product revenue	23	27	18
Cost of service revenue	3	9	17
Research and development	41	80	267
Selling, general and administrative	50	67	91
Amortization of deferred compensation and other non-cash compensation charges	2	9	44
Litigation judgment (settlement), net	(8)	3	80
Total costs and expenses	111	195	517
Loss from operations	(11)	(95)	(417)
Interest income	2	6	38
Interest and other expense	(3)	(8)	(23)
Net loss	(12)%	(97)%	(402)%

Comparison of Years Ended January 2, 2005 and December 28, 2003

Our fiscal year is 52 or 53 weeks ending the Sunday closest to December 31, with quarters of 13 or 14 weeks ending the Sunday closest to March 31, June 30, and September 30. The years ended January 2, 2005 and December 28, 2003 are 53 and 52 weeks, respectively.

Revenue

	Year Ended January 2, 2005	Year Ended December 28, 2003	Change
	(In thousands)		
Product revenue	$40,497	$18,378	120%
Service revenue	8,075	6,496	24
Research revenue	2,011	3,161	(36)
Total revenue	$50,583	$28,035	80%

Revenue for the years ended January 2, 2005 and December 28, 2003 was $50.6 million and $28.0 million, respectively. Product revenue increased to $40.5 million in 2004 from $18.4 million in 2003. The increase resulted almost entirely from sales of consumables used on our BeadLabs and BeadStations and sales of our benchtop BeadStations, offset by fewer sales of our production-scale BeadLabs. In 2003, we had no sales of BeadStations and we only began selling consumable products in May 2003.

Service revenue increased to $8.1 million in 2004 from $6.5 million in 2003. Substantially all of this increase relates to SNP genotyping services performed for the International HapMap Project. We are the recipient of a grant from the National Institutes of Health covering our participation in the first phase of the International HapMap Project, which is a $100 million internationally funded successor project to the Human Genome Project that will help identify a map of genetic variations that may be used to perform disease-related research. We could receive up to $9.1 million of funding for this project which covers basic research activities, the development of SNP assays and the genotyping to be performed on those assays. We have recognized revenue under this grant of $8.4 million and, as of the end of 2004, we had approximately $0.7 million of funding remaining related to this project which is expected to be received in early 2005.

Government grants and other research funding decreased to $2.0 million for the year ended January 2, 2005 from $3.2 million for the year ended December 28, 2003 primarily due to a decrease in internal research spending for our grant from the National Institutes of Health covering our participation in the International HapMap Project. We expect government grants to decline as a percentage of total revenues.

To expand revenue in the future, we have recently launched a series of new products that we expect to begin selling in 2005. These include a new assay, DASL, for generating gene expression profiles from RNA samples including those containing partially degraded RNAs, two multi-sample whole genome gene expression BeadChips and a whole genome genotyping BeadChip. Our BeadLabs address a limited number of potential high throughput genotyping customers, and sales of these systems may decline in 2005 versus 2004. In addition, approximately 30% of our revenues for the year 2004 resulted from transactions that were funded under the International HapMap Project. We expect that most of the activities under this grant involving us and our customers will be completed in early 2005 and that revenue related to this project will decline in 2005 versus 2004. We expect the sales of the new products mentioned above, combined with increased sales of BeadStations and revenue generated from our collaboration with Invitrogen, to offset such declines and for overall revenues to increase above 2004 levels; however, we cannot assure you that we will be successful in these sales efforts.

Cost of Product and Service Revenue

	Year Ended January 2, 2005	Year Ended December 28, 2003	Change
	(In thousands)		
Cost of product revenue	$11,572	$7,437	56%
Cost of service revenue	$ 1,687	$2,600	(35)%

Cost of product and service revenue represents manufacturing costs incurred in the production process, including component materials, assembly labor and overhead, packaging and delivery cost. Costs related to research revenue is included in research and development expense.

Cost of product revenue increased to $11.6 million for the year ended January 2, 2005 from $7.4 million for the year ended December 28, 2003. Substantially all of this increase was driven by the sales of our BeadStations and consumables. Gross margin on product revenue increased to 71% in the year ended January 2, 2005, from 60% for the year ended December 28, 2003, due primarily to increased sales of higher margin consumable products, as well as efficiencies gained in oligo manufacturing.

Cost of service revenue decreased to $1.7 million for the year ended January 2, 2005 from $2.6 million for the year ended December 28, 2003 and gross margin on service revenue increased to 79% in the year ended January 2, 2005, from 60% for the year ended December 28, 2003. This decrease in cost and increase in gross margin is due primarily to efficiencies gained in SNP genotyping services, as well as lower costs of oligos used in the genotyping services process.

We expect product mix will continue to affect our future gross margins, and any increase in the proportion of consumable sales to total sales will continue to favorably affect our gross margins. However, we expect our market will become increasingly price competitive, and over the longer term, our margins may decline.

Research and Development Expenses

	Year Ended January 2, 2005	Year Ended December 28, 2003	Change
	(In thousands)		
Research and development	$21,114	$22,511	(6)%

Our research and development expenses consist primarily of salaries and other personnel-related expenses, laboratory supplies and other expenses related to the design, development, testing and enhancement of our products. We expense our research and development expenses as they are incurred. Research and development expenses decreased $1.4 million to $21.1 million for the year ended January 2, 2005 from $22.5 million for the year ended December 28, 2003. Approximately $0.9 million of the decrease is attributable to personnel related expenses and related lab supplies and the majority of the remaining $0.5 million is attributable to lower manufacturing-related resources needed to support research efforts and a decrease in depreciation expense.

During the year ended January 2, 2005, the cost of BeadArray technology research activities decreased $0.4 million as compared to the year ended December 28, 2003. The decrease is primarily the result of completing the development of several products that were commercially launched in late 2003 and 2004 such as our BeadStation and focused gene set array products.

Research to support our Oligator technology platform decreased $1.0 million in the year ended January 2, 2005 as compared to the year ended December 28, 2003. In the second quarter of 2003, we implemented additional Oligator manufacturing and software enhancements to expand capacity, increase throughput, and further reduce operating costs. In addition, as we increase our product sales, a smaller portion of our manufacturing resources are now used to support research efforts as compared to the same periods in 2003.

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We expect that our research and development expenses will increase in the near term due to the allocation to research and development of rent expense from the new lease on our building and increased spending levels for new product development. In addition, we expect an increase in research and development expenses in connection with our proposed acquisition of CyVera Corporation, which is expected to close in March 2005.

Stock based compensation related to research and development employees and consultants was $0.3 million for the year ended January 2, 2005 as compared to $1.3 million for the year ended December 28, 2003.

Selling, General and Administrative Expenses

	Year Ended January 2, 2005	Year Ended December 28, 2003	Change
	(In thousands)		
Selling, general and administrative	$25,080	$18,899	33%

Our selling, general and administrative expenses consist primarily of personnel costs for sales and marketing, finance, human resources, business development and general management, as well as professional fees, such as expenses for legal and accounting services. Selling, general and administrative expenses increased $6.2 million to $25.1 million for the year ended January 2, 2005 from $18.9 million for the year ended December 28, 2003. Approximately $5.2 million of the increase is due to higher sales and marketing costs, of which $4.1 million is attributable to personnel related expenses and $0.7 million is attributable to an increase in facility related expenses. Approximately $1.0 million of the increase in selling, general and administrative expenses is related to general and administrative costs, of which $0.4 million is related to personnel related expenses, and the majority of the remaining $0.6 million is attributable to expenses associated with Sarbanes-Oxley compliance and our international expansion. We expect that our selling, general and administrative expenses will accelerate as we expand our staff, add sales and marketing infrastructure, incur additional costs to support the commercialization and support of an increasing number of products, and due to the allocation to selling, general and administrative of rent expense from the new lease on our building.

Stock based compensation related to selling, general and administrative employees, directors and consultants was $0.5 million for the year ended January 2, 2005 as compared to $1.2 million for the year ended December 28, 2003.

Amortization of Deferred Compensation and Other Stock-Based Compensation Charges

	Year Ended January 2, 2005	Year Ended December 28, 2003	Change
	(In thousands)		
Amortization of deferred compensation and other stock-based compensation charges	$844	$2,454	(66)%

From our inception through July 27, 2000, in connection with the grant of certain stock options and sales of restricted stock to employees, founders and directors, we have recorded deferred stock compensation totaling $17.6 million, representing the difference between the exercise or purchase price and the fair value of our common stock as estimated for financial reporting purposes on the date such stock options were granted or such restricted stock was sold. We recorded this amount as a component of stockholders' equity and amortize the amount as a charge to operations over the vesting period of the restricted stock and options.

We recognize compensation expense over the vesting period for employees, founders and directors, using an accelerated amortization methodology in accordance with Financial Accounting Standards Board Interpretation No. 28. For consultants, deferred compensation is recorded at the fair value for the options granted or stock sold in accordance with Statement of Financial Accounting Standards No. 123 and is periodically re-measured and expensed in accordance with Emerging Issues Task Force No. 96-18.

We recorded amortization of deferred compensation of $0.8 million and $2.5 million for the years ended January 2, 2005 and December 28, 2003, respectively. We expect expenses related to stock based compensation to increase significantly beginning in the third quarter of 2005 as we implement the requirements of SFAS 123R. Although the adoption of SFAS 123R's fair value method is expected to result in a significant increase in our reported operating expenses, it will have no impact on our cash flows. SFAS 123R is discussed further in ''Recently Issued Accounting Standards'' above and Note 1 to our consolidated financial statements.

Litigation Judgment (Settlement), net

	Year Ended January 2, 2005	Year Ended December 28, 2003	Change
	(In thousands)		
Litigation judgment (settlement), net	$(4,201)	$756	(656)%

A $7.7 million charge was recorded in June 2002 to cover total damages and estimated expenses related to a jury verdict in a termination-of-employment lawsuit. We appealed the decision, and in December 2004, the Fourth Appellate District Court of Appeal, in San Diego, California, reduced the amount of the award. During the appeal process, the court required us to incur interest charges on the judgment amount at statutory rates until the case was resolved. For the years ended January 2, 2005 and December 28, 2003 we recorded $0.6 million and $0.8 million, respectively, as litigation expense for such interest charges. As a result of the revised judgment, we reduced the $9.2 million liability on our balance sheet to $5.9 million and recorded a gain of $3.3 million as a litigation judgment in the fourth quarter of 2004.

In 1999, we entered into a joint development agreement with Applied Biosystems Group, an operating group of Applera Corporation, under which the companies agreed to jointly develop a SNP genotyping system that would combine our BeadArray technology with Applied Biosystems' assay chemistry and scanner technology. In conjunction with the agreement, Applied Biosystems agreed to provide us with non-refundable research and development support of $10.0 million, all of which was provided by December 2001. As of December 28, 2003, this amount was recorded on our balance sheet as an advance payment from a former collaborator. In December 2002, Applied Biosystems initiated a patent infringement suit and sought to compel arbitration of an alleged breach of the joint development agreement. We initiated a suit in state court seeking to enjoin the arbitration and alleged that Applied Biosystems had breached the joint development agreement. In August 2004, we entered into a settlement and cross-license agreement with Applera. As a result of the settlement, we removed the $10.0 million liability from our balance sheet, made a payment of $8.5 million to Applera and recorded a gain of $1.5 million as a litigation settlement.

Interest Income

	Year Ended January 2, 2005	Year Ended December 28, 2003	Change
	(In thousands)		
Interest income	$941	$1,821	(48%)

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Interest income on our cash and cash equivalents and investments was $0.9 million and $1.8 million for the years ended January 2, 2005 and December 28, 2003, respectively. The decrease is due to lower effective interest rates, partially offset by higher average cash balances.

Interest and Other Expense

	Year Ended January 2, 2005	Year Ended December 28, 2003	Change
	(In thousands)		
Interest and other expense	$1,653	$2,262	(27%)

Interest and other expense primarily consists of interest expense, which was $1.4 million and $2.2 million for the years ended January 2, 2005 and December 28, 2003, respectively. Interest expense relates primarily to a $26.0 million fixed rate loan which was paid off in August 2004 in connection with the sale of our San Diego facilities.

In the year ended January 2, 2005, we recorded approximately $150,000 in losses due to foreign currency transactions as compared to approximately $5,000 in gains, for the year ended December 28, 2003. Estimated foreign income taxes were approximately $135,000 and $45,000 for the years ended January 2, 2005 and December 28, 2003, respectively.

Provision for Income Taxes

We incurred net operating losses for the years ended January 2, 2005 and December 28, 2003, and accordingly, we did not pay any U.S. federal or state income taxes. We have recorded a valuation allowance for the full amount of the resulting net deferred tax asset, as the future realization of the tax benefit is uncertain. As of January 2, 2005, we had net operating loss carryforwards for federal and state tax purposes of approximately $86.5 million and $39.1 million, respectively, which begin to expire in 2018, unless previously utilized.

We also had U.S. federal and state research and development tax credit carryforwards of approximately $3.1 million and $3.0 million, respectively, which begin to expire in 2018, unless previously utilized.

Our utilization of the net operating losses and credits may be subject to substantial annual limitations pursuant to Section 382 and 383 of the Internal Revenue Code, and similar state provisions, as a result of changes in our ownership structure. These annual limitations may result in the expiration of net operating losses and credits prior to utilization.

Comparison of Years Ended December 28, 2003 and December 29, 2002

Revenue

	Year Ended December 28, 2003	Year Ended December 29, 2002	Change
	(In thousands)		
Product revenue	$18,378	$ 4,103	348%
Service revenue	6,496	3,305	97
Research revenue	3,161	2,632	20
Total revenue	$28,035	$10,040	179%

Revenue for the years ended December 28, 2003 and December 29, 2002 was $28.0 million and $10.0 million, respectively. Product revenue increased to $18.4 million in 2003 from $4.1 million in 2002. The increase resulted almost entirely from the first sales of our BeadLab, with six systems sold in the year ended December 28, 2003, along with sales of consumables that are used on these systems. Prior to 2003 we had no sales of BeadLabs or consumable products. SNP genotyping service revenue increased to $6.5 million in 2003 from $3.3 million in 2002. Substantially all of this increase relates to genotyping services performed for the International HapMap Project, which commenced in 2003. Government grants and other research funding increased to $3.2 million for the year ended December 28, 2003 from $2.6 million for the year ended December 29, 2002 due to an increase in the number of grants received.

Cost of Product and Service Revenue

	Year Ended December 28, 2003	Year Ended December 29, 2002	Change
	(In thousands)		
Cost of product revenue	$7,437	$1,815	310%
Cost of service revenue	$2,600	$1,721	51%

Cost of product revenue increased to $7.4 million the year ended December 28, 2003 from $1.8 million for the year ended December 29, 2002. Substantially all of this increase was driven by the sales of our BeadLabs and consumables, of which we had none in 2002. Gross margin on product revenue increased to 60% in the year ended December 28, 2003, from 56% for the year ended December 29, 2002. This increase is due primarily to increased sales of higher margin products such as array matrices and assay reagents.

Cost of service revenue increased to $2.6 million the year ended December 28, 2003 from $1.7 million for the year ended December 29, 2002. Substantially all of this increase was driven by the higher level of SNP genotyping service revenue in 2003 as compared to 2002. Gross margin on service revenue increased to 60% in the year ended December 28, 2003, from 48% for the year ended December 29, 2002 due primarily to efficiencies gained in SNP genotyping services.

Research and Development

	Year Ended December 28, 2003	Year Ended December 29, 2002	Change
	(In thousands)		
Research and development	$22,511	$26,848	(16%)

Research and development expenses decreased $4.3 million to $22.5 million for the year ended December 28, 2003 from $26.8 million for the year ended December 29, 2002.

During the year ended December 28, 2003, the cost of BeadArray technology research activities decreased $3.8 million as compared to the year ended December 29, 2002. The decrease occurred primarily as a result of completing the development of new products launched in 2003. In addition, as we completed development efforts and increased our array-driven product sales, a smaller portion of our manufacturing resources was charged to research and development expense in 2003 than in 2002.

Research to support our Oligator technology platform decreased $0.5 million in the year ended December 28, 2003 as compared to the year ended December 29, 2002. This decline is primarily due to higher development expenses incurred in the first quarter of 2002 for a major upgrade of our Oligator technology, which resulted in a significant increase in our manufacturing capacity.

Stock based compensation related to research and development employees and consultants was $1.3 million for the year ended December 28, 2003 as compared to $2.4 million for the year ended December 29, 2002.

Selling, General and Administrative Expenses

	Year Ended December 28, 2003	Year Ended December 29, 2002	Change
	(In thousands)		
Selling, general and administrative	$18,899	$9,099	108%

Selling, general and administrative expenses increased $9.8 million to $18.9 million for the year ended December 28, 2003 from $9.1 million for the year ended December 29, 2002. Approximately $4.4 million of this increase is related to higher legal expenses, which is primarily due to legal proceedings regarding the disputes with Applied Biosystems. Approximately $4.1 million of the increase is due to higher sales and marketing costs, of which $3.0 million is attributable to personnel related expenses while the majority of the remaining $1.1 million is attributable to an increase in facility related expenses. During 2003, we significantly expanded our sales and marketing resources to support the direct sale of our new products, including establishing additional sales operations in Japan and Singapore.

Stock based compensation related to selling, general and administrative employees, directors and consultants was $1.2 million for the year ended December 28, 2003 as compared to $2.0 million for the year ended December 29, 2002.

Amortization of Deferred Compensation and Other Stock-Based Compensation Charges

	Year Ended December 28, 2003	Year Ended December 29, 2002	Change
	(In thousands)		
Amortization of deferred compensation and other stock-based compensation charges	$2,454	$4,360	(44%)

In connection with the grant of stock options and sale of restricted common stock to employees, founders and directors through July 27, 2000, we recorded deferred compensation of approximately $17.6 million. We recorded amortization of this deferred compensation of $2.5 million and $4.4 million for the years ended December 28, 2003 and December 29, 2002, respectively.

Litigation Judgment (Settlement), net

	Year Ended December 28, 2003	Year Ended December 29, 2002	Change
	(In thousands)		
Litigation judgment (settlement), net	$756	$8,052	(91%)

A $7.7 million charge was recorded in June 2002 to cover total damages and estimated expenses related to a jury verdict in a termination-of-employment lawsuit. We appealed the decision, and in December 2004, the Fourth Appellate District Court of Appeal, in San Diego, California, reduced the amount of the award. During the appeal process, the court required us to incur interest charges on the judgment amount at statutory rates until the case was resolved. For the years ended December 28, 2003 and December 29, 2002, we recorded $0.8 million and $0.4 million, respectively, as litigation expense for such interest charges.

Interest Income

	Year Ended December 28, 2003	Year Ended December 29, 2002	Change
	(In thousands)		
Interest income	$1,821	$3,805	(52%)

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Interest income on our cash and cash equivalents and investments was $1.8 million and $3.8 million for the years ended December 28, 2003 and December 29, 2002, respectively. The decrease is due to lower average levels of invested funds and lower effective interest rates.

Interest and Other Expense

	Year Ended December 28, 2003	Year Ended December 29, 2002	Change
	(In thousands)		
Interest and other expense	$2,262	$2,281	(1%)

Interest expense was $2.2 million and $2.3 million for the years ended December 28, 2003 and December 29, 2002, respectively. Interest expense relates primarily to a $26.0 million fixed rate loan related to the purchase of our new facility during the first quarter of 2002.

Liquidity and Capital Resources

Cashflow

	Year Ended January 2, 2005	Year Ended December 28, 2003	Year Ended December 29, 2002
		(In thousands)	
Net cash used in operating activities	$(19,574)	$(18,256)	$(25,593)
Net cash provided by (used in) investing activities	57,022	28,468	(2,641)
Net cash provided by financing activities	4,875	216	26,106
Effect of foreign currency translation	1	—	—
Net increase (decrease) in cash and cash equivalents	$ 42,324	$ 10,428	$ (2,128)

As of January 2, 2005, we had cash, cash equivalents and investments (including restricted cash and investments of $12.2 million) of approximately $67.0 million. We currently invest our funds in U.S. dollar based investment-grade corporate and government debt securities, with strong credit ratings or short maturity mutual funds providing similar financial returns.

Our operating activities used cash of $19.6 million in the year ended January 2, 2005, as compared to $18.3 million in the year ended December 28, 2003. Net cash used in operating activities in the year ended January 2, 2005 was primarily the result of a net loss from operations of $6.2 million, the payment of an $8.5 million legal settlement, as described under ''Litigation Judgment (Settlement), net'' above, a $7.2 million increase in accounts receivable due to increased sales and a $2.0 million increase in other assets primarily for the security deposit for the building lease, reduced by non-cash charges of $4.0 million for depreciation and amortization. Net cash used in operating activities in the year ended December 28, 2003 was primarily the result of a net loss from operations of $27.1 million reduced by non-cash charges of $4.5 million for depreciation and amortization and non-cash charges of $2.5 million for amortization of deferred stock compensation.

Our investing activities provided cash of $57.0 million in the year ended January 2, 2005 as compared to $28.5 million in the year ended December 28, 2003. Cash provided in investing activities in the year ended January 2, 2005 was due to $40.7 million in proceeds from the sale of our land and buildings, net of fees, and $19.8 million from the sale or maturity of investment securities, net of purchases of investment securities used to provide operating funds for our business, reduced by $3.4 million for the purchase of property and equipment. Cash provided in investing activities in the year ended December 28, 2003 was due primarily to $30.5 million from the sale or maturity of investment securities, net of purchases of investment securities used to provide operating funds for our business, reduced by $2.0 million for the purchase of property and equipment.

Our financing activities provided $4.9 million in the year ended January 2, 2005 as compared to $0.2 million in the year ended December 28, 2003. Cash provided in financing activities in the year ended January 2, 2005 was due primarily to proceeds from the issuance of common stock, including $28.7 million of net proceeds from the sale of approximately 4.6 million shares of our common stock in May 2004, offset by the $25.2 million in long term debt we paid off in connection with the sale of our land and buildings. Cash provided in financing activities in the year ended December 28, 2003 was primarily due to proceeds from the issuance of common stock reduced by payments on long-term debt and equipment financings.

In June 2002, we recorded a $7.7 million charge to cover total damages and estimated expenses related to a termination-of-employment lawsuit. As a result of our decision to appeal the ruling, we filed a surety bond with the court in October 2002 of 1.5 times the judgment amount, or approximately $11.3 million. Under the terms of the bond, we were required to maintain a letter of credit for 90% of the bond amount to secure the bond. Further, we were required to deposit approximately $12.5 million of marketable securities as collateral for the letter of credit and accordingly, these funds were restricted from use for corporate purposes. A judgment was rendered in December 2004 and a $5.9 million payment was made in early 2005 at which time the restricted funds were released.

As of January 2, 2005, we had funding remaining under existing NIH grants of approximately $1.5 million, including $0.7 million available under the International HapMap Project. All of these amounts are expected to be paid in 2005, subject to the actual amount of activities we perform under these grants.

Based on our current operating plans, we expect that our current cash and cash equivalents, investments, revenues from sales and funding from grants will be sufficient to fund our anticipated operating needs for at least 24 months. Operating needs include the planned costs to operate our business including amounts required to fund working capital and capital expenditures. At the current time, we have no material commitments for capital expenditures. However, our future capital requirements and the adequacy of our available funds will depend on many factors, including our ability to successfully commercialize our SNP genotyping and gene expression systems and extensions to those products and to expand our oligonucleotide and SNP genotyping services product lines, scientific progress in our research and development programs, the magnitude of those programs, competing technological and market developments, the successful resolution of our legal proceedings with Affymetrix, the success of our collaboration with Invitrogen and the need to enter into collaborations with other companies or acquire other companies or technologies to enhance or complement our product and service offerings. Therefore, we may require additional funding within this 24 month time frame. In addition, we may choose to raise additional capital due to market conditions or strategic considerations, such as an acquisition, even if we believe we have sufficient funds for our current or future operating plans. Further, any additional equity financing may be dilutive to our then existing stockholders and may adversely affect their rights.

In December, 2003, we filed a shelf registration statement that would allow us to raise up to $65 million of funding through the sale of common stock in one or more transactions. In May 2004, we raised approximately $28.7 million, net of offering expenses, through the sale of our common stock under this shelf registration statement. We currently do not have plans to raise additional funds under this registration statement.

Off-Balance Sheet Arrangements and Contractual Obligations

We do not participate in any transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities (''SPEs''), which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of January 2, 2005, we are not involved in any SPE transactions.

In January 2002, we purchased two newly constructed buildings and assumed a $26.0 million, 10-year mortgage on the property at a fixed interest rate of 8.36%. In June 2004, we entered into a conditional agreement to sell our land and buildings for $42.0 million and to lease back such property for an initial term of ten years. The sale was completed in August 2004 at which time the lease was signed. After the repayment of the remaining $25.2 million debt and other related transaction expenses, we received $15.5 million in net cash proceeds. We removed the land and net book value of the buildings of $36.9 million from our balance sheet and are recording the resulting $3.7 million gain on the sale of the property over the ten year lease term in accordance with SFAS 13, *Accounting for Leases*. Under the terms of the lease, we made a $1.9 million security deposit and are paying monthly rent of $318,643 for the first year with an annual increase of 3% in each subsequent year.

We also lease office space under non-cancelable operating leases that expire at various times through January 2007. These leases contain renewal options ranging from 2 to 3 years.

As of January 2, 2005, our enforceable and legally binding contractual obligations are (in thousands):

	Payments Due by Period				
Contractual Obligation	Total	Less Than 1 Year	1 – 3 Years	3 – 5 Years	More Than 5 Years
Operating leases	$43,225	$4,251	$8,502	$8,576	$21,896
Total	$43,225	$4,251	$8,502	$8,576	$21,896

The above table does not include orders for goods and services entered into in the normal course of business that are not enforceable or legally binding.

Factors Affecting Our Operating Results

Our business is subject to various risks, including those described below. In addition to the other information included in this Form 10-K, the following issues could adversely affect our operating results or our stock price.

Litigation or other proceedings or third party claims of intellectual property infringement could require us to spend significant time and money and could prevent us from selling our products or services.

Our commercial success depends in part on our non-infringement of the patents or proprietary rights of third parties and the ability to protect our own intellectual property. While we recently settled our litigation with Applera Corporation's Applied Biosystems Group in August 2004, Affymetrix filed a complaint against us in July 2004, alleging infringement of six of its patents, and other third parties have or may assert that we are employing their proprietary technology without authorization. As we enter new markets, we expect that competitors will likely assert that our products infringe their intellectual property rights as part of a business strategy to impede our successful entry into those markets. In addition, third parties have or may obtain patents in the future and claim that use of our technologies infringes these patents. We could incur substantial costs and divert the attention of our management and technical personnel in defending ourselves against any of these claims. We may incur the same costs and diversions in enforcing our patents against others. Furthermore, parties making claims against us may be able to obtain injunctive or other relief, which effectively could block our ability to further develop, commercialize and sell products, and could result in the award of substantial damages against us. In the event of a successful claim of infringement against us, we may be required to pay damages and obtain one or more licenses from third parties, or be prohibited from selling certain products. We may not be able to obtain these licenses at a reasonable cost, or at all. In that event, we could encounter delays in product introductions while we attempt to develop alternative methods or products. Defense of any lawsuit or failure to obtain any of these licenses could prevent us from commercializing available products, and the prohibition of sale of any of our products could materially affect our ability to grow and to attain profitability.

We expect intense competition in our target markets, which could render our products obsolete, result in significant price reductions or substantially limit the volume of products that we sell. This would limit our ability to compete and achieve profitability. If we cannot continuously develop and commercialize new products, our revenues may not grow as intended.

We compete with life sciences companies that design, manufacture and market instruments for analysis of genetic variation and function and other applications using technologies such as two-dimensional electrophoresis, capillary electrophoresis, mass spectrometry, flow cytometry, microfluidics, and mechanically deposited, inkjet and photolithographic arrays. We anticipate that we will face increased competition in the future as existing companies develop new or improved products and as new companies enter the market with new technologies. The markets for our products are characterized by rapidly changing technology, evolving industry standards, changes in customer needs, emerging competition, new product introductions and strong price competition. For example, Affymetrix recently released a 100k SNP genotyping chip and has announced a 500k chip which will compete with our SNP genotyping service and product offerings and several competitors have begun selling a single chip for whole human genome expression which may compete with our gene expression product offerings. One or more of our competitors may render our technology obsolete or uneconomical. Our competitors have greater financial and personnel resources, broader product lines, a more established customer base and more experience in research and development than we have. Furthermore, the life sciences and pharmaceutical companies, which are our potential customers and strategic partners, could develop competing products. If we are unable to develop enhancements to our technology and rapidly deploy new product offerings, our business, financial condition and results of operations will suffer.

ILLUM-2045

We have generated only moderate amounts of revenue from product and service offerings to date. We expect to continue to incur net losses and we may not achieve or maintain profitability.

We have incurred net losses since our inception and expect to continue to incur net losses at least through early 2005. At January 2, 2005 our accumulated deficit was approximately $123.7 million, and we incurred a net loss of $6.2 million for the year ended January 2, 2005. The magnitude of our net losses will depend, in part, on the rate of growth, if any, of our revenue and on the level of our expenses. We expect to continue incurring significant expenses for research and development, for developing our manufacturing capabilities and for sales and marketing efforts to commercialize our products. In addition, we expect that our selling and marketing expenses will increase at a higher rate in the future as a result of the launch of new products. As a result, we expect that our operating expenses will increase significantly as we grow and, consequently, we will need to generate significant additional revenue to achieve profitability. Even if we achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis.

We have a limited history of commercial sales of systems and consumable products, and our success depends on our ability to develop commercially successful products and on market acceptance of our new and relatively unproven technologies.

We may not possess all of the resources, capability and intellectual property necessary to develop and commercialize all the products or services that may result from our technologies. Sales of our genotyping and gene expression systems only began in 2003, and some of our other technologies are in the early stages of commercialization or are still in development. You should evaluate us in light of the uncertainties and complexities affecting similarly situated companies developing tools for the life sciences and pharmaceutical industries. We must conduct a substantial amount of additional research and development before some of our products will be ready for sale and we currently have fewer resources available for research and development activities than many of our competitors. We may not be able to develop or launch new products in a timely manner, or at all, or they may not meet customer requirements or be of sufficient quality or price that enables us to compete effectively in the marketplace. Problems frequently encountered in connection with the development or early commercialization of products and services using new and relatively unproven technologies might limit our ability to develop and successfully commercialize these products and services. In addition, we may need to enter into agreements to obtain intellectual property necessary to commercialize some of our products or services.

Historically, life sciences and pharmaceutical companies have analyzed genetic variation and function using a variety of technologies. In order to be successful, our products must meet the commercial requirements of the life sciences and pharmaceutical industries as tools for the large-scale analysis of genetic variation and function.

Market acceptance will depend on many factors, including:

- our ability to demonstrate to potential customers the benefits and cost effectiveness of our products and services relative to others available in the market;
- the extent and effectiveness of our efforts to market, sell and distribute our products;
- our ability to manufacture products in sufficient quantities with acceptable quality and reliability and at an acceptable cost; and
- the willingness and ability of customers to adopt new technologies requiring capital investments.

ILLUM-2046

Any inability to adequately protect our proprietary technologies could harm our competitive position.

Our success will depend in part on our ability to obtain patents and maintain adequate protection of our intellectual property in the United States and other countries. If we do not protect our intellectual property adequately, competitors may be able to use our technologies and thereby erode our competitive advantage. The laws of some foreign countries do not protect proprietary rights to the same extent as the laws of the United States, and many companies have encountered significant problems in protecting their proprietary rights abroad. These problems can be caused by the absence of rules and methods for defending intellectual property rights.

The patent positions of companies developing tools for the life sciences and pharmaceutical industries, including our patent position, generally are uncertain and involve complex legal and factual questions. We will be able to protect our proprietary rights from unauthorized use by third parties only to the extent that our proprietary technologies are covered by valid and enforceable patents or are effectively maintained as trade secrets. We will apply for patents covering our technologies and products, as we deem appropriate. However, our patent applications may be challenged and may not result in issued patents. Our existing patents and any future patents we obtain may not be sufficiently broad to prevent others from practicing our technologies or from developing competing products. There also is risk that others may independently develop similar or alternative technologies or design around our patented technologies. Also, our patents may fail to provide us with any competitive advantage. We may need to initiate additional lawsuits to protect or enforce our patents, or litigate against third party claims, which would be expensive and, if we lose, may cause us to lose some of our intellectual property rights and reduce our ability to compete in the marketplace.

We also rely upon trade secret protection for our confidential and proprietary information. We have taken security measures to protect our proprietary information. These measures, however, may not provide adequate protection for our trade secrets or other proprietary information. We seek to protect our proprietary information by entering into confidentiality agreements with employees, collaborators and consultants. Nevertheless, employees, collaborators or consultants may still disclose our proprietary information, and we may not be able to meaningfully protect our trade secrets. In addition, others may independently develop substantially equivalent proprietary information or techniques or otherwise gain access to our trade secrets.

We have limited experience in manufacturing commercial products.

We have limited experience manufacturing our products in the volumes that will be necessary for us to achieve significant commercial sales. We have only recently begun manufacturing products on a commercial-scale and, in the past, we have experienced variations in manufacturing conditions that have temporarily reduced production yields. Due to the intricate nature of manufacturing products that contain DNA, we may encounter similar or previously unknown manufacturing difficulties in the future that could significantly reduce production yields, impact our ability to launch or sell these products, or to produce them economically, may prevent us from achieving expected performance levels or cause us to set prices that hinder wide adoption by customers.

Our sales, marketing and technical support organization may limit our ability to sell our products.

We currently have fewer resources available for sales and marketing and technical support services as compared to our primary competitors and have only recently established a small direct sales force and customer support team. In order to effectively commercialize our genotyping and gene expression systems and other products to follow, we will need to expand our sales, marketing and technical support staff both domestically and internationally. We may not be successful in establishing or maintaining either a direct sales force or distribution arrangements to market our products and services. In addition, we compete primarily with much larger companies, that have larger sales and distribution staffs and a significant installed base of products in place, and the efforts from a limited sales and marketing force may not be sufficient to build the market acceptance of our products required to support continued growth of our business.

If we are unable to develop and maintain operation of our manufacturing capability, we may not be able to launch or support our products in a timely manner, or at all.

We currently possess only one facility capable of manufacturing our products and services for both sale to our customers and internal use. If a natural disaster were to significantly damage our facility or if other events were to cause our operations to fail, these events could prevent us from developing and manufacturing our products and services.

If we are unable to find third-party manufacturers to manufacture components of our products, we may not be able to launch or support our products in a timely manner, or at all.

The nature of our products requires customized components that currently are available from a limited number of sources. For example, we currently obtain the fiber optic bundles and BeadChip slides included in our products from single vendors. If we are unable to secure a sufficient supply of those or other product components, we will be unable to meet demand for our products. We may need to enter into contractual relationships with manufacturers for commercial-scale production of some of our products, or develop these capabilities internally, and we cannot assure you that we will be able to do this on a timely basis, for sufficient quantities or on commercially reasonable terms. Accordingly, we may not be able to establish or maintain reliable, high-volume manufacturing at commercially reasonable costs.

We may encounter difficulties in managing our growth. These difficulties could increase our losses.

We expect to experience rapid and substantial growth in order to achieve our operating plans, which will place a strain on our human and capital resources. If we are unable to manage this growth effectively, our losses could increase. Our ability to manage our operations and growth effectively requires us to continue to expend funds to enhance our operational, financial and management controls, reporting systems and procedures and to attract and retain sufficient numbers of talented employees. If we are unable to scale up and implement improvements to our manufacturing process and control systems in an efficient or timely manner, or if we encounter deficiencies in existing systems and controls, then we will not be able to make available the products required to successfully commercialize our technology. Failure to attract and retain sufficient numbers of talented employees will further strain our human resources and could impede our growth.

ILLUM-2048

We may need additional capital in the future. If additional capital is not available on acceptable terms, we may have to curtail or cease operations.

Our future capital requirements will be substantial and will depend on many factors including our ability to successfully market our genetic analysis systems and services, the need for capital expenditures to support and expand our business, the progress and scope of our research and development projects, the filing, prosecution and enforcement of patent claims, the outcome of our legal proceedings with Affymetrix and the need to enter into collaborations with other companies or acquire other companies or technologies to enhance or complement our product and service offerings. We anticipate that our existing capital resources will enable us to maintain currently planned operations for at least 24 months. However, we premise this expectation on our current operating plan, which may change as a result of many factors. Consequently, we may need additional funding within this timeframe. Our inability to raise capital would seriously harm our business and product development efforts. In addition, we may choose to raise additional capital due to market conditions or strategic considerations, such as an acquisition, even if we believe we have sufficient funds for our current or future operating plans. To the extent that additional capital is raised through the sale of equity, the issuance of these securities could result in dilution to our stockholders.

We currently have no credit facility or committed sources of capital available as of January 2, 2005. To the extent operating and capital resources are insufficient to meet future requirements; we will have to raise additional funds to continue the development and commercialization of our technologies. These funds may not be available on favorable terms, or at all. If adequate funds are not available on attractive terms, we may be required to curtail operations significantly or to obtain funds by entering into financing, supply or collaboration agreements on unattractive terms.

If we lose our key personnel or are unable to attract and retain additional personnel, we may be unable to achieve our goals.

We are highly dependent on our management and scientific personnel, including Jay Flatley, our president and chief executive officer, David Barker, our vice president and chief scientific officer, and John Stuelpnagel, our senior vice president and chief operating officer. The loss of their services could adversely impact our ability to achieve our business objectives. In addition, Timothy Kish, our chief financial officer, has informed us of his intention to resign in the second quarter of 2005. Mr. Kish continues in his role as chief financial officer, and we are currently conducting a search for his successor. We will need to hire additional qualified personnel with expertise in molecular biology, chemistry, biological information processing, sales, marketing and technical support. We compete for qualified management and scientific personnel with other life science companies, universities and research institutions, particularly those focusing on genomics. Competition for these individuals, particularly in the San Diego area, is intense, and the turnover rate can be high. Failure to attract and retain management and scientific personnel would prevent us from pursuing collaborations or developing our products or technologies.

Our planned activities will require additional expertise in specific industries and areas applicable to the products developed through our technologies, including the life sciences and healthcare industries. Thus, we will need to add new personnel, including management, and develop the expertise of existing management. The failure to do so could impair the growth of our business.

We may encounter difficulties in integrating future acquisitions and that could adversely affect our business.

We have recently signed a definitive agreement to acquire CyVera Corporation and may in the future acquire technology, products or businesses related to our current or future business. Our acquisition of CyVera is expected to close in March 2005; however, the closing is subject to satisfaction of customary closing conditions, and we cannot assure you this transaction will close in this timeframe or at all. We have limited experience in acquisition activities and may have to devote substantial time and resources in order to complete acquisitions. Further, these potential acquisitions entail risks, uncertainties and potential disruptions to our business. For example, we may not be able to successfully integrate a company's operations, technologies, products and services, information systems and personnel into our business. An acquisition may further strain our existing financial and managerial controls, and divert management's attention away from our other business concerns. In connection with the CyVera acquisition, we will assume certain liabilities and hire certain employees of CyVera, which is expected to result in an increase in research and development expenses. There may also be unanticipated costs and liabilities associated with an acquisition that could adversely affect our operating results.

A significant portion of our sales are to international customers.

Approximately 52% of our revenues for the year ended January 2, 2005 were derived from customers outside the United States. We intend to continue to expand our international presence and export sales to international customers and we expect the total amount of non-U.S. sales to continue to grow. Export sales entail a variety of risks, including:

- currency exchange fluctuations;
- unexpected changes in legislative or regulatory requirements of foreign countries into which we import our products;
- difficulties in obtaining export licenses or other trade barriers and restrictions resulting in delivery delays; and
- significant taxes or other burdens of complying with a variety of foreign laws.

In addition, sales to international customers typically result in longer payment cycles and greater difficulty in accounts receivable collection. We are also subject to general geopolitical risks, such as political, social and economic instability and changes in diplomatic and trade relations. One or more of these factors could have a material adverse effect on our business, financial condition and operating results.

Our success depends upon the increasing availability of genetic information and the continued emergence and growth of markets for analysis of genetic variation and function.

We design our products primarily for applications in the life sciences and pharmaceutical industries. The usefulness of our technology depends in part upon the availability of genetic data and its usefulness in identifying or treating disease. We are initially focusing on markets for analysis of genetic variation and function, namely SNP genotyping and gene expression profiling. Both of these markets are new and emerging, and they may not develop as quickly as we anticipate, or reach their full potential. Other methods of analysis of genetic variation and function may emerge and displace the methods we are developing. Also, researchers may not seek or be able to convert raw genetic data into medically valuable information through the analysis of genetic variation and function. If useful genetic data is not available or if our target markets do not develop in a timely manner, demand for our products may grow at a slower rate than we expect, and we may not be able to achieve or sustain profitability.

We expect that our results of operations will fluctuate. This fluctuation could cause our stock price to decline.

Our revenues are subject to fluctuations due to the timing of sales of high-value products and services projects, the impact of seasonal spending patterns, the timing and amount of government grant funding programs, the timing and size of research projects our customers perform, changes in overall spending levels in the life sciences industry and other unpredictable factors that may affect customer ordering patterns. Given the difficulty in predicting the timing and magnitude of sales for our products and services, we may experience quarter-to-quarter fluctuations in revenue resulting in the potential for a sequential decline in quarterly revenue. A large portion of our expenses are relatively fixed, including expenses for facilities, equipment and personnel. In addition, we expect operating expenses to continue to increase significantly. Accordingly, if revenue does not grow as anticipated, we may not be able to reduce our operating losses. Approximately 30% of our revenues for the year 2004 resulted from transactions that were funded under the International HapMap Project. We currently expect that most of the activities under this grant involving the Company and its customers will be completed in early 2005. Although we expect that the loss of revenues resulting from the completion of the HapMap grant may be offset by the planned commercial launch of our whole genome genotyping and gene expression arrays, combined with the continued expansion of our existing product lines, any significant delays in the commercial launch of these products, unfavorable sales trends in our existing product lines, or impacts from the other factors mentioned above, could adversely affect our revenue growth in 2005 or cause a sequential decline in quarterly revenues. Due to the possibility of fluctuations in our revenue and expenses, we believe that quarterly comparisons of our operating results are not a good indication of our future performance. If our operating results fluctuate or do not meet the expectations of stock market analysts and investors, our stock price probably would decline.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk.*

Interest Rate Sensitivity

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio. The fair market value of fixed rate securities may be adversely impacted by fluctuations in interest rates while income earned on floating rate securities may decline as a result of decreases in interest rates. Under our current policies, we do not use interest rate derivative instruments to manage exposure to interest rate changes. We ensure the safety and preservation of our invested principal funds by limiting default risk, market risk and reinvestment risk. We mitigate default risk by investing in investment grade securities. We have historically maintained a relatively short average maturity for our investment portfolio, and a hypothetical 100 basis point adverse move in interest rates along the entire interest rate yield curve would not materially affect the fair value of our interest sensitive financial instruments.

Foreign Currency Exchange Risk

Although most of our revenue is realized in U.S. dollars, some portions of our revenue are realized in foreign currencies. As a result, our financial results could be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in foreign markets. The functional currencies of our subsidiaries are their respective local currencies. Accordingly, the accounts of these operations are translated from the local currency to the U.S. dollar using the current exchange rate in effect at the balance sheet date for the balance sheet accounts, and using the average exchange rate during the period for revenue and expense accounts. The effects of translation are recorded in accumulated other comprehensive income as a separate component of stockholders equity.

Exchange gains and losses arising from transactions denominated in foreign currencies are recorded in operations. In July 2004, we began hedging significant foreign currency firm sales commitments and accounts receivable with forward contracts. We only use derivative financial instruments to reduce foreign currency exchange rate risks; we do not hold any derivative financial instruments for trading or speculative purposes. Our forward exchange contracts have been designated as cash flow hedges and accordingly, to the extent effective, any unrealized gains or losses on these foreign currency forward contracts are reported in other comprehensive income. Realized gains and losses for the effective portion are recognized with the underlying hedge transaction. The notional settlement amount of the foreign currency forward contracts outstanding at January 2, 2005 was approximately $4.0 million. These contracts had a fair value of approximately $0.2 million, representing an unrealized loss, and were included in other current liabilities at January 2, 2005. As of January 2, 2005, all contracts were set to expire at various times through July 29, 2005 and are with reputable bank institutions. For the year ended January 2, 2005, there were no amounts recognized in earnings due to hedge ineffectiveness and we settled foreign exchange contracts of approximately $0.3 million. We have hedged all significant firm commitments denominated in foreign currencies, and as a result, any increase or decrease in the exchange rates of these commitments would have no net effect to our balance sheet or our results of operations.

Item 8. ***Financial Statements and Supplementary Data.***

The Report of Independent Registered Public Accounting Firm, Financial Statements and Notes to Financial Statements begin on page F-1 immediately following the signature page and are incorporated herein by reference.

Our fiscal year is 52 or 53 weeks ending on the Sunday closest to December 31, with quarters of 13 or 14 weeks ending on the Sunday closest to March 31, June 30 and September 30. The years ended January 2, 2005 and December 28, 2003 are 53 and 52 weeks, respectively.

Item 9. ***Changes In and Disagreements With Accountants on Accounting and Financial Disclosure.***

None.

Item 9A. ***Controls and Procedures.***

We have established and maintain disclosure controls and procedures to ensure that we record, process, summarize, and report information we are required to disclose in our periodic reports filed with the Securities and Exchange Commission in the manner and within the time periods specified in the SEC's rules and forms. We also design our disclosure controls to ensure that the information is accumulated and communicated to our management, including the chief executive officer and the chief financial officer, as appropriate to allow timely decisions regarding required disclosure. We also maintain internal controls and procedures to ensure that we comply with applicable laws and our established financial policies. We design our internal controls to provide reasonable assurance that (1) our transactions are properly authorized; (2) our assets are safeguarded against unauthorized or improper use; and (3) our transactions are properly recorded and reported in conformity with accounting principles generally accepted in the United States.

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We have evaluated the design and operation of our disclosure controls and procedures to determine whether they are effective in ensuring that the disclosure of required information is timely made in accordance with the Exchange Act and the rules and regulations of the Securities and Exchange Commission. This evaluation was made under the supervision and with the participation of management, including our chief executive officer and chief financial officer as of January 2, 2005. Our management does not expect that our disclosure controls or our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

The chief executive officer and chief financial officer have concluded, based on their review, that our disclosure controls and procedures, as defined by Exchange Act Rules 13a-15(e) and 15d-15(e), are effective to ensure that information required to be disclosed by us in reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms. In addition, no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting has occurred during the fourth quarter of 2004.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

We conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control — Integrated Framework,* our management concluded that our internal control over financial reporting was effective as of January 2, 2005.

Our management's assessment of the effectiveness of our internal control over financial reporting as of January 2, 2005 has been audited by Ernst & Young LLP, Independent Registered Public Accounting Firm, as stated in their report which is included on page F-3 herein.

Item 9B. ***Other Information.***

None.

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PART III

Item 10. *Directors and Executive Officers of the Registrant.*

(a) Identification of Directors. Information concerning our directors is incorporated by reference from the section entitled ''Proposal 1 — Election of Directors'' contained in our definitive Proxy Statement with respect to our 2005 Annual Meeting of Stockholders to be filed with the SEC no later than April 26, 2005.

(b) Identification of Executive Officers. Information concerning our executive officers is set forth under ''Executive Officers'' in Part I of this Annual Report on Form 10-K and is incorporated herein by reference.

(c) Compliance with Section 16(a) of the Exchange Act. Information concerning compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated by reference from the section entitled ''Compliance with Section 16(a) of the Securities Exchange Act'' contained in our definitive Proxy Statement with respect to our 2005 Annual Meeting of Stockholders to be filed with the SEC no later than April 26, 2005.

(d) Information concerning the audit committee financial expert as defined by the SEC rules adopted pursuant to the Sarbanes-Oxley Act of 2002 is incorporated by reference from our definitive Proxy Statement with respect to our 2005 Annual Meeting of Stockholders to be filed with the SEC no later than April 26, 2005.

Code of Ethics

We have adopted a code of ethics for our directors, officers and employees, which is available on our website at www.illumina.com in the Corporate Governance section under ''Investors''. The information on our website is not incorporated by reference into this report.

Item 11. *Executive Compensation.*

Information concerning executive compensation is incorporated by reference from the sections entitled ''Executive Compensation and Other Information'' contained in our definitive Proxy Statement with respect to our 2005 Annual Meeting of Stockholders to be filed with the SEC no later than April 26, 2005.

Item 12. *Security Ownership of Certain Beneficial Owners and Management.*

Information concerning the security ownership of certain beneficial owners and management is incorporated by reference from the section entitled ''Ownership of Securities'' contained in our definitive Proxy Statement with respect to our 2005 Annual Meeting of Stockholders to be filed with the SEC no later than April 26, 2005.

Equity Compensation Plan Information

The following table presents information about our common stock that may be issued upon the exercise of options, warrants and rights under all our existing equity compensation plans as of January 2, 2005. We currently have two equity compensation plans, the 2000 employee stock purchase plan and the 2000 stock plan; prior to our initial public offering we granted options under the 1998 stock incentive plan. All of these plans have been approved by our stockholders. Options outstanding include options granted under both the 1998 stock incentive plan and the 2000 stock plan.

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options	(b) Weighted-Average Exercise Price of Outstanding Options	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by security holders	6,206,020	$6.99	5,964,649
Equity compensation plans not approved by security holders	—	$ —	—
Total	6,206,020	$6.99	5,964,649

Please refer to Note 6 in notes to consolidated financial statements included in our annual report on Form 10-K for the year ended January 2, 2005 for a description of our equity compensation plans.

Item 13. ***Certain Relationships and Related Transactions.***

Information concerning certain relationships and related transactions is incorporated by reference from the sections entitled ''Proposal One: Election of Directors,'' ''Executive Compensation and Other Information'' and ''Certain Transactions'' contained in our Definitive Proxy Statement with respect to our 2005 Annual Meeting of Stockholders to be filed with the SEC no later than April 26, 2005.

Item 14. ***Principal Accounting Fees and Services.***

Information concerning principal accounting fees and services is incorporated by reference from the sections entitled ''Proposal Two: Ratification of Independent Auditors'' contained in our Definitive Proxy Statement with respect to our 2005 Annual Meeting of Stockholders to be filed with the SEC no later than April 26, 2005.

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PART IV

Item 15. ***Exhibits, Financial Statement Schedules.***

(a) The following documents are filed as a part of this report:

(1) *Consolidated Financial Statements:*

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(2) *Financial Statement Schedules:*

Valuation and Qualifying Account and Reserves for the three year period ended January 2, 2005	F-28

(3) *Exhibits:*

Exhibit Number	Description of Document
2.1(1)	Form of Merger Agreement between Illumina, Inc., a California corporation, and Illumina, Inc., a Delaware corporation.
3.1(2)	Amended and Restated Certificate of Incorporation.
3.2(1)	Bylaws.
3.3(5)	Certificate of Designation for Series A Junior Participating Preferred Stock (included as an exhibit to exhibit 4.3).
4.1(1)	Specimen Common Stock Certificate.
4.2(1)	Amended and Restated Investors Rights Agreement, dated November 5, 1999, by and among the Registrant and certain stockholders of the Registrant.
4.3(5)	Rights Agreement, dated as of May 3, 2001, between the Company and Equiserve Trust Company, N.A.
+10.1(1)	Form of Indemnification Agreement between the Registrant and each of its directors and officers.
+10.2(1)	1998 Incentive Stock Plan.
+10.3(2)	2000 Employee Stock Purchase Plan (Filed as Exhibit 99.2).
10.4(1)	Sublease Agreement dated August 1998 between Registrant and Gensia Sicor Inc. for Illumina's principal offices.
10.5(1)	Joint Development Agreement dated November 1999 between Registrant and PE Corporation (with certain confidential portions omitted).
10.6(1)	Asset Purchase Agreement dated November 1998 between Registrant and nGenetics, Inc. (with certain confidential portions omitted).
10.7(1)	Asset Purchase Agreement dated March 2000 between Registrant and Spyder Instruments, Inc. (with certain confidential portions omitted).

Exhibit Number	Description of Document
10.8(1)	License Agreement dated May 1998 between Tufts and Registrant (with certain confidential portions omitted).
10.9(1)	Master Loan and Security Agreement, dated March 6, 2000, by and between Registrant and FINOVA Capital Corporation.
+10.10(3)	2000 Stock Plan (Filed as Exhibit 99.1).
10.11(1)	Eastgate Pointe Lease, dated July 6, 2000, between Diversified Eastgate Venture and Registrant.
10.12(1)	Option Agreement and Joint Escrow Instructions, dated July 6, 2000, between Diversified Eastgate Venture and Registrant.
10.13(4)	First Amendment to Joint Development Agreement dated March 27, 2001 between Registrant and PE Corporation, now known as Applied Biosystems Group (with certain confidential portions omitted).
10.14(6)	First Amendment to Option Agreement and Escrow Instructions dated May 25, 2001 between Diversified Eastgate Venture and Registrant.
10.15(7)	Second Amendment to Option Agreement and Escrow Instructions dated July 18, 2001 between Diversified Eastgate Venture and Registrant.
10.16(7)	Third Amendment to Option Agreement and Escrow Instructions dated September 27, 2001 between Diversified Eastgate Venture and Registrant.
10.17(7)	First Amendment to Eastgate Pointe Lease dated September 27, 2001 between Diversified Eastgate Venture and Registrant.
10.18(8)	Replacement Reserve Agreement, dated as of January 10, 2002, between the Company and BNY Western Trust Company as Trustee for Washington Capital Joint Master Trust Mortgage Income Fund.
10.19(8)	Loan Assumption and Modification Agreement, dated as of January 10, 2002, between the Company, Diversified Eastgate Venture and BNY Western Trust Company as Trustee for Washington Capital Joint Master Trust Mortgage Income Fund.
10.20(8)	Tenant Improvement and Leasing Commission Reserve Agreement, dated as of January 10, 2002, between the Company and BNY Western Trust Company as Trustee for Washington Capital Joint Master Trust Mortgage Income Fund.

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Exhibit Number	Description of Document
+10.21(8)	2000 Employee Stock Purchase Plan as amended on March 21, 2002.
+10.22(8)	2000 Stock Plan as amended on March 21, 2002.
10.23(9)	License Agreement dated January 2002 between Amersham Biosciences Corp. and Registrant (with certain confidential portions omitted).
10.24(10)	License Agreement dated June 2002 between Dade Behring Marburg GmbH and Registrant (with certain confidential portions omitted).
10.25(11)	Purchase and Sale Agreement and Escrow Instructions dated June 18, 2004 between Bernardo Property Advisors, Inc. and Registrant.
10.26(12)	Single Tenant Lease dated August 18, 2004 between BioMed Realty Trust Inc. and Registrant.
10.27(12)	Settlement and Cross License Agreement dated August 18, 2004 between Applera Corporation and Registrant (with certain confidential portions omitted).
10.28	Collaboration Agreement dated December 17, 2004 between Invitrogen Incorporated and Registrant (confidential treatment has been requested with respect to certain portions of this exhibit).
10.29	Forms of Stock Option Agreement under 2000 Stock Plan.
14(10)	Code of Ethics.
21	Subsidiaries of the Company.
23.1	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
24.1	Power of Attorney (included on the signature page).
31.1	Certification of Jay T. Flatley pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Timothy M. Kish pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Jay T. Flatley pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Timothy M. Kish pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

+ Management contract or corporate plan or arrangement

(1) Incorporated by reference to the same numbered exhibit filed with our Registration Statement on Form S-1 (333-33922) filed April 3, 2000, as amended.

(2) Incorporated by reference to the same numbered exhibit filed with our Annual Report on Form 10-K for the year ended December 31, 2000.

(3) Incorporated by reference to the corresponding exhibit filed with our Registration Statement on Form S-8 filed March 29, 2001.

(4) Incorporated by reference to the same numbered exhibit filed with our Form 10-Q for the quarterly period ended March 31, 2001 filed May 8, 2001.

(5) Incorporated by reference to the same numbered exhibit filed with our Registration Statement on Form 8-A (000-30361) filed May 14, 2001.

(6) Incorporated by reference to the same numbered exhibit filed with our Form 10-Q for the quarterly period ended June 30, 2001 filed August 13, 2001.

(7) Incorporated by reference to the same numbered exhibit filed with our Form 10-Q for the quarterly period ended September 30, 2001 filed November 14, 2001.

(8) Incorporated by reference to the same numbered exhibit filed with our Form 10-Q for the quarterly period ended March 31, 2002 filed May 13, 2002.

(9) Incorporated by reference to the same numbered exhibit filed with Amendment No. 1 to our Registration Statement on Form S-3 (333-111496) filed March 2, 2004.

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(10) Incorporated by reference to the same numbered exhibit filed with our Annual Report on Form 10-K for the year ended December 28, 2003.

(11) Incorporated by reference to the same numbered exhibit filed with our Form 10-Q for the quarterly period ended June 27, 2004 filed August 6, 2004.

(12) Incorporated by reference to the same numbered exhibit filed with our Form 10-Q for the quarterly period ended October 3, 2004 filed November 12, 2004.

Supplemental Information

No Annual Report to stockholders or proxy materials has been sent to stockholders as of the date of this report. The Annual Report to stockholders and proxy material will be furnished to our stockholders subsequent to the filing of this report and we will furnish such material to the SEC at that time.

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SIGNATURES

Pursuant to the requirements of the Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 8, 2005.

ILLUMINA, INC.

By: /s/ JAY T. FLATLEY
Jay T. Flatley
President and Chief Executive Officer

March 8, 2005

POWER OF ATTORNEY

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ JAY T. FLATLEY Jay T. Flatley	President and Chief Executive Officer Director (Principal Executive Officer)	March 8, 2005
/s/ TIMOTHY M. KISH Timothy M. Kish	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 8, 2005
/s/ JOHN R. STUELPNAGEL John R. Stuelpnagel	Senior Vice President and Chief Operating Officer Director	March 8, 2005
/s/ DANIEL M. BRADBURY Daniel M. Bradbury	Director	March 8, 2005
/s/ KARIN EASTHAM Karin Eastham	Director	March 8, 2005

/s/ R. SCOTT GREER R. Scott Greer	Director	March 8, 2005
/s/ WILLIAM H. RASTETTER William H. Rastetter	Director	March 8, 2005
/s/ DAVID R. WALT David R. Walt	Director	March 8, 2005

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Illumina, Inc.

We have audited the accompanying consolidated balance sheets of Illumina, Inc. as of January 2, 2005 and December 28, 2003, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years ended January 2, 2005, December 28, 2003 and December 29, 2002. Our audits also include the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Illumina, Inc. at January 2, 2005 and December 28, 2003, and the results of its operations and its cash flows for the years ended January 2, 2005, December 28, 2003 and December 29, 2002, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Illumina, Inc.'s internal control over financial reporting as of January 2, 2005, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 16, 2005 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Diego, California
February 16, 2004

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Directors and Stockholders
Illumina, Inc.

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Illumina, Inc. maintained effective internal control over financial reporting as of January 2, 2005, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Illumina Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, management's assessment that Illumina, Inc. maintained effective internal control over financial reporting as of January 2, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Illumina, Inc. maintained, in all material respects, effective internal control over financial reporting as of January 2, 2005, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Illumina, Inc. as of January 2, 2005 and December 28, 2003, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years ended January 2, 2005, December 28, 2003 and December 29, 2002 of Illumina, Inc. and our report dated February 16, 2005 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Diego, California
February 16, 2005

ILLUMINA, INC.

CONSOLIDATED BALANCE SHEETS

	January 2, 2005	December 28, 2003
	(In thousands, except share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 54,789	$ 12,465
Investments, available for sale	—	20,317
Restricted cash and investments	12,205	100
Accounts receivable, net	11,891	4,549
Inventory, net	3,807	2,022
Prepaid expenses and other current assets	999	965
Total current assets	83,691	40,418
Property and equipment, net	8,574	45,777
Long-term restricted investments	—	12,191
Intangible and other assets, net	2,642	848
Total assets	$ 94,907	$ 99,234
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,684	$ 2,030
Accrued liabilities	10,407	5,540
Litigation judgment	5,957	—
Current portion of long-term debt	—	366
Current portion of equipment financing	—	253
Total current liabilities	19,048	8,189
Long-term debt, less current portion	—	24,999
Advance payment from former collaborator	—	10,000
Litigation judgment	—	8,658
Deferred gain on sale of land and building	3,218	—
Other long term liabilities	379	—
Commitments and contingencies		
Stockholders' equity:		
Common stock, $.01 par value, 120,000,000 shares authorized, 38,120,685 shares issued and outstanding at January 2, 2005, 32,886,693 shares issued and outstanding at December 28, 2003	381	329
Additional paid-in capital	195,653	165,314
Deferred compensation	(156)	(1,103)
Accumulated other comprehensive income	96	335
Accumulated deficit	(123,712)	(117,487)
Total stockholders' equity	72,262	47,388
Total liabilities and stockholders' equity	$ 94,907	$ 99,234

See accompanying notes.

ILLUMINA, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended January 2, 2005	Year Ended December 28, 2003	Year Ended December 29, 2002
	(In thousands except per share amounts)		
Revenue			
Product revenue	$40,497	$ 18,378	$ 4,103
Service revenue	8,075	6,496	3,305
Research revenue	2,011	3,161	2,632
Total revenue	50,583	28,035	10,040
Costs and expenses:			
Cost of product revenue	11,572	7,437	1,815
Cost of service revenue	1,687	2,600	1,721
Research and development	21,114	22,511	26,848
Selling, general and administrative	25,080	18,899	9,099
Amortization of deferred compensation and other stock-based compensation charges	844	2,454	4,360
Litigation judgment (settlement)	(4,201)	756	8,052
Total costs and expenses	56,096	54,657	51,895
Loss from operations	(5,513)	(26,622)	(41,855)
Interest income	941	1,821	3,805
Interest and other expense	(1,653)	(2,262)	(2,281)
Net loss	$ (6,225)	$(27,063)	$(40,331)
Net loss per share, basic and diluted	$ (0.17)	$ (0.85)	$ (1.31)
Shares used in calculating net loss per share, basic and diluted	35,845	31,925	30,890
The composition of stock-based compensation is as follows:			
Research and development	$ 348	$ 1,289	$ 2,399
Selling, general and administrative	496	1,165	1,961
	$ 844	$ 2,454	$ 4,360

See accompanying notes.

ILLUMINA, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

	Common Stock		Additional Paid-In Capital	Deferred compensation	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount					
				(In thousands)			
Balance at December 30, 2001	32,234	322	163,896	(8,083)	749	(50,093)	106,791
Issuance of common stock for cash, net of repurchased shares	266	3	693	—	—	—	696
Amortization of deferred compensation	—	—	—	4,360	—	—	4,360
Reversal of deferred compensation related to unvested stock options and restricted stock of terminated employees	—	—	(106)	106	—	—	—
Comprehensive loss:							
Unrealized gain on available-for-sale securities	—	—	—	—	228	—	228
Net loss	—	—	—	—	—	(40,331)	(40,331)
Comprehensive loss							(40,103)
Balance at December 29, 2002	32,500	325	164,483	(3,617)	977	(90,424)	71,744
Issuance of common stock for cash	408	4	899	—	—	—	903
Repurchase of restricted common stock	(21)	—	(8)	—	—	—	(8)
Amortization of deferred compensation	—	—	12	2,442	—	—	2,454
Reversal of deferred compensation related to unvested stock options and restricted stock of terminated employees	—	—	(72)	72	—	—	—
Comprehensive loss:							
Unrealized gain on available-for sale securities	—	—	—	—	(702)	—	(702)
Foreign currency translation adjustment	—	—	—	—	60	—	60
Net loss	—	—	—	—	—	(27,063)	(27,063)
Comprehensive loss							(27,705)
Balance at December 28, 2003	32,887	329	165,314	(1,103)	335	(117,487)	47,388
Issuance of common stock for cash	5,278	53	30,454	—	—	—	30,507
Repurchase of restricted common stock	(44)	(1)	(12)	—	—	—	(13)
Amortization of deferred compensation	—	—	—	844	—	—	844
Reversal of deferred compensation related to unvested stock options and restricted stock of terminated employees	—	—	(103)	103	—	—	—
Comprehensive loss:							
Unrealized loss on available-for-sale securities	—	—	—	—	(305)	—	(305)
Unrealized loss on hedging contracts	—	—	—	—	(46)	—	(46)
Foreign currency translation adjustment	—	—	—	—	112	—	112
Net loss	—	—	—	—	—	(6,225)	(6,225)
Comprehensive loss							(6,464)
Balance at January 2, 2005	38,121	$381	$195,653	$ (156)	$ 96	$(123,712)	$72,262

ILLUMINA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended January 2, 2005	Year Ended December 28, 2003	Year Ended December 29, 2002
		(In thousands)	
Cash flows from operating activities			
Net loss	$ (6,225)	$(27,063)	$(40,331)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	3,956	4,545	4,531
Loss on disposal of property and equipment	—	175	—
Amortization of premium on investments	354	432	609
Amortization of deferred compensation and other stock-based compensation charges	844	2,454	4,360
Amortization of gain on sale of land and building	(156)	—	—
Changes in operating assets and liabilities:			
Accounts receivable	(7,202)	(1,296)	(2,878)
Inventory	(1,785)	277	(1,328)
Prepaid expenses and other current assets	(29)	8	155
Other assets	(2,041)	(151)	211
Accounts payable	697	260	(205)
Accrued liabilities	1,958	1,742	1,262
Accrued litigation judgment	567	606	8,052
Other long term liabilities	(512)	(245)	(31)
Advance payment from former collaborator	(10,000)	—	—
Net cash used in operating activities	(19,574)	(18,256)	(25,593)
Cash flows from investing activities			
Purchases of available-for-sale securities	(6,603)	(1,940)	(116,568)
Sales and maturities of available-for-sale securities	26,348	32,456	141,551
Proceeds from sale of land and building, net of fees	40,667	—	—
Purchase of property and equipment	(3,355)	(2,032)	(26,830)
Acquisition of intangible assets	(35)	(16)	(794)
Net cash provided by (used in) investing activities	57,022	28,468	(2,641)
Cash flows from financing activities			
Proceeds from long-term debt	—	—	26,000
Payments on long-term debt	(25,387)	(342)	(293)
Payments on equipment financing	(232)	(337)	(297)
Proceeds from issuance of common stock	30,507	904	696
Repurchase of common stock	(13)	(9)	—
Net cash provided by financing activities	4,875	216	26,106
Effect of foreign currency translation on cash and cash equivalents	1	—	—
Net increase (decrease) in cash and cash equivalents	42,324	10,428	(2,128)
Cash and cash equivalents at beginning of the year	12,465	2,037	4,165
Cash and cash equivalents at end of the year	$ 54,789	$ 12,465	$ 2,037
Supplemental disclosures of cash flow information:			
Cash paid during the year for interest	$ 1,368	$ 2,222	$ 2,263

See accompanying notes.

1. Organization and Summary of Significant Accounting Policies

Organization and Business

Illumina, Inc. (the ''Company'') was incorporated on April 28, 1998. The Company develops and markets next-generation tools for the large-scale analysis of genetic variation and function. Using the Company's technologies, it has developed a comprehensive line of products that are designed to provide the throughput, cost effectiveness and flexibility necessary to enable researchers in the life sciences and pharmaceutical industries to perform the billions of tests necessary to extract medically valuable information from advances in genomics. This information is expected to correlate genetic variation and gene function with particular disease states, enhancing drug discovery, allowing diseases to be detected earlier and more specifically, and permitting better choices of drugs for individual patients.

Basis of Presentation

The consolidated financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States and include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Fiscal Year

The Company's fiscal year is 52 or 53 weeks ending the Sunday closest to December 31, with quarters of 13 or 14 weeks ending the Sunday closest to March 31, June 30, and September 30. The years ended January 2, 2005 and December 28, 2003 are 53 and 52 weeks, respectively.

Use of Estimates

The preparation of financial statements requires that management make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents are comprised of highly liquid investments with a remaining maturity of less than three months from the date of purchase.

Investments

The Company applies Statement of Financial Accounting Standards (''SFAS'') No. 115, *Accounting for Certain Investments in Debt and Equity Securities,* to its investments. Under SFAS No. 115, the Company classifies its investments as ''Available-for-Sale'' and records such assets at estimated fair value in the balance sheet, with unrealized gains and losses, if any, reported in stockholders' equity. The Company invests its excess cash balances in marketable debt securities, primarily government securities and corporate bonds and notes, with strong credit ratings or short maturity mutual funds providing similar financial returns. The Company limits the amount of investment exposure as to institutions, maturity and investment type. The cost of securities sold is determined based on the specific identification method. Gross realized gains totaled $453,750, $342,693 and $810,201 for the years ended January 2, 2005, December 28, 2003 and December 29, 2002, respectively. Gross realized losses totaled $891, $141 and $27,467 for the years ended January 2, 2005, December 28, 2003, and December 29, 2002, respectively.

Restricted Cash and Investments

At January 2, 2005, restricted cash and investments consist of corporate debt securities that are used as collateral against a letter of credit and a $100,000 bond deposit with the San Diego Superior Court related to the Applied Biosystems litigation (see Note 7). At December 28, 2003, the restricted investments used as collateral against the letter of credit were classified as long term.

Fair Value of Financial Instruments

The carrying amounts of certain of the Company's financial instruments including cash and cash equivalents, accounts and notes receivable, accounts payable and accrued liabilities approximate fair value. The Company enters into foreign currency exchange forward contracts to minimize its exposure to foreign currency exchange fluctuations and accounts for these derivatives in accordance with SFAS 133, *Accounting for Derivative Instruments and Hedging Activities* as described more fully in Note 3.

Accounts and Notes Receivable

Trade accounts receivable are recorded at net invoice value and notes receivable are recorded at contractual value plus earned interest. Interest income on notes receivable is recognized according to the terms of each related agreement. The Company considers receivables past due based on the contractual payment terms. The Company reviews its exposure to amounts receivable and reserves specific amounts if collectibility is no longer reasonably assured. The Company also reserves a percentage of the net trade receivable balance based on collection history. The Company re-evaluates such reserves on a regular basis and adjusts its reserves as needed.

Concentrations of Risk

Cash equivalents, investments and accounts receivable are financial instruments that potentially subject the Company to concentrations of credit risk. Most of the Company's cash and cash equivalents as of January 2, 2005 are deposited with financial institutions in the United States and Company policy restricts the amount of credit exposure to any one issuer and to any one type of investment, other than securities issued by the U.S. Government. The Company has historically not experienced significant credit losses from accounts receivable. The Company performs a regular review of customer activity and associated credit risks and generally does not require collateral. The Company maintains an allowance for doubtful accounts based upon the expected collectibility of accounts receivable.

The Company's products require customized components that currently are available from a limited number of sources. The Company obtains certain key components included in its products from single vendors. No assurance can be given that these or other product components will be available in sufficient quantities at acceptable costs in the future.

Approximately 52% of the Company's revenues for the year ended January 2, 2005 were derived from customers outside the United States. International sales entail a variety of risks, including currency exchange fluctuations, longer payment cycles and greater difficulty in accounts receivable collection. The Company is also subject to general geopolitical risks, such as political, social and economic instability and changes in diplomatic and trade relations. The risks of international sales are mitigated in part by the extent to which sales are geographically distributed and the Company's foreign currency hedging program.

Inventories

Inventories are stated at the lower of standard cost (which approximates actual cost) or market. Inventory includes raw materials and finished goods that may be used in the research and development process and such items are expensed as consumed. Provisions for slow moving, excess and obsolete inventories are provided based on product life cycle and development plans, product expiration and quality issues, historical experience and inventory levels.

Property and Equipment

Property and equipment are stated at cost, subject to review of impairment, and depreciated over the estimated useful lives of the assets (generally three to seven years for equipment) using the straight-line method. Amortization of leasehold improvements is computed over the shorter of the lease term or the estimated useful life of the related assets.

Intangible Assets

Intangible assets consist of license agreements and acquired technology. In accordance with Accounting Principles Board (''APB'') Opinion No. 17, *Accounting for Intangible Assets,* intangible assets are recorded at cost. The rights related to one of the license agreements are amortized over its estimated useful life (five years) and will be fully amortized in fiscal year 2008. The rights related to other license agreements are amortized based on sales of related product and are expected to be fully amortized by the end of fiscal 2005. The cost of these license agreements was $844,450 and the Company has amortized $493,333 through January 2, 2005. Amortization expense related to license agreements for the years ending January 2, 2005, December 28, 2003 and December 29, 2002 was $300,000, $185,000 and $8,333, respectively.

Long-Lived Assets

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* if indicators of impairment exist, the Company annually assesses the recoverability of the affected long-lived assets by determining whether the carrying value of such assets can be recovered through undiscounted future operating cash flows. If impairment is indicated, the Company measures the future discounted cash flows associated with the use of the asset and adjusts the value of the asset accordingly. While the Company's current and historical operating and cash flow losses are indicators of impairment, the Company believes the future cash flows to be received from the long-lived assets recorded at January 2, 2005 will exceed the assets' carrying value, and accordingly the Company has not recognized any impairment losses through January 2, 2005.

Reserve for Product Warranties

The Company generally provides a one year warranty on genotyping and gene expression systems. At the time revenue is recognized, the Company establishes an accrual for estimated warranty expenses associated with system sales. This expense is recorded as a component of cost of revenue.

Revenue Recognition

The Company records revenue in accordance with the guidelines established by SEC Staff Accounting Bulletin No. 104 (''SAB 104''). Under SAB 104, revenue cannot be recorded until all the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; the seller's price to the buyer is fixed or determinable; and collectibility is reasonably assured. Product revenue consists of sales of oligonucleotides, arrays, assay reagents, genotyping systems and gene expression systems. Service revenue consists of revenue received for performing SNP genotyping services and for extended warranty sales.

Revenue for product sales is recognized generally upon shipment and transfer of title to the customer, provided no significant obligations remain and collection of the receivables is reasonably assured. BeadLab revenue is recognized when earned, which is generally upon shipment, installation, training and fulfillment of contractually defined acceptance criteria. Reserves are provided for anticipated product warranty expenses at the time the associated revenue is recognized. Revenue for extended warranty sales is recognized ratably over the term of the extended warranty. Revenue for genotyping services is recognized generally at the time the genotyping analysis data is delivered to the customer. The Company has been awarded $9.1 million from the National Institutes of Health to perform genotyping services in connection with the first phase of the International HapMap Project. A portion of the revenue from this project is earned at the time the related costs are incurred while the remainder of the revenue is earned upon the delivery of genotyping data. Research revenue consists of amounts earned under research agreements with government grants, which is recognized in the period during which the related costs are incurred. Some contracts entered into by the Company qualify as multiple element arrangements as defined by Emerging Issues Task Force Issue No. 00-21 (''EITF 00-21''), *''Revenue Arrangements with Multiple Deliverables.''*

The Company recognizes revenue for delivered elements only when the delivered element has stand-alone value, the fair values of undelivered elements are known, and there are no uncertainties regarding customer acceptance. All revenues are recognized net of applicable allowances for returns or discounts.

Shipping and Handling Expenses

Shipping and handling expenses are included in cost of product revenue and totaled $180,208, $143,423 and $45,809 for the years ended January 2, 2005, December 28, 2003 and December 29, 2002, respectively.

Research and Development

Expenditures relating to research and development are expensed in the period incurred.

Software Development Costs

The Company applies Statement of Financial Accounting Standards No. 86, *Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed,* to capitalize costs related to marketed software. To date, the Company has only marketed software that is an incidental component to its SNP genotyping and gene expression systems. Accordingly, the Company capitalizes software costs that are incurred after the later of 1) the establishment of technological feasibility of the software or 2) the completion of all research and development activities for the other components of the product. Through January 2, 2005, the period between achieving either of these milestones and the general release date of the products has been very brief and software development costs thereafter were not significant. Accordingly, the Company has not capitalized any qualifying software development costs in the accompanying consolidated financial statements. The costs of developing routine enhancements are expensed as research and development costs as incurred because of the short time between the determination of technological feasibility and the date of general release of the related products.

The Company applies Statement of Position (''SOP'') No. 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use.* For the years ended January 2, 2005 and December 28, 2003, the Company capitalized $26,650 and $93,693, respectively, in costs incurred to acquire and develop software associated with the implementation of its Enterprise Resource Planning and Laboratory Information Management systems. These costs are amortized over the estimated useful life of the software of seven years, beginning when the software is ready for its intended use.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising costs were $792,508, $439,710 and $267,338 for the years ended January 2, 2005, December 28, 2003 and December 29, 2002, respectively.

Income Taxes

A deferred income tax asset or liability is computed for the expected future impact of differences between the financial reporting and tax bases of assets and liabilities, as well as the expected future tax benefit to be derived from tax loss and credit carryforwards. Deferred income tax expense is generally the net change during the year in the deferred income tax asset or liability. Valuation allowances are established when realizability of deferred tax assets is uncertain. The effect of tax rate changes is reflected in tax expense during the period in which such changes are enacted.

Foreign Currency Translation

The functional currencies of the Company's wholly owned subsidiaries are their respective local currencies. Accordingly, all balance sheet accounts of these operations are translated to U.S. dollars using the exchange rates in effect at the balance sheet date, and revenues and expenses are translated using the average exchange rates in effect during the period. The gains and losses from foreign currency translation of these subsidiaries' financial statements are recorded directly as a separate component of stockholders' equity under the caption ''Accumulated other comprehensive income.''

Stock-Based Compensation

At January 2, 2005, the Company has three stock-based employee and non-employee director compensation plans, which are described more fully in Note 6. As permitted by SFAS No. 123, *Accounting for Stock-Based Compensation,*the Company accounts for common stock options granted, and restricted stock sold, to employees, founders and directors using the intrinsic value method and, thus, recognizes no compensation expense for options granted, or restricted stock sold, with exercise prices equal to or greater than the fair value of the Company's common stock on the date of the grant. The Company has recorded deferred stock compensation related to certain stock options, and restricted stock, which were granted prior to the Company's initial public offering with exercise prices below estimated fair value (see Note 6), which is being amortized on an accelerated amortization methodology in accordance with Financial Accounting Standards Board Interpretation Number (''FIN'') 28.

Pro forma information regarding net loss is required by SFAS No. 123 and has been determined as if the Company had accounted for its employee stock options and employee stock purchases under the fair value method of that statement. The fair value for these options was estimated at the dates of grant using the fair value option pricing model (Black Scholes) with the following weighted-average assumptions for 2004, 2003 and 2002:

	Year Ended January 2, 2005	Year Ended December 28, 2003	Year Ended December 29, 2002
Weighted average risk-free interest rate	3.25%	3.03%	3.73%
Expected dividend yield	0%	0%	0%
Weighted average volatility	97%	103%	104%
Estimated life (in years)	5	5	5
Weighted average fair value of options granted	$5.25	$3.31	$4.39

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the vesting period. The Company's pro forma information is as follows (in thousands except per share amounts):

	Year Ended January 2, 2005	Year Ended December 28, 2003	Year Ended December 29, 2002
Net loss as reported	$ (6,225)	$(27,063)	$(40,331)
Add: Stock-based compensation expense recorded	844	2,454	4,360
Less: Assumed stock compensation expense	(9,217)	(8,576)	(8,479)
Pro forma net loss	$(14,598)	$(33,185)	$(44,450)
Basic and Diluted net loss per share:			
As reported	$ (0.17)	$ (0.85)	$ (1.31)
Pro forma	$ (0.41)	$ (1.04)	$ (1.44)

The pro forma effect on net loss presented is not likely to be representative of the pro forma effects on reported net income or loss in future years because these amounts reflect less than five years of vesting.

In December 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123 (revised 2004), *Share Based Payment* (SFAS 123R), which is a revision of FASB Statement No. 123, *Accounting for Stock-Based Compensation* (SFAS 123). This statement supercedes APB Opinion 25, *Accounting for Stock Issued to Employees* (APB 25), and amends FASB Statement No. 95, *Statement of Cash Flows.* Generally, the approach in SFAS 123R is similar to the approach described in SFAS 123; however, SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative.

SFAS 123R permits companies to adopt its requirements using either a ''modified prospective'' method or a ''modified retrospective'' method. Under the ''modified prospective'' method, compensation cost is recognized in the financial statements beginning with the effective date, based on the requirements of SFAS 123R for all share-based payments granted after that date, and based on the requirements for SFAS 123 for all unvested awards granted prior to the effective date of SFAS 123R. Under the ''modified retrospective'' method, the requirements are the same as under the ''modified prospective'' method, but also permits companies to restate financial statements of previous periods based on proforma disclosures made in accordance with SFAS 123. The Company currently utilizes the Black-Scholes model to measure the fair value of stock options granted to employees under the pro forma disclosure requirements if FAS 123. While SFAS 123R permits companies to continue to use such model, it also permits the use of a ''lattice'' model. The Company has not yet determined which method or model it will use to measure the fair value of employee stock options under the adoption for SFAS 123R. The new standard is effective for periods beginning after June 15, 2005, and the Company expects to adopt SFAS 123R on July 4, 2005.

The Company currently accounts for share-based payments to employees using APB 25's intrinsic value method and, as such, recognizes no compensation cost for employee stock options granted with exercise prices equal to or greater than the fair value of the Company's common stock on the date of the grant. Accordingly, the adoption of SFAS 123R's fair value method is expected to result in significant non-cash charges which will increase the Company's reported operating expenses, however, it will have no impact on its cash flows. The impact of adoption of SFAS 123R cannot be predicted at this time because it will depend on the level of share-based payments granted in the future and the model the Company chooses to use. However, had the Company adopted SFAS 123R in prior periods, the impact of that standard would have approximated the impact of SFAS 123 as described in the disclosure of pro forma net income and earnings above.

Deferred compensation for options granted, and restricted stock sold, to consultants has been determined in accordance with SFAS No. 123 and Emerging Issues Task Force 96-18 as the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measured. Deferred charges for options granted, and restricted stock sold, to consultants are periodically remeasured as the underlying options vest.

Comprehensive Loss

Comprehensive loss is comprised of net loss and other comprehensive loss. Other comprehensive loss includes unrealized gains and losses on the Company's available-for-sale securities, changes in the fair value of derivatives designated as effective as cash flow hedges, and foreign currency translation adjustments. The Company has disclosed comprehensive loss as a component of stockholders' equity.

The components of accumulated other comprehensive loss are as follows (in thousands):

	Year Ended January 2, 2005	Year Ended December 28, 2003
Foreign currency translation adjustments	$171	$ 60
Unrealized loss on available-for-sale securities	(29)	275
Unrealized loss on cash flow hedges	(46)	—
Accumulated other comprehensive loss	$ 96	$335

Net Loss per Share

Basic and diluted net loss per common share are presented in conformity with SFAS No. 128, *Earnings per Share,* for all periods presented. In accordance with SFAS No. 128, basic and net loss per share is computed using the weighted-average number of shares of common stock outstanding during the period, less shares subject to repurchase. Diluted net loss per share is typically computed using the weighted average number of common and dilutive common equivalent shares from stock options using the treasury stock method. However, for all periods presented, diluted net loss per share is the same as basic net loss per share because the Company reported a net loss and therefore the inclusion of weighted average shares of common stock issuable upon the exercise of stock options would be antidilutive.

	Year Ended January 2, 2005	Year Ended December 28, 2003	Year Ended December 29, 2002
		(In thousands)	
Weighted-average shares outstanding	36,165	32,733	32,390
Less: Weighted-average shares of common stock subject to repurchase	(320)	(808)	(1,500)
Weighted-average shares used in computing net loss per share, basic and diluted	35,845	31,925	30,890

The total number of shares excluded from the calculation of diluted net loss per share, prior to application of the treasury stock method for options and warrants, was 6,360,023, 5,809,649 and 5,556,455 for the years ended January 2, 2005, December 28, 2003 and December 29, 2002, respectively.

2. Balance Sheet Account Details

Investments, including restricted investments, consist of the following (in thousands):

	January 2, 2005			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Market Value
Restricted corporate debt securities	$12,134	$—	$(29)	$12,105
Total	$12,134	$—	$(29)	$12,105

	December 28, 2003			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Market Value
US Treasury securities	$ 6,340	$253	$ —	$ 6,593
Corporate debt securities	13,480	244	—	13,724
	19,820	497	—	20,317
Restricted corporate debt securities	12,413	—	(222)	12,191
Total	$32,233	$497	$(222)	$32,508

As of January 2, 2005, all investments mature within one year.

Accounts receivable consist of the following (in thousands):

	January 2, 2005	December 28, 2003
Accounts receivable from product and service sales	$11,182	$4,388
Notes receivable from product sales	464	—
Accounts receivable from government grants	108	260
Other receivables	283	79
	12,037	4,727
Allowance for doubtful accounts	(146)	(178)
Total	$11,891	$4,549

Inventory consists of the following (in thousands):

	January 2, 2005	December 28, 2003
Raw materials	$1,487	$ 829
Work in process	1,714	931
Finished goods	606	262
Total	$3,807	$2,022

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

	January 2, 2005	December 28, 2003
Land	$ —	$ 10,361
Buildings	—	29,479
Leasehold improvements	347	174
Laboratory and manufacturing equipment	11,067	9,221
Computer equipment and software	6,116	5,130
Furniture and fixtures	2,095	1,966
	19,625	56,331
Accumulated depreciation and amortization	(11,051)	(10,554)
Total	$ 8,574	$ 45,777

Depreciation expense was $3.7 million, $4.4 million and $4.5 million for the years ended January 2, 2005, December 28, 2003 and December 29, 2002, respectively.

Accrued liabilities consist of the following (in thousands):

	January 2, 2005	December 28, 2003
Compensation	$ 3,798	$2,608
Professional fees	1,488	1,437
Taxes	928	523
Reserve for product warranties	577	230
Customer deposits	1,671	253
Short-term deferred revenue	915	—
Short-term deferred gain on sale of building	375	—
Other	655	489
Total	$10,407	$5,540

3. Derivative Financial Instruments

SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, requires that all derivatives be recognized on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. We assess, both at its inception and on an on-going basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting the changes in cash flows of hedged items. We also assess hedge ineffectiveness on a quarterly basis and record the gain or loss related to the ineffective portion to current earnings to the extent significant.

The Company has a foreign exchange hedging program principally designed to mitigate the potential impact due to changes in foreign currency exchange rates. The Company does not hold any derivative financial instruments for trading or speculative purposes. The Company primarily uses forward exchange contracts to hedge foreign currency exposures and they generally have terms of one year or less. These contracts have been designated as cash flow hedges and accordingly, to the extent effective, any unrealized gains or losses on these foreign currency forward contracts are reported in other comprehensive income. Realized gains and losses for the effective portion are recognized with the underlying hedge transaction. The notional settlement amount of the foreign currency forward contracts outstanding at January 2, 2005 was approximately $4.0 million. These contracts had a fair value of approximately $249,443 and were included in other current liabilities at January 2, 2005.

For the year ended January 2, 2005, there were no amounts recognized in earnings due to hedge ineffectiveness and we settled foreign exchange contracts of $283,721. The Company did not hold any derivative financial instruments prior to fiscal 2004.

4. Warranties and Maintenance Contracts

The Company generally provides a one year warranty on genotyping and gene expression systems. At the time revenue is recognized, the Company establishes an accrual for estimated warranty expenses associated with system sales. This expense is recorded as a component of cost of product revenue. Estimated warranty expenses associated with extended maintenance contracts are recorded as cost of revenue ratably over the term of the maintenance contract.

Changes in the Company's warranty liability during the two years ended January 2, 2005 are as follows (in thousands):

Balance at December 29, 2002	$ —
Additions charged to cost of revenue	230
Balance at December 28, 2003	230
Additions charged to cost of revenue	976
Repairs and replacements	(629)
Balance at January 2, 2005	$ 577

5. Commitments and Long-term Debt

Building Loan

In July 2000, the Company entered into a 10-year lease to rent space in two newly constructed buildings in San Diego that are now occupied by the Company. That lease contained an option to purchase the buildings together with certain adjacent land that has been approved for construction of an additional building. The Company exercised that option and purchased the properties in January 2002 and assumed a $26 million, 10-year mortgage on the property at a fixed interest rate of 8.36%. The Company made monthly payments of $208,974, representing interest and principal, through August 2004. Interest expense was $1.4 million, $2.2 million and $2.3 million for the years ended January 2, 2005, December 28, 2003 and December 29, 2002, respectively.

In June, 2004, the Company entered into a conditional agreement to sell its land and buildings for $42.0 million and to lease back such property for an initial term of ten years. The sale was completed in August 2004 at which time the lease was signed. After the repayment of the remaining $25.2 million debt and other related transaction expenses, the Company received $15.5 million in net cash proceeds. The Company removed the land and net book value of the buildings of $36.9 million from its balance sheet, deferred the resulting $3.7 million gain on the sale of the property, and is amortizing the deferred gain over the ten year lease term in accordance with SFAS 13, *Accounting for Leases.*

The Company leased a portion of the space to a tenant under a lease which expired in June 2004. Rental income was recorded as an offset to the Company's facility costs. Rental income was $409,517, $695,282 and $679,468 for the years ended January 2, 2005, December 28, 2003, and December 29, 2002, respectively.

Capital Leases

In April 2000, the Company entered into a $3,000,000 loan arrangement to be used at its discretion to finance purchases of capital equipment. The loan was secured by the capital equipment financed. As of January 2, 2005, all loan payments were made, the underlying equipment was purchased and the loan arrangement was closed. Cost and accumulated depreciation of equipment under capital leases at December 28, 2003 was $1,287,789 and $1,060,278, respectively. Depreciation of equipment under capital leases was included in depreciation expense. Interest expense related to capital leases was $10,500, $56,661 and $97,265 for the years ended January 2, 2005, December 28, 2003 and December 29, 2002, respectively.

Operating Leases

In August 2004, the Company entered into a ten year lease for its San Diego facility after the land and building were sold (as discussed above). Under the terms of the lease, the Company made a $1.9 million security deposit and is paying monthly rent of $318,643 for the first year with an annual increase of 3% in each subsequent year. The lease contains an option to renew for three additional periods of five years each. The Company also leases office space under non-cancelable operating leases that expire at various times through January 2007. These leases contain renewal options ranging from 2 to 3 years. At January 2, 2005, annual future minimum payments under these operating leases are as follows (in thousands):

2005	$ 4,251
2006	4,371
2007	4,131
2008	4,225
2009	4,351
2010 and thereafter	21,896
Total	$43,225

Rent expense, net of amortization of the deferred gain on sale of property, was $1,794,234, $238,065 and $141,361 for the years ended January 2, 2005, December 28, 2003 and December 29, 2002, respectively.

6. Stockholders' Equity

Common stock

As of January 2, 2005, the Company had 38,120,685 shares of common stock outstanding, of which 4,844,072 shares were sold to employees and consultants subject to restricted stock agreements. The restricted common shares vest in accordance with the provisions of the agreements, generally over five years. All unvested shares are subject to repurchase by the Company at the original purchase price. As of January 2, 2005, 154,003 shares of common stock were subject to repurchase.

Stock Options

In June 2000, the Company's board of directors and stockholders adopted the 2000 Stock Plan. The 2000 Stock Plan amended and restated the 1998 Incentive Stock Plan and increased the shares reserved for issuance by 4,000,000 shares. In addition, the 2000 Stock Plan provides for an automatic annual increase in the shares reserved for issuance by the lesser of 5% of outstanding shares of the Company's common stock on the last day of the immediately preceding fiscal year, 1,500,000 shares or such lesser amount as determined by the Company's board of directors.

In 1998, the Company adopted the 1998 Incentive Stock Plan (the ''Plan'') and had reserved 5,750,000 shares of common stock for grants under the Plan. The Plan provided for the grant of incentive and nonstatutory stock options, stock bonuses and rights to purchase stock to employees, directors or consultants of the Company. The Plan provided that incentive stock options to be granted only to employees at no less than the fair value of the Company's common stock, as determined by the board of directors at the date of the grant. Options generally vest 20% one year from the date of grant and ratably each month thereafter for a period of 48 months and expire ten years from date of grant. In December 1999, the Company modified the plan to allow for acceleration of vesting in the event of an acquisition or merger.

A summary of the Company's stock option activity from December 30, 2001 through January 2, 2005 follows:

	Options	Weighted-Average Exercise Price
Outstanding at December 30, 2001	3,380,796	$ 8.97
Granted	1,467,500	$ 5.62
Exercised	(137,727)	$ 0.46
Cancelled	(287,788)	$11.81
Outstanding at December 29, 2002	4,422,781	$ 7.94
Granted	1,241,175	$ 3.31
Exercised	(102,590)	$ 1.25
Cancelled	(331,492)	$ 8.36
Outstanding at December 28, 2003	5,229,874	$ 6.95
Granted	1,453,400	$ 7.08
Exercised	(139,768)	$ 1.98
Cancelled	(337,486)	$ 8.80
Outstanding at January 2, 2005	6,206,020	$ 6.99

At January 2, 2005, options to purchase approximately 2,653,581 shares were exercisable and 5,964,649 shares remain available for future grant.

Following is a further breakdown of the options outstanding as of January 2, 2005:

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price of Options Exercisable
$0.03 - 3.06	1,046,528	7.05	$ 2.00	557,690	$ 1.43
$3.20 - 4.64	1,084,251	8.08	$ 4.14	393,768	$ 4.15
$4.87 - 5.99	1,225,679	7.54	$ 5.78	315,639	$ 5.63
$6.00 - 7.90	1,312,994	8.56	$ 7.27	339,664	$ 7.05
$7.94 - 11.55	1,043,316	6.72	$ 9.11	650,475	$ 9.14
$11.56 - 45.00	493,252	5.94	$21.64	396,345	$21.92
	6,206,020	7.50	$ 6.99	2,653,581	$ 8.00

2000 Employee Stock Purchase Plan

In February 2000, the board of directors and stockholders adopted the 2000 Employee Stock Purchase Plan (the ''Purchase Plan''). A total of 2,445,547 shares of the Company's common stock have been reserved for issuance under the Purchase Plan. The Purchase Plan permits eligible employees to purchase common stock at a discount, but only through payroll deductions, during defined offering periods. The price at which stock is purchased under the Purchase Plan is equal to 85% of the fair market value of the common stock on the first or last day of the offering period, whichever is lower. The initial offering period commenced in July 2000. In addition, the Purchase Plan provides for annual increases of shares available for issuance under the Purchase Plan beginning with fiscal 2001. 585,855, 304,714 and 128,721 shares were issued under the 2000 Employee Stock Purchase Plan during fiscal 2004, 2003 and 2002, respectively.

Deferred Stock Compensation

Since the inception of the Company, in connection with the grant of certain stock options and sales of restricted stock to employees, founders and directors through July 25, 2000, the Company has recorded deferred stock compensation totaling approximately $17.6 million, representing the difference between the exercise or purchase price and the fair value of the Company's common stock as estimated by the Company's management for financial reporting purposes on the date such stock options were granted or restricted common stock was sold. Deferred compensation is included as a reduction of stockholders' equity and is being amortized to expense over the vesting period of the options and restricted stock. During the years ended January 2, 2005, December 28, 2003 and December 29, 2002, the Company recorded amortization of deferred stock compensation expense of approximately $0.8 million, $2.5 million and $4.4 million, respectively.

Shares Reserved for Future Issuance

At January 2, 2005, the Company has reserved shares of common stock for future issuance as follows (in thousands):

2000 Stock Plan	12,171
2000 Employee Stock Purchase Plan	1,364
	13,535

Stockholder Rights Plan

On May 3, 2001, the Board of Directors of the Company declared a dividend of one preferred share purchase right (a ''Right'') for each outstanding share of common stock of the Company. The dividend was payable on May 14, 2001 (the ''Record Date'') to the stockholders of record on that date. Each Right entitles the registered holder to purchase from the Company one unit consisting of one-thousandth of a share of its Series A Junior Participating Preferred Stock at a price of $100 per unit. The Rights will be exercisable if a person or group hereafter acquires beneficial ownership of 15% or more of the outstanding common stock of the Company or announces an offer for 15% or more of the outstanding common stock. If a person or group acquires 15% or more of the outstanding common stock of the Company, each Right will entitle its holder to purchase, at the exercise price of the right, a number of shares of common stock having a market value of two times the exercise price of the right. If the Company is acquired in a merger or other business combination transaction after a person acquires 15% or more of the Company's common stock, each Right will entitle its holder to purchase, at the Right's then-current exercise price, a number of common shares of the acquiring company which at the time of such transaction have a market value of two times the exercise price of the right. The Board of Directors will be entitled to redeem the Rights at a price of $0.01 per Right at any time before any such person acquires beneficial ownership of 15% or more of the outstanding common stock. The rights expire on May 14, 2011 unless such date is extended or the rights are earlier redeemed or exchanged by the Company.

7. Legal Proceedings

The Company has incurred substantial costs in defending itself against patent infringement claims, and expects to devote substantial financial and managerial resources to protect its intellectual property and to defend against the claims described below as well as any future claims asserted against it.

Termination-of-Employment Lawsuit

In June 2002, the Company recorded a $7.7 million charge to cover total damages and estimated expenses awarded by a jury related to a termination-of-employment lawsuit. The Company appealed the decision, and in December 2004, the Fourth Appellate District Court of Appeal, in San Diego, California, reduced the amount of the award. The Company recorded interest expense during the appeal based on the statutory rate. For the years ended January 2, 2005 and December 28, 2003, the Company recorded litigation expense of $567,000 and $756,000, respectively, for interest. As a result of the revised judgment, the Company reduced the $9.2 million liability recorded on its balance sheet to $5.9 million and recorded a gain of $3.3 million as a litigation judgment in the statement of operations for the year ended January 2, 2005.

As a result of the Company's decision to appeal the ruling, the Company filed a surety bond with the court equal to 1.5 times the judgment amount or approximately $11.3 million. Under the terms of the bond, the Company is required to maintain a letter of credit for 90% of the bond amount to secure the bond. Further, the Company was required to deposit approximately $12.5 million of marketable securities as collateral for the letter of credit and accordingly, these funds were restricted from use for general corporate purposes until the appeal process was completed. A judgment was rendered in December 2004 and payment was made in early 2005 at which time the restricted funds, recorded as restricted investments, were released.

Litigation with Applera Corporation's Applied Biosystems Group

In November 1999, the Company entered into a joint development agreement with Applied Biosystems Group (''Applied Biosystems''), an operating group of Applera Corporation (''Applera''), under which the companies would jointly develop a SNP genotyping system that would combine the Company's BeadArray technology with Applied Biosystems' assay chemistry and scanner technology. In conjunction with the agreement, Applied Biosystems agreed to provide the Company with non-refundable research and development support of $10.0 million, all of which was provided by December 2001. As of December 28, 2003 this amount was recorded as a liability on the Company's balance sheet.

In December 2002, Applied Biosystems initiated a patent infringement suit and sought to compel arbitration of an alleged breach of the joint development agreement. In December 2002, the Company filed a suit alleging breach of contract, breach of the implied covenant of good faith and fair dealing, unfair competition and other allegations against Applied Biosystems in San Diego Superior Court, and moved to prevent the arbitration of the joint development agreement sought by Applied Biosystems. In January 2004, the Company notified Applied Biosystems that it was terminating the joint development agreement.

In August 2004, the Company and Applera entered into a settlement and cross-license agreement. Under the terms of the agreement, the Company paid Applera a one-time payment of $8.5 million. The settlement agreement also provided for an exchange of royalty-free cross-licenses to certain intellectual property rights, termination of the joint development agreement, dismissal of the federal patent infringement action brought by Applied Biosystems, termination of the arbitration proceeding, and dismissal of the Company's state court action against Applied Biosystems.

As a result of the settlement, the Company removed the $10.0 million liability from its balance sheet, made a payment of $8.5 million to Applera and recorded a gain of $1.5 million as a litigation settlement in the statement of operations for the year ended January 2, 2005.

Affymetrix Litigation

In July 2004, Affymetrix, Inc. (''Affymetrix'') filed a complaint in the U.S. District Court for the District of Delaware alleging that certain of the Company's products infringe six Affymetrix patents. The suit seeks an unspecified amount of monetary damages and a judgment enjoining the sale of products, if any, that are determined to be infringing these patents. In September 2004, the Company filed its answer and counterclaims to Affymetrix' complaint, seeking declaratory judgments from the court that it does not infringe the Affymetrix patents, and that such patents are invalid, and filed counterclaims against Affymetrix for unfair competition and interference with actual and prospective economic advantage. The Company believes it has meritorious defenses against each of the infringement claims alleged by Affymetrix and intends to vigorously defend itself against this suit. However, the Company cannot be sure it will prevail in this matter. Any unfavorable determination, and in particular, any significant cash amounts required to be paid by the Company or prohibition of the sale of the Company's products and services, could result in a material adverse effect on its business, financial condition and results of operations. While the parties have pending motions before the court, no trial date has yet been set for this case.

8. Collaborative Agreements

International HapMap Project

The Company is the recipient of a grant from the National Institutes of Health covering its participation in the first phase of the International HapMap Project, which is a $100 million, internationally funded successor project to the Human Genome Project that will help identify a map of genetic variations that may be used to perform disease-related research. The Company could receive up to $9.1 million of funding for this project which covers basic research activities, the development of SNP assays and the genotyping to be performed on those assays. As of January 2, 2005, the Company had approximately $0.7 million of funding remaining related to this project which is expected to be received in early 2005.

Invitrogen Corporation

In December 2004, the Company entered into a strategic collaboration with Invitrogen Corporation. The collaboration is expected to expand the Company's Oligator DNA synthesis technology and combine that capability with Invitrogen's sales, marketing and distribution channels. Under the terms of the agreement, Invitrogen has agreed to pay the Company up to $3.4 million, which the Company plans to invest in its San Diego facility to enable implementation of fourth-generation Oligator technology and extend the technology into tube-based oligo products. In addition, the agreement provides for the transfer of the Company's Oligator technology into two Invitrogen facilities outside North America. Profit from the sale of collaboration products will be divided equally between the two companies.

9. Income Taxes

The Company's provision for income taxes for the years ended January 2, 2005 and December 28, 2003 consisted of $135,000 of income tax expense related to its foreign operations. This expense is included with interest and other expense in the statement of operations.

At January 2, 2005, the Company has federal and state tax net operating loss carryforwards of approximately $86.5 million and $39.1 million, respectively. The federal and state tax loss carryforwards will begin expiring in fiscal year 2018 and 2006 respectively, unless previously utilized. The Company also has federal and state research and development tax credit carryforwards of approximately $3.1 million and $3.0 million, respectively, which will begin to expire in fiscal year 2018, unless previously utilized.

Pursuant to Sections 382 and 383 of the Internal Revenue Code, annual use of the Company's net operating loss and credit carryforwards may be limited in the event of a cumulative ownership change of more than 50 percentage points within a three-year period.

Significant components of the Company's deferred tax assets as of January 2, 2005 and December 28, 2003 are shown below (in thousands). A valuation allowance has been established as of January 2, 2005 and December 28, 2003 to offset the net deferred tax assets, as realization of such assets has not met the ''more likely than not'' threshold required under FAS 109.

	January 2, 2005	December 28, 2003
Deferred tax assets:		
Net operating loss carryforwards	$ 32,161	$ 25,869
Research and other credit carryforwards	5,076	5,111
Advance payment from former collaborator	—	4,074
Capitalized research and development	1,857	1,348
Other	6,433	6,795
Total deferred tax assets	45,527	43,197
Valuation allowance for deferred tax assets	(45,527)	(43,197)
Net deferred taxes	$ —	$ —

Deferred tax assets of approximately $0.4 million and $0.2 million at January 2, 2005 and December 28, 2003, respectively, resulted from the exercise of employee stock options. When recognized, the tax benefit of these assets will be accounted for as a credit to additional paid-in capital rather than a reduction of the income tax provision.

Reconciliation of the statutory federal income tax to the Company's effective tax (in thousands):

	Year Ended January 2, 2005	Year Ended December 28, 2003	Year Ended December 29, 2002
Tax at federal statutory rate	$(2,179)	$ (9,472)	$(14,116)
State, net of federal benefit	(336)	(1,434)	(2,115)
Research and development credits	34	(1,374)	(1,239)
Change in valuation allowance	2,330	12,130	14,241
Permanent differences	(264)	738	1,234
Other	550	(588)	1,995
Tax expense	$ 135	$ —	$ —

On October 22, 2004, the President signed the American Jobs Creation Act of 2004 (the ''Act''). The Act creates a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85 percent dividends received deduction for certain dividends from controlled foreign corporations. The deduction is subject to a number of limitations and, as of today, uncertainty remains as to how to interpret numerous provisions in the Act. Based on our analysis of the Act, although not yet finalized, it is possible that under the repatriation provision of the Act we may repatriate some amount of our undistributed foreign earnings. We expect to finalize our assessment in 2005.

10. Retirement Plan

The Company has a 401(k) savings plan covering substantially all of its employees. Company contributions to the plan are discretionary and no such contributions were made during the years ended January 2, 2005, December 28, 2003 and December 29, 2002.

11. Segment Information, Geographic Data and Significant Customers

The Company has determined that, in accordance with SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information* it operates in one segment as it only reports operating results on an aggregate basis to chief operating decision makers of the Company. The Company had sales in the following regions for the years ended January 2, 2005, December 28, 2003 and December 29, 2002 (in thousands):

	January 2, 2005	December 28, 2003	December 29, 2002
United States	$24,166	$13,666	$ 8,731
Europe	12,528	5,909	1,047
Asia	9,703	5,557	246
Other	4,186	2,903	16
Total	$50,583	$28,035	$10,040

Exclusive of revenue recorded from the National Institutes of Health, the Company had one customer that provided approximately 14% of total revenue in the year ended January 2, 2005 and approximately 18% of total revenue in the year ended December 28, 2003 and one other customer that contributed approximately 22% of revenue in the year ended December 29, 2002. Revenue from the National Institutes of Health accounted for approximately 13%, 21% and 19% of total revenue for the years ended January 2, 2005, December 28, 2003 and December 29, 2002, respectively.

12. Subsequent Events

In February 2005, the Company signed a definitive agreement and plan of merger with CyVera Corporation, a privately-held Connecticut-based company, pursuant to which CyVera will become a wholly-owned subsidiary of the Company. CyVera's technology is highly complementary to our portfolio of products and services and upon closing of the transaction will become an integral part of our technology. The aggregate consideration for the transaction is $17.5 million, consisting of approximately 1.5 million shares of the Company's common stock and the payment of approximately $2.3 million of CyVera's liabilities at the closing. The closing is subject to customary conditions and is expected to occur by the end of March 2005. The Company expects the first products based on CyVera's technology to be available in the second half in 2006.

13. Quarterly Financial Information (unaudited)

The following financial information reflects all normal recurring adjustments, except as noted below, which are, in the opinion of management, necessary for a fair statement of the results of interim periods. Summarized quarterly data for fiscal 2004 and 2003 are as follows (in thousands except per share data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2004:				
Total revenues	$10,803	$11,486	$13,512	$14,782
Total cost of revenue	2,802	3,067	3,517	3,873
Net income (loss)	(3,931)	(3,516)	(2,026)	3,248
Historical net loss per share, basic	(0.12)	(0.10)	(0.05)	0.09
Historical net loss per share, diluted	(0.12)	(0.10)	(0.05)	0.08
2003:				
Total revenues	$ 4,276	$ 4,769	$ 8,249	$10,741
Total cost of revenue	1,910	2,026	2,681	3,420
Net loss	(8,960)	(8,592)	(5,511)	(4,000)
Historical net loss per share, basic and diluted	(0.28)	(0.27)	(0.17)	(0.12)

In the third quarter of 2004 the Company recorded a $1.5 million reduction in expense for a legal settlement and in the fourth quarter of 2004, the Company recorded a $3.3 million reduction in expense related to the reduction of a legal judgment (see Note 7).

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS AND RESERVES FOR THE THREE YEARS ENDED JANUARY 2, 2005

	Allowance for Doubtful Accounts	Reserve for Obsolete and Excess Inventory	Reserve for Product Warranty
		(Thousands)	
Balance at December 30, 2001	$ 32	$ —	$ —
Charged to expense	115	73	—
Utilizations	(2)	—	—
Balance at December 29, 2002	145	73	—
Charged to expense	118	466	230
Utilizations	(85)	(73)	—
Balance at December 28, 2003	178	466	230
Charged to expense	49	543	976
Utilizations	(81)	(407)	(629)
Balance at January 2, 2005	$146	$ 602	$ 577

Corporate Directory

BOARD OF DIRECTORS

Jay T. Flatley
President, Chief Executive Officer and Acting Chief Financial Officer
Illumina

John R. Stuelpnagel, D.V.M.
Senior Vice President and Chief Operating Officer
Illumina

Daniel M. Bradbury
Chief Operating Officer
Amylin Pharmaceuticals

Karin Eastham
Executive Vice President and Chief Operating Officer
The Burnham Institute

Paul Grint, M.D.
Senior Vice President and Chief Medical Officer
Zephyr Sciences, Inc.

William H. Rastetter, Ph.D.
Executive Chairman
Biogen Idec

David R. Walt, Ph.D.
Robinson Professor of Chemistry
Tufts University

EXECUTIVE OFFICERS

Jay T. Flatley
President, Chief Executive Officer and Acting Chief Financial Officer

John R. Stuelpnagel, D.V.M.
Senior Vice President and Chief Operating Officer

David L. Barker, Ph.D.
Vice President and Chief Scientific Officer

Paulette D. Cabral
Vice President of Human Resources

David C. Douglas
Vice President of Manufacturing

Noemi C. Espinosa
Vice President of Intellectual Property

Scott D. Kahn, Ph.D.
Vice President and Chief Information Officer

Robert C. Kain
Vice President of Engineering

Alan Kersey
Vice President and Site General Manager

Tristan Orpin
Vice President of Worldwide Sales

Corporate Information

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FORM 10-K
Included with this report is a copy of the Company's Form 10-K filed with the Securities and Exchange Commission. Additional copies are available by contacting Illumina's Investor Relations Department.

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ANNUAL MEETING
The Company's Annual Meeting of Stockholders will be held at the Company's corporate headquarters at 10:00 a.m. on June 28, 2005.

SELECTED COMMON STOCK DATA
The Company's common stock, par value $.01, has been traded under the symbol ILMN since July 28, 2000 on the NASDAQ National Market.

As of May 2, 2005, there were approximately 312 record holders of the Company's common stock. The Company has not paid any cash dividends since its inception and does not anticipate paying any cash dividends in the foreseeable future.

"Safe Harbor" Statement under the Private Securities Litigation Reform Act 1995: this release may contain forward-looking statements that involve risks and uncertainties. Among the important factors that could cause actual results to differ materially from those in any forward-looking statements are the costs and outcome of Illumina's litigation with Affymetrix, the Company's ability to scale and integrate CyVera technology, the ability to further scale oligo synthesis output and technology to satisfy market demand deriving from the Company's collaboration with Invitrogen, Illumina's ability to further develop and commercialize its Infinium assay and BeadArray platform technologies, to deploy new gene expression and genotyping products and applications for its platform technology, to manufacture robust Sentrix® arrays and Oligator® oligonucleotides, and other factors detailed in the Company's filings with the Securities and Exchange Commission including its recent filings on Forms 10-K and 10-Q or in information disclosed in public conference calls, the date and time of which are released beforehand. Illumina disclaims any intent or obligation to update these forward-looking statements beyond the date of this release.

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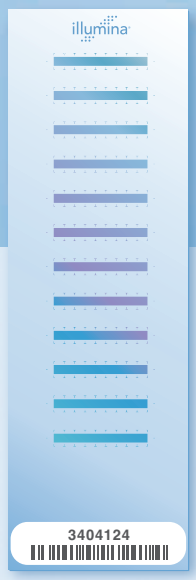
Illumina, Inc.
9885 Towne Centre Drive
San Diego, CA 92121
www.illumina.com

EXHIBIT 2.c

illumina®

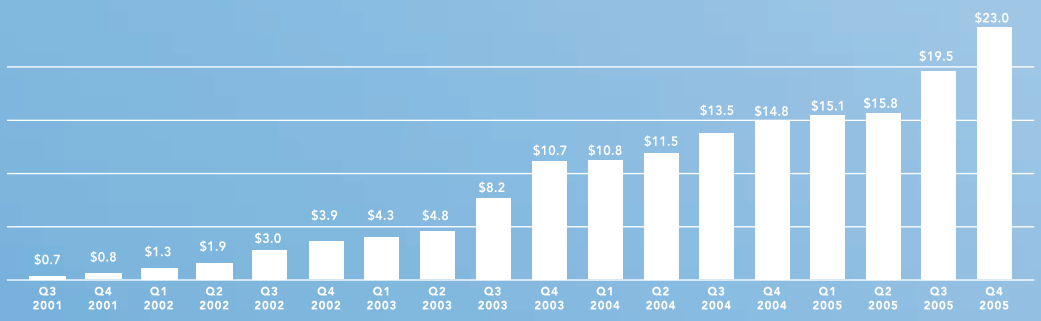
ANNUAL REPORT **2005**

ILLUM-2092



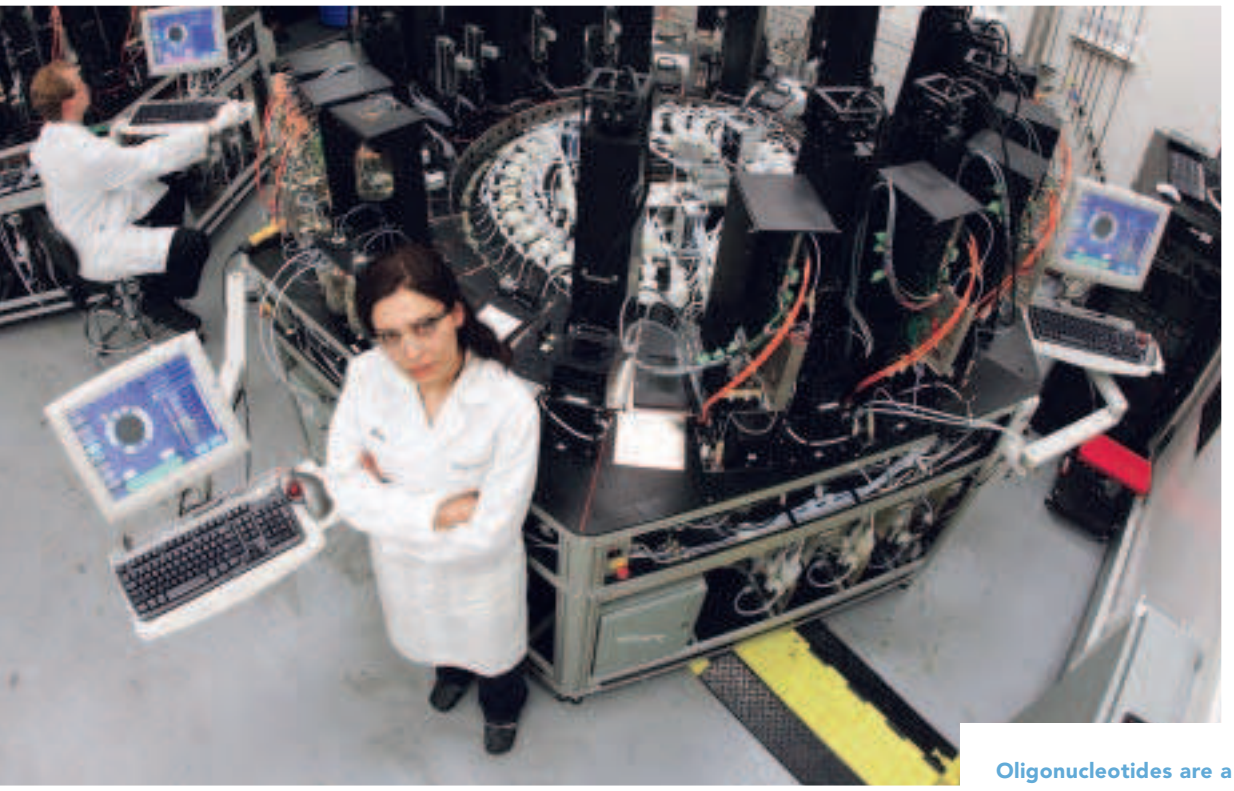
Illumina helps researchers understand the genetic basis of disease. Shown on the cover are Sentrix® HumanHap BeadChips, each of which can genotype hundreds of thousands of SNPs per sample. Powered by Illumina's revolutionary Infinium™ assay, HumanHap BeadChips deliver unprecedented performance for large-scale disease association studies.

18 QUARTERS OF SEQUENTIAL REVENUE GROWTH ($ millions)



Illumina recorded a breakthrough year in 2005.

New product launches, enterprise-wide execution, and strong market acceptance validated our commercial strategy and positioned Illumina for sustainable growth. We launched Infinium genotyping to the life science community, enabling scientists to search accurately and economically for genetic correlations to disease. Capping the year, we achieved profitability in the fourth quarter of 2005, our eighteenth quarter of sequential revenue growth.



Oligonucleotides are a key raw material for Illumina arrays and reagents and a co-branded offering under our collaboration agreement with Invitrogen. Our fourth-generation Oligator® DNA synthesizers generate unprecedented oligonucleotide output and quality at the lowest cost points in our industry—a source of competitive advantage for Illumina.

ILLUM-2095

John R. Stuelpnagel, D.V.M., Senior Vice President and COO, and Jay T. Flatley, President and CEO

Dear Fellow Shareholders:

Illumina had an incredible year in 2005, achieving significant milestones in all areas of our business. These achievements have positioned us well to continue our leadership in the development of tools for the large-scale analysis of genetic variation and function.

We reported record financial results, launched several market transforming products, and scaled our infrastructure to support the significant opportunities we see for growth in the years ahead. In particular, we attained 45 percent revenue growth to $73.5 million and achieved profitability in the fourth quarter. Our revenue growth was driven by the launch of several new products, most notably our whole-genome genotyping Human-1 BeadChip. In short succession, we introduced our groundbreaking HumanHap300 and the recently launched HumanHap550.

The development of these products was enabled by our revolutionary Infinium assay featuring "intelligent SNP selection." This capability allows our products to analize virtually any location of variation in the genome and provides tremendous flexibility in product development. To maximize this benefit, we created a Scientific Advisory Committee comprised of HapMap participants and statistical geneticists from leading research institutions to help us select the most relevant SNPs to include on our chips.

The resulting content features so-called "tagSNPs" derived from the Human HapMap Project. TagSNPs are proxies for larger groups of SNPs called haplotypes that are inherited together. By taking a tagSNP-centric approach, investigators can genotype the entire human genome comprehensively with a much smaller population of SNPs than the 10 million or so total SNP variants in each of our genomes. For example, our Sentrix HumanHap300 BeadChip contains over 317,000 SNP markers with broad genomic coverage—an important performance metric for large-scale disease association studies.

The HumanHap300 has fundamentally changed the way customers think about performance and quality, setting a new standard for this emerging market.

Performance of our whole-genome genotyping products has created incredible demand, requiring rapid scale-up of our manufacturing capacity. The modular nature of our manufacturing process enabled us to triple our BeadChip manufacturing capacity in less than nine months with only a modest capital investment. As we look further into 2006, we see BeadChip demand continuing to increase and we are committed to doubling our capacity from current levels over the course of the year through a combination of capital additions and process improvements.

Significant market demand has been demonstrated by the announcement of multiple genotyping deals in excess of 1,000 BeadChips each. These customers include commercial organizations such as Genizon (16,000 samples) and academic centers such as CIDR (Center for Inherited Disease Research - 2,500 samples), as well as organizations like Cancer Research-UK, with which we have signed two significant multi-phase service agreements, each to genotype at least 4,000 samples.

In 2005, our genotyping services business saw significant growth. Revenue from our genotyping services business increased by over 70% to more than $13.8 million. Interestingly, the studies we completed were quite varied in nature—from human disease and genetic linkage work to a number of significant studies focused on selective breeding of poultry, livestock and agricultural crops. We believe that the services business will continue to grow in 2006 as researchers continue to see the quality of data and the rapid turnaround provided by our services group.

In our gene expression business, we launched the industry's first multi-sample chips for genome-wide RNA analysis of human and mouse. These products demonstrate the flexibility and value of the BeadChip by enabling researchers to profile six whole-genome RNA samples on each chip. In addition, we introduced our DASL™ assay, giving researchers the means to perform gene expression experiments on samples with degraded RNAs such as tumor samples embedded in paraffin blocks. In 2006, we expect to complete the core of our expression products with the launch of a whole-genome RNA analysis product for rat, a key organism in the toxicology market.

Our ability to manufacture BeadChips begins with the synthesis of short pieces of DNA called oligos that, once attached to beads, act as the detectors on our chips. In 2005, we brought our fourth-generation oligo synthesis technology online. These fully automated systems are each capable of producing more than 13,000 oligos simultaneously, compared to our previous ability to produce approximately 3,000 oligos in a run. This significant increase in throughput enables us to rapidly develop new BeadChip products, providing an important competitive advantage.

Our current and successor products will provide researchers with capabilities only dreamed of five years ago.

Additionally, the significantly increased scale in oligo manufacturing capability enabled us to commence manufacturing of oligos under our collaboration with Invitrogen Corporation, which was announced in December of 2004. Under this collaboration, we manufacture co-branded oligos which are then sold by Invitrogen's 350-person sales force. The profit resulting from the sale of these collaborative products is split evenly between the companies.

ILLUM-2097

In just nine months, Illumina tripled manufacturing capacity to meet fast-growing market demand for whole-genome genotyping arrays. Shown above is our new decoding facility for Sentrix® HumanHap BeadChips.

BILL RASTETTER DISCUSSES

Corporate Governance

"In order to be effective, the Board of Directors must look objectively at governance, compensation and related issues to ensure management is not only performing, but performing in a manner that is fully transparent and fully compliant with best-in-class practices," explains William H. Rastetter, Ph.D., who was named Illumina's non-executive Board Chairman in January 2005.

"Illumina's corporate governance policies are both formal and rigorous. We believe that our commitment to strong corporate governance creates shareholder value through enabling us to do our jobs even more effectively and by ensuring that our shareholders maintain confidence in our management and governance practices," added Rastetter.

In early 2005, we announced the completion of our acquisition of CyVera Corporation. We have been focused on developing CyVera's digital microbead technology called VeraCode™, which is highly complementary to our existing BeadArray platform. VeraCode technology is optimized for delivering low- to mid-multiplex applications, which we will deploy into both the research markets and the emerging field of molecular diagnostics. We have rapidly integrated CyVera into our operations and plan to launch the BeadXpress™ instrument system and the first products using VeraCode technology before the end of 2006. We expect that this product line will begin to contribute measurably to our revenue growth in 2007.

Our human resources increased by 35% in 2005, with 30 of those employees joining Illumina from CyVera. Among key appointments to our senior management team, we named Christian Henry as Chief Financial Officer. Earlier this year, we appointed Matt Posard as Vice President of Marketing. Most recently, we announced the appointment of Arthur Holden as Senior Vice President of Corporate and Market Development. We look forward to leveraging Arthur's deep experience in the healthcare industry.

At Illumina, we are committed to strong corporate governance to ensure transparency and consistency in our performance as a company. Our non-executive Chairman of the Board, Bill Rastetter, is helping us deliver on this commitment. Bill has also expanded his involvement to provide strategic guidance to our management team.

ILLUM-2099

Our Path Forward

Whole-genome expression was the first large-scale application for microarrays, enabling the study of gene regulation to characterize specific diseases. Whole-genome genotyping is the next breakthrough array application, allowing the association of our genetic code with our tendency to inherit or contract disease. Over the next few years, we expect this market to experience rapid growth as genotyping becomes widely adopted in clinical trials and molecular diagnostics.

Our current and successor products will provide researchers with capabilities only dreamed of five years ago: the ability to explore the genetic cause of disease in a comprehensive manner across the entire human genome. We are on the brink of what we believe will be one of the most exciting periods of discovery in the history of medicine.

The launch of our whole-genome genotyping products has positioned us to become a leader in this rapidly growing market. In addition, our progress in scaling our infrastructure in 2005 enables us to accelerate the delivery of exciting new products to market.

In research, we are working on key technologies such as DNA methylation analysis that could ultimately provide critical information for understanding the origin and progression of cancer. Cancer is just one of several common, yet complex diseases that could benefit from our technology. Illumina is delivering similar value to scientists studying diabetes, autoimmune diseases, and diseases related to the central nervous system (CNS).

Much of the credit goes to our growing library of assay methods and our ability to deploy these methods for array-based research.

Our products will give researchers the tools to unravel the mysteries of the genome with the ultimate aim of improving diagnostics and therapies, while laying the groundwork for a more personalized approach to healthcare that recognizes differential response to drugs and enables more successful clinical outcomes.

We believe that Illumina will be a major contributor to this process. It's an opportunity that is both exciting and humbling.

Thank you for joining us in this endeavor.

JAY T. FLATLEY
PRESIDENT AND CHIEF EXECUTIVE OFFICER

JOHN R. STUELPNAGEL, D.V.M.
SENIOR VICE PRESIDENT AND CHIEF OPERATING OFFICER

2005 RESULTS: form 10-K >

ILLUM-2101

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended January 1, 2006

or

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

For the transition period from to .

Commission file number: 000-30361

Illumina, Inc.

(Exact name of Registrant as Specified in Its Charter)

Delaware	**33-0804655**
(State or other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*
9885 Towne Centre Drive, San Diego, California	**92121**
(Address of Principal Executive Offices)	*(zip code)*

Registrant's telephone number, including area code: (858) 202-4500

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

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

Common Stock, $0.01 par value

(Title of class)

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

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

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

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

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

Large accelerated filer ☐ Accelerated filer ☑ Non-accelerated filer ☐

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

As of January 31, 2006, there were 41,269,312 shares of the Registrant's Common Stock outstanding. The aggregate market value of the Common Stock held by non-affiliates of the Registrant as of July 1, 2005 (the last business day of the Registrant's most recently completed second fiscal quarter), based on the closing price for the Common Stock on the Nasdaq National Market on that date, was $463,243,240. This amount excludes an aggregate of 2,892,533 shares of Common Stock held by officers and directors and each person known by the Registrant to own 10% or more of the outstanding Common Stock. Exclusion of shares held by any person should not be construed to indicate that such person possesses the power, directly or indirectly, to direct or cause the direction of the management or policies of the Registrant, or that the Registrant is controlled by or under common control with such person.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement for the annual meeting of stockholders expected to be held on June 8, 2006 are incorporated by reference into Items 10 through 14 of Part III of this Report.

ILLUMINA, INC.

FORM 10-K
FOR THE FISCAL YEAR ENDED JANUARY 1, 2006

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PART I

ITEM 1. *Business.*

This Annual Report on Form 10-K may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. These statements relate to future events or our future financial performance. We have attempted to identify forward-looking statements by terminology including ''anticipates,'' ''believes,'' ''can,'' ''continue,'' ''could,'' ''estimates,'' ''expects,'' ''intends,'' ''may,'' ''plans,'' ''potential,'' ''predicts,'' ''should'' or ''will'' or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks outlined under ''Item 1A. Risk Factors'' in this Annual Report, that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels or activity, performance or achievements expressed or implied by these forward-looking statements. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Accordingly, you should not unduly rely on these forward-looking statements, which speak only as of the date of this Annual Report. We are not under any duty to update any of the forward-looking statements after the date we file this Annual Report on Form 10-K or to conform these statements to actual results, unless required by law. You should, however, review the factors and risks we describe in the reports we file from time to time with the Securities and Exchange Commission.

Illumina®, Array of Arrays™, BeadArray™, DASL®, GoldenGate®, Infinium™, Sentrix® and Oligator® are our trademarks. This report also contains brand names, trademarks or service marks of companies other than Illumina, and these brand names, trademarks and service marks are the property of their respective holders.

Available Information

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports are available free of charge on our website, www.illumina.com. The information on our website is not incorporated by reference into this report. Such reports are made available as soon as reasonably practicable after filing with, or furnishing to, the Securities and Exchange Commission. The SEC also maintains an Internet site at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that electronically file with the SEC.

Overview

We were incorporated in April 1998. We develop and market next-generation tools for the large-scale analysis of genetic variation and function. Understanding genetic variation and function is critical to the development of personalized medicine, a key goal of genomics. Using our technologies, we have developed a comprehensive line of products that are designed to provide the performance, throughput, cost effectiveness and flexibility necessary to enable researchers in the life sciences and pharmaceutical industries to perform the billions of tests necessary to extract medically valuable information from advances in genomics. This information is expected to correlate genetic variation and gene function with particular disease states, enhancing drug discovery, allowing diseases to be detected earlier and more specifically, and permitting better choices of drugs for individual patients.

In 2001, we began commercial sale of short pieces of DNA called oligonucleotides, which we refer to as oligos, manufactured using our proprietary Oligator technology. We believe our Oligator technology is more cost effective than competing technologies, and this advantage enabled us to market our oligos under a price leadership strategy while still achieving attractive gross margins.

In 2001, we commercialized the first implementation of our BeadArray technology, the Sentrix Array Matrix. This is a disposable matrix with 96 fiber optic bundles arranged in a pattern that matches the standard 96-well microtiter plate. Each fiber optic bundle performs more than 1,500 unique assays, which enables researchers to perform focused genotyping experiments in a high-throughput format. This format was also used to initiate our single nucleotide polymorphism (''SNP'') genotyping services product line. As a result of the increasing market acceptance of our high throughput, low cost BeadArray technology, we have entered into genotyping services contracts with many leading genotyping centers, and were awarded $9.1 million from the National Institutes of Health to play a major role in the first phase of the International HapMap Project.

Our production-scale BeadLab is a turnkey platform that includes all hardware and software necessary to enable researchers to perform genetic analysis research on what we believe is an unprecedented scale. This system is being marketed to a small number of high-throughput genotyping users. As of January 1, 2006, we have installed and recorded revenue for 11 BeadLabs.

In 2003, we announced the launch of several new products, including 1) a new array format, the Sentrix BeadChip, which significantly expands market opportunities for our BeadArray technology and provides increased experimental flexibility for life science researchers; 2) a gene expression product line on both the Sentrix Array Matrix and the Sentrix BeadChip that allows researchers to analyze a focused set of genes across eight to 96 samples on a single array; and 3) a benchtop SNP genotyping and gene expression system, the BeadStation, for performing moderate-scale genotyping and gene expression using our technology. The BeadStation includes our BeadArray Reader, analysis software and assay reagents and is designed to match the throughput requirements and variable automation needs of individual research groups and core labs. Sales of these products began in the first quarter of 2004 and, as of January 1, 2006, we have shipped 115 BeadStations.

In late 2004, we announced a strategic collaboration with Invitrogen Corporation (''Invitrogen'') to synthesize and distribute oligos. In the third quarter of 2005, we began shipping oligo products in connection with this agreement. As part of the agreement, we have developed the next generation of our Oligator DNA synthesis technology, which we have designed to support both plate- and tube-based capabilities. Invitrogen is responsible for sales, marketing and technical support. Profits from sales of collaboration products are divided equally between the two companies.

In 2005, we began shipments of Sentrix BeadChips for whole-genome gene expression and whole-genome genotyping. The whole-genome gene expression BeadChips are designed to enable high-performance, cost-effective, whole-genome expression profiling of multiple samples on a single chip, resulting in a dramatic reduction in cost of whole-genome expression analysis. Our whole-genome expression product line includes multi-sample products for both the Human and Mouse Genomes. The whole-genome genotyping BeadChip is designed to scale to high levels of multiplexing without compromising data quality and to provide scientists the ability to query hundreds of thousands of SNPs in parallel. In the second quarter of 2005, we commenced shipment of our first whole-genome genotyping BeadChip, the HumanHap1, which interrogates more than 100,000 SNPs in parallel.

In April 2005, we completed the acquisition of CyVera Corporation, a privately-held Connecticut-based company, pursuant to which CyVera became a wholly-owned subsidiary of Illumina. We believe that CyVera's digital-microbead platform will be highly complementary to our portfolio of products and services. The acquisition is expected to provide us with a comprehensive approach to bead-based assays for biomarker research and development and in-vitro and molecular diagnostic opportunities, including those that require low-complexity as well as high-complexity testing. We expect the first products based on CyVera's technology to be available in the second half of 2006. The purchase price associated with the transaction was approximately $17.8 million. We allocated $15.8 million of this purchase price to acquired in-process research and development and charged such amount against earnings in the second quarter of 2005.

In January 2006, we began shipment of the new Sentrix HumanHap300 Genotyping BeadChip to customers around the world. Using the Infinium assay, which enables us to select virtually any SNP in the genome, the HumanHap300 BeadChip offers genomic coverage for more than 317,000 SNPs. We selected the SNP assays in collaboration with a consortium of scientists that are leaders in the genotyping field. We believe this product has quality and performance features that support our expectation that it will become an important discovery tool for researchers seeking to understand the genetic basis of common, yet complex diseases.

We are seeking to continue to expand our customer base for our BeadArray technology; however, we can give no assurance that our sales efforts will continue to be successful.

We were incorporated in California in April 1998. We reincorporated in Delaware in July 2000. Our principal executive offices are located at 9885 Towne Centre Drive, San Diego, California 92121. Our telephone number is (858) 202-4500.

Industry Background

Genetic Variation and Function

Every person inherits two copies of each gene, one from each parent. The two copies of each gene may be identical, or they may be different. These differences are referred to as genetic variation. Examples of the physical consequences of genetic variation include differences in eye and hair color. Genetic variation can also have important medical consequences, including predisposition to disease and differential response to drugs. Genetic variation affects disease susceptibility, including predisposition to cancer, diabetes, cardiovascular disease and Alzheimer's disease. In addition, genetic variation may cause people to respond differently to the same drug treatment. Some people may respond well, others may not respond at all, and still others may experience adverse side effects. A common form of genetic variation is a SNP. A SNP is a variation in a single position in a DNA sequence. It is estimated that the human genome contains over nine million SNPs.

While in some cases a single SNP will be responsible for medically important effects, it is now believed that combinations of SNPs may contribute to the development of most major diseases. Since there are millions of SNPs, it is important to investigate many representative, well-chosen SNPs simultaneously in order to discover medically valuable information.

Another contributor to disease and dysfunction is the over- or under-expression of genes within an organism's cells. A very complex network of genes interacts to produce healthy individuals. The challenge for scientists is to delineate the associated genes' expression patterns and their relationship to disease. Until recently, this problem was addressed by investigating effects on a gene-by-gene basis. This is time consuming, and difficulties exist when several pathways can not be observed or ''controlled'' at the same time. With the advent of microarray technology, thousands of genes can now be tested at the same time.

SNP Genotyping

SNP genotyping is the process of determining which base (A, C, G or T) is present at a particular site in the genome within an individual or other organism. The use of SNP genotyping to obtain meaningful statistics on the effect of an individual SNP or a collection of SNPs, and to apply that information to clinical trials and diagnostic testing, requires the analysis of millions of SNP genotypes and the testing of large populations for each disease. For example, a single large clinical trial could involve genotyping 300,000 SNPs per patient in 1,000 patients, thus requiring 300 million assays. Using previously available technologies, this scale of SNP genotyping was both impractical and prohibitively expensive.

Large-scale SNP genotyping can be used in a variety of ways, including studies designed to understand the genetic contributions to disease (disease association studies), genomics-based drug development, clinical trial analysis, disease predisposition testing, and disease diagnosis. SNP genotyping can also be used outside of healthcare, for example in the development of plants and animals with desirable commercial characteristics. These markets will require billions of SNP genotyping assays annually.

Gene Expression Profiling

Gene expression profiling is the process of determining which genes are active in a specific cell or group of cells and is accomplished by measuring mRNA, the intermediary messenger between genes (DNA) and proteins. Variation in gene expression can cause disease, or act as an important indicator of disease or predisposition to disease. By comparing gene expression patterns between cells from different environments, such as normal tissue compared to diseased tissue or in the presence or absence of a drug, specific genes or groups of genes that play a role in these processes can be identified. Studies of this type, often used in drug discovery, require monitoring thousands, and preferably tens of thousands, of mRNAs in large numbers of samples. Once a smaller set of genes of interest has been identified, researchers can then examine how these genes are expressed or suppressed across numerous samples, for example, within a clinical trial.

As gene expression patterns are correlated to specific diseases, gene expression profiling is becoming an increasingly important diagnostic tool. Diagnostic use of expression profiling tools is anticipated to grow rapidly with the combination of the sequencing of various genomes and the availability of more cost-effective technologies.

Our Technologies

BeadArray Technology

We have developed a proprietary array technology that enables the large-scale analysis of genetic variation and function. Our BeadArray technology combines microscopic beads and a substrate in a simple proprietary manufacturing process to produce arrays that can perform many assays simultaneously. Our BeadArray technology provides a unique combination of high throughput, cost effectiveness, and flexibility. We achieve high throughput with a high density of test sites per array and we are able to format arrays either in a pattern arranged to match the wells of standard microtiter plates or in various configurations in the format of standard microscope slides. We seek to maximize cost effectiveness by reducing consumption of expensive reagents and valuable samples, and through the low manufacturing costs associated with our technologies. Our ability to vary the size, shape and format of the well patterns and to create specific bead pools, or sensors, for different applications provides the flexibility to address multiple markets and market segments. We believe that these features have enabled our BeadArray technology to become a leading platform for the emerging high-growth market of SNP genotyping and expect they will enable us to become a key player in the gene expression market.

Our proprietary BeadArray technology combines microwells etched into a substrate and specially prepared beads that self-assemble into an array. We have deployed our BeadArray technology in two different Sentrix array formats, the Array Matrix and the BeadChip. Our first bead-based product was the Array Matrix which incorporates fiber optic bundles. The fiber optic bundles, which we cut into lengths of less than one inch, are manufactured to our specifications. Each bundle is comprised of approximately 50,000 individual fibers and 96 of these bundles are placed into an aluminum plate, which forms an Array Matrix. BeadChips are fabricated in microscope slide-shaped sizes with varying numbers of sample sites per slide. Both formats are chemically etched to create tens to hundreds of thousands of wells for each sample site.

In a separate process, we create sensors by affixing a specific type of molecule to each of the billions of microscopic beads in a batch. We make different batches of beads, with the beads in a given batch coated with one particular type of molecule. The particular molecules on a bead define that bead's function as a sensor. For example, we create a batch of SNP sensors by attaching a particular DNA sequence, or oligo, to each bead in the batch. We combine batches of coated beads to form a pool specific to the type of array we intend to create. A bead pool one milliliter in volume contains sufficient beads to produce thousands of arrays. One of the advantages of this technology is that it allows us to create universal arrays for SNP genotyping, and by varying the reagent kit, we are able to use the array to test for any combination of SNPs.

To form an array, a pool of coated beads is brought into contact with the array surface where they are randomly drawn into the wells, one bead per well. The tens of thousands of beads in the wells comprise our individual arrays. Because the beads assemble randomly into the wells, we perform a final procedure called 'decoding' in order to determine which bead type occupies which well in the array. We employ several proprietary methods for decoding, a process that requires only a few steps to identify all the beads in the array. One beneficial by-product of the decoding process is a validation of each bead in the array. This quality control test characterizes the performance of each bead and can identify and eliminate use of any empty wells. We ensure that each bead type on the array is sufficiently represented by including multiple copies of each bead type. Multiple bead type copies improve the reliability and accuracy of the resulting data by allowing statistical processing of the results of identical beads. We believe we are the only microarray company to provide this level of quality control in the industry.

An experiment is performed by preparing a sample, such as DNA from a patient, and introducing it to the array. The design features of our Array Matrix allow it to be simply dipped into a solution containing the sample, whereas our BeadChip allows processing of samples on a slide-sized platform. The molecules in the sample bind to their matching molecules on the coated bead. The BeadArray Reader detects the matched molecules by shining a laser on the fiber optic bundle or on the BeadChip. Since the molecules in the sample have a structure that causes them to emit light in response to a laser, detection of a binding event is possible. This allows the measurement of the number of molecules bound to each coated bead, resulting in a quantitative analysis of the sample.

Oligator Technology

Genomic applications require many different short pieces of DNA that can be made synthetically, called oligos. For example, SNP genotyping may require three to four different oligos per assay. A SNP genotyping experiment analyzing 10,000 SNPs may therefore require 30,000 to 40,000 different oligos, contributing significantly to the expense of the experiment.

We have developed our proprietary Oligator technology for the parallel synthesis of many different oligos to meet the requirements of large-scale genomics applications. We believe that our Oligator technology is substantially more cost effective and provides significantly higher throughput than available commercial alternatives. Our synthesis machines are computer controlled and utilize many robotic processes to minimize the amount of labor used in the manufacturing process. In 2005, we implemented our fourth-generation Oligator technology, which is capable of manufacturing up to 13,000 different oligos per run. This is an improvement over prior generations of technology where we could only manufacture approximately 3,000 oligos per run. This increase in scale was necessary to enable us to support the manufacture of oligos under our collaboration with Invitrogen as well as to support our increased need for oligos, a critical component of our BeadArray technology.

Key Advantages of Our BeadArray and Oligator Technologies

We believe that our BeadArray and Oligator technologies provide distinct advantages, in a variety of applications, over competing technologies, by creating cost-effective, highly miniaturized arrays with the following advantages:

High Throughput. The miniaturization of our BeadArray technology provides very high information content per unit area. To increase sample throughput, we have formatted our array matrix in a pattern arranged to match the wells of standard microtiter plates, allowing throughput levels of up to nearly 150,000 unique assays per microtiter plate, and we use laboratory robotics to speed process time. Similarly, we have patterned our whole-genome expression BeadChips to support up to 48,000 gene expression assays for six samples with each BeadChip. The Oligator's parallel synthesis capability allows us to manufacture the diversity of oligos necessary to support large-scale genomic applications.

Cost Effectiveness. Our array products substantially reduce the cost of experiments as a result of our proprietary manufacturing process and our ability to capitalize on cost reductions generated by advances in fiber optics, plasma etching processes, digital imaging and bead chemistry. In addition, these products require smaller reagent volumes than other array technologies, and therefore reduce reagent costs. Our cost-effective Oligator technology further reduces reagent costs, as well as the cost of coating beads.

Flexibility. A wide variety of conventional chemistries are available for attaching different molecules, such as DNA, RNA, proteins, and other chemicals to beads. By using beads, we are able to take advantage of these chemistries to create a wide variety of sensors, which we assemble into arrays using the same proprietary manufacturing process. In addition, we can have fiber optic bundles and BeadChips manufactured in multiple shapes and sizes with wells organized in various arrangements to optimize them for different markets and market segments. In combination, the use of beads and etched wells provides the flexibility and scalability for our BeadArray technology to be tailored to perform many applications in many different market segments, from drug discovery to diagnostics. Our Oligator technology allows us to manufacture a wide diversity of lengths and quantities of oligos.

Quality. The quality of our products is dependent upon each element in the system, the array, the assay used to perform the experiment and the instrumentation and software used to capture the results.

Each array is manufactured with a high density of beads which enables us to have multiple copies of each individual bead type. We measure the copies simultaneously and combine them into one data point. This allows us to make a comparison of each bead against its own population of identical beads, which permits the statistical calculation of a more reliable and accurate value for each data point. Finally, the manufacture of the array includes a proprietary decoding step that also functions as a quality control test of every bead on every array, improving the overall quality of the data.

When we develop the assays used with our products we focus on the performance, cost and ease of use. By developing assays that are easy to use, we can minimize the potential for the introduction of experimental error into the experiment. We believe that this enables the researcher to obtain high quality data from their experiments. Additionally, we manufacture substantially all of the reagents used in our assays which allows us to control the quality of the product delivered to the customer.

Our Strategy

Our goal is to make our BeadArray platforms the industry standard for products and services utilizing array technologies. We plan to achieve this by:

- focusing on emerging high-growth markets;
- rapidly commercializing our BeadLab, BeadStation, Sentrix Array Matrix and BeadChip products;

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- expanding our technologies into multiple product lines and market segments; and
- strengthening our technological leadership.

Products and Services

The first implementation of our BeadArray technology, the Sentrix Array Matrix, is a disposable matrix with 96 fiber optic bundles arranged in a pattern that matches the standard 96-well microtiter plate. Each fiber optic bundle performs more than 1,500 unique assays. The BeadChip, introduced in 2003, is fabricated in multiple configurations to support multiple applications and scanning technologies.

We have provided genotyping services using our proprietary BeadArray technology since 2001. In addition, we have developed our first genotyping and gene expression products based on this technology. These products include disposable Sentrix Array Matrices and BeadChips, GoldenGate and Infinium reagent kits for SNP genotyping, BeadArray Reader scanning instruments and an evolving portfolio of custom and standard gene expression products.

SNP Genotyping

In 2001, we introduced the first commercial application of our BeadArray technology by launching our SNP genotyping services product line. Since this launch, we have had peak days in which we operated at over two million genotypes per day based on individual samples. To our knowledge, no other genotyping platform can achieve comparable levels of throughput while delivering such high accuracy and low cost.

We designed our first consumable BeadArray product, the Sentrix Array Matrix, for SNP genotyping. The Sentrix Array Matrix uses a universal format that allows it to analyze any set of SNPs. We have also developed reagent kits based on GoldenGate assay protocols and the BeadArray Reader, a laser scanner, which is used to read our array products.

Depending on throughput and automation requirements, our customers can select the system configuration to best meet their needs. For production-scale throughput, our BeadLab would be appropriate, and for moderate-scale throughput, our BeadStation would be selected. Our BeadLab includes our BeadArray Reader, combined with LIMS, standard operating procedures and analytical software and fluid handling robotics. This production-scale system was commercialized in late 2002 and when installed, this system can routinely produce millions of genotypes per day.

The BeadStation, a system for performing moderate-scale genotyping designed to match the throughput requirements of individual research groups and core labs, was commercialized in late 2003. The BeadStation includes our BeadArray Reader and genotyping and/or gene expression analysis software. Our BeadStations are fully upgradeable to a full BeadLab through various steps that add automation, sample preparation equipment and LIMS capability. For use in custom SNP genotyping, both the BeadLab and BeadStation utilize GoldenGate assay reagents and our Array Matrix.

In 2003, we announced the availability of an assay set for genetic linkage analysis. This standard product has been deployed in our genotyping services operation and is also sold to customers who use our SNP genotyping systems. Genetic linkage analysis can help identify chromosomal regions with potential disease associations across a related set of samples.

In 2004, we announced a new Sentrix Human-1 Genotyping BeadChip for whole-genome genotyping. This BeadChip provides to scientists the ability to interrogate over 100,000 SNPs located in high-value genetic regions of the human genome. In 2006, we announced the Sentrix HumanHap300 Genotyping BeadChip for larger-scale SNPs studies, which can assay more than 317,000 SNPs displayed across the entire human genome.

In 2005, we announced the MHC Panel Set, which allows the interrogation of a difficult-to-assay area of the genome, often associated with autoimmune diseases. In addition, we announced the Mouse-6 and MouseRef-8 Gene Expression BeadChip allowing the study of the levels of gene expression in mouse model.

Gene Expression Profiling

With the addition of application specific accessory kits, our production-scale BeadLabs and BeadStations are capable of performing a growing number of applications, including gene expression profiling.

In 2003, we introduced our focused set gene expression products on both the Sentrix Array Matrix and Sentrix BeadChip platforms. Our system includes a BeadArray Reader for imaging Sentrix Array Matrices and BeadChips, a hybridization chamber and software for data extraction. In addition, we have developed standard gene expression products for each of the human, mouse and arabidopsis genomes with an additional panel that focuses on human toxicology.

In 2005, we began shipment of the Sentrix Human-6 and HumanRef-8 Expression BeadChip products. Both products allow large-scale expression profiling of multiple samples on a single chip and are imaged using our BeadArray Reader. The Human-6 BeadChip is designed to analyze six discrete whole-human-genome samples on one chip, interrogating in each sample approximately 48,000 transcripts from the estimated 30,000 genes in the human genome. The HumanRef-8 BeadChip product analyzes eight samples in parallel against 24,000 transcripts from the roughly 22,000 genes represented in the consensus RefSeq database, a well-characterized whole-genome subset used broadly in genetic analysis. We expect that these gene expression BeadChips will dramatically reduce the cost of whole-genome expression analysis, allowing researchers to expand the scale and reproducibility of large-scale biological experimentation.

Scanning Instrumentation

The BeadArray Reader, an instrument we developed, is a key component of both our production-scale BeadLab and our benchtop BeadStation. This scanning equipment uses a laser to read the results of experiments that are captured on our arrays and was designed to be used in all areas of genetic analysis that use our Sentrix Array Matrices and Sentrix BeadChips.

High-Throughput Oligo Synthesis

We have put in place a state of the art oligo manufacturing facility. This facility serves both the commercial needs under our collaboration with Invitrogen and our internal needs. In addition to their use to coat beads, these oligos are components of the reagent kits for our BeadArray products and are used for assay development. We manufacture oligos in a wide range of lengths and in several scales, with the ability to add many types of modifications. We offer a range of quality control options and have implemented a laboratory information management system to control much of the manufacturing process. In 2003, we introduced the first standard product offerings in our Oligator product line, a whole-genome oligo reference set designed and optimized for spotted gene expression microarrays, and in 2004, we introduced a mouse genome oligo set, also for use on spotted gene expression arrays. In 2005, we stopped selling oligos directly into the market and began shipping oligos under our collaboration with Invitrogen.

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Collaboration with Invitrogen Corporation

In December 2004, we entered into a strategic collaboration with Invitrogen. The goal of the collaboration is to combine our expertise in oligo manufacturing with the sales, marketing and distribution capabilities of Invitrogen. In connection with the collaboration, we have developed the next generation Oligator® DNA synthesis technology. This technology includes both plate- and tube-based capabilities. Under the terms of the agreement, Invitrogen paid us an upfront non-refundable collaboration payment of $2.3 million in the first quarter of 2005. Additionally, upon the achievement of a certain milestone, Invitrogen was obligated to make a milestone payment of $1.1 million to us. As of January 1, 2006, this milestone has been achieved and the milestone payment was received. We have used these funds to invest in our San Diego facility to enable the development and implementation of fourth-generation Oligator technology and to extend the technology into tube-based oligo products. We began manufacturing and shipping the plate-based and certain tube-based oligo products under the collaboration in the third quarter of 2005. In addition, the agreement provides for the transfer of our Oligator technology into two Invitrogen facilities outside North America. Collaboration profit from the sale of collaboration products will be divided equally between the two companies.

Research and Development

We have made substantial investments in research and development since our inception. We have assembled a team of skilled engineers and scientists who are specialists in biology, chemistry, informatics, instrumentation, optical systems, software, manufacturing and other related areas required to complete the development of our products. Our research and development efforts have focused primarily on the tasks required to optimize our BeadArray and Oligator technologies and to support commercialization of the products and services derived from these technologies. These efforts include the following, among others:

- We enhanced the quality and manufacturing yield of our Sentrix Array Matrices and BeadChips. We are exploring ways to continue to increase the level of automation in the manufacturing process to further reduce the time and cost of producing arrays. We intend to add capacity to manufacture Sentrix Array Matrices and BeadChips throughout 2006. We believe this additional capacity will allow us to manufacture our products in sufficient quantity to meet our business plan for 2006.

- We introduced a number of initiatives in 2002 and 2003 to improve the yield and quality of our oligos while reducing cost substantially. By refining our understanding of the design and operation of our Oligator technology, we have been able to make numerous changes in our process, which we believe provides us a more cost effective system than competing technologies. In 2005, we expanded our Oligator technology under the collaboration agreement with Invitrogen discussed above. In addition, we expanded our oligo manufacturing facility to support high volume shipments.

- We have developed the BeadArray Reader, a laser scanning instrument that scans our Sentrix array platforms. Laser scanners provide the high sensitivity and resolution required to address the extremely dense geometries of our bead-based arrays. We made the first commercial shipments of our scanners in the first quarter of 2003 as part of our BeadLab.

- We completed development of and launched our Direct Hyb and DASL gene expression assays on both array formats. We believe the combination of our gene expression products flexibility and low-per-sample cost will enable larger and more meaningful gene expression studies.

- We completed the CyVera acquisition, which we believe provides us with a comprehensive approach to bead-based assays for biomarker research and development and in-vitro and molecular diagnostic opportunities, including those that require low complexity as well as high-complexity testing. We believe the CyVera technology will be highly complementary to our own portfolio of products and services. We believe it will enhance our capabilities to service our existing customers and accelerate the development of additional technologies, products and services.

- We completed the development and launch of our Infinium whole-genome genotyping solution. This family of products offers a flexible BeadChip design and high density architecture. Infinium Whole-Genome Genotyping products are based on our BeadArray technology and provide the industry's only 100% quality control, with an average 30-fold feature redundancy. The revolutionary Infinium assays and corresponding Sentrix BeadChips allow large-scale interrogation of variation in the human genome.

- We have been exploring the underlying molecular biology and chemistry issues related to developing assays and performing experiments on our BeadArray platforms. By improving our processes and protocols, we have substantially increased the number of assays we can process simultaneously in a single sample on our arrays.

Our research and development expenses for 2005, 2004 and 2003 (inclusive of charges relating to stock-based compensation of $0.1 million, $0.3 million, and $1.3 million, respectively) were $27.7 million, $21.1 million and $22.5 million, respectively. As compared to 2005, we expect research and development expense to increase in absolute dollars during 2006, as we continue to expand our research and product development efforts, but decrease as a percentage of overall revenue in 2006.

Government Grants

Government grants allow us to fund internal scientific programs and exploratory research. We retain ownership of all intellectual property and commercial rights generated during these projects, subject to a non-exclusive, non-transferable, paid-up license to practice, for or on behalf of the United States, inventions made with federal funds. This license is retained by the U.S. government as provided by applicable statutes and regulations. We do not believe that the retained license will have any impact on our ability to market our products, and we do not need government approval with respect to this license in order to enter into collaborations or other relationships with third parties. We were the recipient of a grant from the National Institutes of Health covering our participation in the first phase of the International HapMap Project, which is a $100 million, internationally funded successor project to the Human Genome Project that will help identify a map of genetic variations that may be used to perform disease-related research. We received $9.1 million of funding for this project which covered basic research activities, the development of SNP assays and the genotyping to be performed on those assays, all of which was earned in prior years, except for approximately $0.8 million, which was recognized as revenue during the first quarter of fiscal 2005.

Intellectual Property

We have an extensive patent portfolio, including, as of February 1, 2006, ownership of, or exclusive licenses to, 38 issued U.S. patents and 102 pending U.S. patent applications, including six allowed applications that have not yet issued as patents, some of which derive from a common parent application. Our issued patents, which cover various aspects of our array, assay, oligo synthesis, instrument and chemical detection technologies, expire between 2011 and 2022. We are seeking to extend this patent protection on our BeadArray, DASL, GoldenGate, Infinium, CyVera, Oligator, Sentrix, Array of Arrays and related technologies. We have received or filed counterparts for many of these patents and applications in one or more foreign countries.

We also rely upon trade secrets, know-how, copyright and trademark protection, as well as continuing technological innovation and licensing opportunities to develop and maintain our competitive position. Our success will depend in part on our ability to obtain patent protection for our products and processes, to preserve our copyrights and trade secrets, to operate without infringing the proprietary rights of third parties and to acquire licenses related to enabling technology or products used with our BeadArray, DASL, GoldenGate, Infinium, Sentrix, Array of Arrays, CyVera and Oligator technologies.

We are party to various exclusive and non-exclusive license agreements with third parties, which grant us rights to use key aspects of our array technology, assay methods, chemical detection methods, reagent kits and scanning equipment. We have exclusive licenses from Tufts University to patents that cover our use of BeadArray technology. These patents were filed by Dr. David Walt, a member of our board of directors, the Chairman of our Scientific Advisory Board and one of our founders. Our exclusive licenses expire with the termination of the underlying patents, which will occur between 2010 and 2019. In 2001, we entered into a non-exclusive license agreement with Amersham Biosciences that covers certain technology contained in our BeadArray Reader. In 2002, we obtained a non-exclusive license from Dade Behring Marburg GmbH that relates to certain components of our GoldenGate assay. We also have additional nonexclusive licenses from various third parties for other components of our products. In all cases, the agreements remain in effect over the term of the underlying patents, may be terminated at our request without further obligation and require that we pay customary royalties while the agreement is in effect.

Marketing and Distribution

Our current products address the genetic analysis portion of the life sciences market, in particular, experiments involving SNP genotyping and gene expression profiling. These experiments may be involved in many areas of biologic research, including basic human disease research, pharmaceutical drug discovery and development, pharmacogenomics, toxicogenomics and agricultural research. Our potential customers include pharmaceutical, biotechnology, agrichemical, diagnostics and consumer products companies, as well as academic or private research centers. The genetic analysis market is relatively new and emerging and its size and speed of development will be ultimately driven by, among other items:

- the ability of the research community to extract medically valuable information from genomics and to apply that knowledge to multiple areas of disease-related research and treatment;
- the availability of sufficiently low cost, high-throughput research tools to enable the large amount of experimentation required to study genetic variation and function; and
- the availability of government and private industry funding to perform the research required to extract medically relevant information from genomic analysis.

We market and distribute our products directly to customers in North America, major European markets, Japan and Singapore. In each of these areas, we have dedicated sales, service and application support personnel responsible for expanding and managing their respective customer bases. In markets outside of these areas, primarily the Pacific Rim countries and Europe, we sell our products and provide services to customers through distributors that specialize in life science products. We expect to significantly increase our sales and distribution resources during 2006 and beyond as we launch a number of new products and expand the number of customers that can use our products.

In 2004, we entered into a strategic collaboration with Invitrogen with a goal of leveraging our strength in oligo synthesis with Invitrogen's extensive sales, marketing and distribution channels. We transitioned all responsibility for oligo sales, marketing and technical support to Invitrogen in the beginning of the third quarter of 2005.

Manufacturing

We manufacture our array platforms, reagent kits, scanning equipment and oligos in-house and believe that we currently have the ability to manufacture these in sufficient quantity to meet our business plan for 2006. We currently depend upon outside suppliers for materials used in the manufacture of our products. We intend to continue, and may extend, the outsourcing of portions of our manufacturing process to subcontractors where we determine it is in our best commercial interests.

During 2001, we moved into a new facility which allowed us to design the manufacturing areas to fit our specific processes, and optimize material flow and personnel movement. In addition, we have implemented information management systems for many of our manufacturing and services operations to manage all aspects of material and sample use. We adhere to access and safety standards required by federal, state and local health ordinances, such as standards for the use, handling and disposal of hazardous substances.

Competition

Although we expect that our BeadArray products and services will provide significant advantages over currently available products and services, we expect to encounter intense competition from other companies that offer products and services for the SNP genotyping and gene expression markets. These include companies such as Aclara Biosciences (acquired by ViroLogic), Affymetrix, Agilent, Amersham Biosciences (acquired by GE Corp. and now named GE Healthcare), Applied Biosystems, Beckman Coulter, Caliper Technologies, Luminex, ParAllele Bioscience (acquired by Affymetrix), Perlegen Sciences, NimbleGen, Sequenom and Third Wave Technologies. Some of these companies have or will have substantially greater financial, technical, research, and other resources and larger, more established marketing, sales, distribution and service organizations than we do. In addition, they may have greater name recognition than we do in the markets we need to address and in some cases a large installed base of systems. Each of these markets is very competitive and we expect new competitors to emerge and the intensity of competition to increase in the future. In order to effectively compete with these companies, we will need to demonstrate that our products have superior throughput, cost and accuracy advantages over the existing products. Rapid technological development may result in our products or technologies becoming obsolete. Products offered by us could be made obsolete either by less expensive or more effective products based on similar or other technologies. Although we believe that our technology and products will offer advantages that will enable us to compete effectively with these companies, we cannot assure you that we will be successful.

Segment and Geographic Information

We operate in one business segment, for the development, manufacture and commercialization of tools for genetic analysis. Our operations are treated as one segment as we only report operating results on an aggregate basis to chief operating decision makers of Illumina.

During 2005, $28.0 million, or 38%, of our total revenue came from customers outside the United States, as compared to $26.4 million, or 52%, in 2004. Sales to territories outside of the United States are generally denominated in U.S. dollars. We expect that sales to international customers will be an important and growing source of revenue. We have sales support resources in Western Europe and direct sales offices in Japan, Singapore and China. In addition, we have distributor relationships in various countries in the Pacific Rim region and Europe.

Information about the geographies in which we operate can be found in the notes to the consolidated financial statements at Note 11, ''Segment Information, Geographic Data and Significant Customers.''

Seasonality

Historically, customer purchasing patterns have not shown significant seasonal variation, although demand for our products is usually lowest in the first quarter of the calendar year and highest in the fourth quarter of the calendar year as academic customers spend unused budget allocations before the end of the government's fiscal year.

Environmental Matters

We are dedicated to the protection of our employees and the environment. Our operations require the use of hazardous materials which subject us to a variety of federal, state and local environmental and safety laws and regulations. We believe we are in material compliance with current applicable laws and regulations; however, we could be held liable for damages and fines should contamination of the environment or individual exposures to hazardous substances occur. In addition, we cannot predict how changes in these laws and regulations, or the development of new laws and regulations, will affect our business operations or the cost of compliance.

Employees

As of January 1, 2006, we had a total of 375 employees, 73 of whom hold Ph.D. degrees. 44 of our employees with Ph.D. degrees are engaged in full-time research and development activities. None of our employees are represented by a labor union. We consider our employee relations to be positive.

Executive Officers

Our executive officers as of February 1, 2006, are as follows:

Name	Age	Position
Jay T. Flatley	53	President, Chief Executive Officer and Director
Christian O. Henry	37	Vice President, Chief Financial Officer
Tristan B. Orpin	39	Vice President of Worldwide Sales
John R. Stuelpnagel, DVM	48	Co-Founder, Senior Vice President, Chief Operating Officer and Director

Jay T. Flatley has served as our President, Chief Executive Officer and a Director since October 1999. Prior to joining Illumina, Mr. Flatley was co-founder, President, Chief Executive Officer and a Director of Molecular Dynamics, a life sciences company, from May 1994 to September 1999. He served in various other positions with that company from 1987 to 1994. From 1985 to 1987, Mr. Flatley was Vice President of Engineering and Vice President of Strategic Planning at Plexus Computers, a UNIX computer company. Mr. Flatley also serves as a director at GenVault. Mr. Flatley holds a B.A. in Economics from Claremont McKenna College and a B.S. and M.S. in Industrial Engineering from Stanford University.

Christian O. Henry joined Illumina in June 2005 as Vice President and Chief Financial Officer. He is responsible for worldwide financial operations, controllership functions and facilities management. Mr. Henry served previously as the Chief Financial Officer for Tickets.com, a publicly traded, online ticket provider that was recently acquired by Major League Baseball Advanced Media, LP. Prior to that, Mr. Henry was Vice President, Finance and Corporate Controller of Affymetrix, Inc., a publicly traded life sciences company. He previously held a similar position at Nektar Therapeutics (formerly Inhale Therapeutic Systems, Inc.). Mr. Henry received a BA in biochemistry and cell biology from the University of California, San Diego, and an M.B.A. from the University of California, Irvine. Mr. Henry is a certified public accountant.

Tristan B. Orpin has served as our Vice President of Worldwide Sales since December 2002. Prior to joining us, Mr. Orpin was the Vice President of Sales and Marketing at Sequenom, a genomics company, from August 2001 to November 2002, and was Director of Sales and Marketing at Sequenom from September 1999 to August 2001. From December 1988 to September 1999, Mr. Orpin served in several senior sales and marketing positions at Bio-Rad Laboratories, a life sciences company. Mr. Orpin received his BSc. in Biochemistry from the University of Melbourne.

John R. Stuelpnagel, D.V.M., one of our founders, is our Senior Vice President and Chief Operating Officer and has been a director since April 1998. From October 1999 to April 2002, he served as our Vice President of Business Development. From April 1998 to October 1999, he served as our acting President and Chief Executive Officer and was acting Chief Financial Officer through April 2000. While founding Illumina, Dr. Stuelpnagel was an associate with CW Group, a venture capital firm, from June 1997 to September 1998 and with Catalyst Partners, a venture capital firm, from August 1996 to June 1997. Dr. Stuelpnagel received his B.S. in Biochemistry and his Doctorate in Veterinary Medicine from the University of California, Davis and his M.B.A. from the University of California, Los Angeles.

ITEM 1A. *Risk Factors.*

Our business is subject to various risks, including those described below. In addition to the other information included in this Form 10-K, the following issues could adversely affect our operating results or our stock price.

Litigation or other proceedings or third party claims of intellectual property infringement could require us to spend significant time and money and could prevent us from selling our products or services.

Our commercial success depends in part on our non-infringement of the patents or proprietary rights of third parties and the ability to protect our own intellectual property. Affymetrix, Inc. filed a complaint against us in July 2004, alleging infringement of six of its patents, and other third parties have asserted or may assert that we are employing their proprietary technology without authorization. As we enter new markets, we expect that competitors will likely assert that our products infringe their intellectual property rights as part of a business strategy to impede our successful entry into those markets. In addition, third parties may have obtained and may in the future obtain patents and claim that use of our technologies infringes these patents. We could incur substantial costs and divert the attention of our management and technical personnel in defending ourselves against any of these claims. We may incur the same costs and diversions in enforcing our patents and other proprietary rights against others. Furthermore, parties making claims against us may be able to obtain injunctive or other relief, which effectively could block our ability to further develop, commercialize and sell products, and could result in the award of substantial damages against us. In the event of a successful claim of infringement against us, we may be required to pay damages and obtain one or more licenses from third parties, or be prohibited from selling certain products. We may not be able to obtain these licenses at a reasonable cost, or at all. In that event, we could encounter delays in product introductions while we attempt to develop alternative methods or products. Defense of any lawsuit or failure to obtain any of these licenses on favorable terms could prevent us from commercializing products, and the prohibition of sale of any of our products could materially affect our ability to grow and to attain profitability.

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We expect intense competition in our target markets, which could render our products obsolete, result in significant price reductions or substantially limit the volume of products that we sell. This would limit our ability to compete and achieve profitability. If we cannot continuously develop and commercialize new products, our revenue may not grow as intended.

We compete with life sciences companies that design, manufacture and market instruments for analysis of genetic variation and function and other applications using technologies such as two-dimensional electrophoresis, capillary electrophoresis, mass spectrometry, flow cytometry, microfluidics, next-generation DNA sequencing and mechanically deposited, inkjet and photolithographic arrays. We anticipate that we will face increased competition in the future as existing companies develop new or improved products and as new companies enter the market with new technologies. The markets for our products are characterized by rapidly changing technology, evolving industry standards, changes in customer needs, emerging competition, new product introductions and strong price competition. One or more of our competitors may render our technology obsolete or uneconomical. Some of our competitors have greater financial and personnel resources, broader product lines, a more established customer base and more experience in research and development than we have. Furthermore, the life sciences and pharmaceutical companies, which are our potential customers and strategic partners, could develop competing products. If we are unable to develop enhancements to our technology and rapidly deploy new product offerings, our business, financial condition and results of operations will suffer.

We may encounter difficulties in integrating recently completed or future acquisitions that could adversely affect our business.

In 2005, we acquired CyVera Corporation and may in the future acquire technology, products or businesses related to our current or future business. We have limited experience in acquisition activities and may have to devote substantial time and resources in order to complete acquisitions. Further, these potential acquisitions entail risks, uncertainties and potential disruptions to our business. For example, we may not be able to successfully integrate a company's operations, technologies, products and services, information systems and personnel into our business. An acquisition may further strain our existing financial and managerial resources, and divert management's attention away from our other business concerns. In connection with the CyVera acquisition, we assumed certain liabilities and hired certain employees of CyVera, which is expected to result in an increase in research and development expenses and our capital expenditures. There may also be unanticipated costs and liabilities associated with an acquisition that could adversely affect our operating results.

We have only recently achieved profitability and may not be able to remain profitable.

We have incurred net losses each year since our inception. As of January 1, 2006, our accumulated deficit was $144.6 million and we incurred a net loss of $20.9 million for the year ended January 1, 2006. We recorded a modest profit in the fourth quarter of 2005 and we may not be profitable in 2006, due in part to the impact of Statement of Financial Accounting Standard (''SFAS'') No. 123R, which is expected to add additional expense of $9.0 million to $12.0 million in 2006. Our ability to maintain or increase profitability will depend, in part, on the rate of growth, if any, of our revenue and on the level of our expenses. We expect to continue incurring significant expenses for research and development, for developing our manufacturing capabilities and for sales and marketing efforts to commercialize our products. In addition, we expect that our selling and marketing expenses will increase at a higher rate in the future as a result of the launch of new products. As a result, we expect that our operating expenses will increase significantly as we grow and, consequently, we will need to generate significant additional revenue to maintain profitability. Even if we maintain profitability, we may not be able to increase profitability on a quarterly basis.

The growth and profitability of our oligo business depends on a third party.

In December 2004, we entered into a collaboration agreement with Invitrogen to sell and market our oligos worldwide. Under the terms of the collaboration, Invitrogen is responsible for sales, marketing and technical support, while we are responsible for the manufacture of the collaboration products. As Invitrogen is solely responsible for the sales and marketing support of the collaboration, our continued growth and profitability related to these products depends on the extent to which Invitrogen is successful in penetrating the oligo market and selling the collaboration products. If Invitrogen is not successful in selling the collaboration products, our business, financial condition and results of operations may suffer.

We have a limited history of commercial sales of systems and consumable products, and our success depends on our ability to develop commercially successful products and on market acceptance of our new and relatively unproven technologies.

We may not possess all of the resources, capability and intellectual property necessary to develop and commercialize all the products or services that may result from our technologies. Sales of our genotyping and gene expression systems only began in 2003, and some of our other technologies are in the early stages of commercialization or are still in development. You should evaluate us in light of the uncertainties and complexities affecting similarly situated companies developing tools for the life sciences and pharmaceutical industries. We must conduct a substantial amount of additional research and development before some of our products will be ready for sale and we currently have fewer resources available for research and development activities than many of our competitors. We may not be able to develop or launch new products in a timely manner, or at all, or they may not meet customer requirements or be of sufficient quality or at a price that enables us to compete effectively in the marketplace. Problems frequently encountered in connection with the development or early commercialization of products and services using new and relatively unproven technologies might limit our ability to develop and successfully commercialize these products and services. In addition, we may need to enter into agreements to obtain intellectual property necessary to commercialize some of our products or services, which may not be available on favorable terms, or at all.

Historically, life sciences and pharmaceutical companies have analyzed genetic variation and function using a variety of technologies. In order to be successful, our products must meet the commercial requirements of the life sciences and pharmaceutical industries as tools for the large-scale analysis of genetic variation and function.

Market acceptance will depend on many factors, including:

- our ability to demonstrate to potential customers the benefits and cost effectiveness of our products and services relative to others available in the market;
- the extent and effectiveness of our efforts to market, sell and distribute our products;
- our ability to manufacture products in sufficient quantities with acceptable quality and reliability and at an acceptable cost;
- the willingness and ability of customers to adopt new technologies requiring capital investments; and
- the extended time lag and sales expenses involved between the time a potential customer is contacted on a possible sale of our products and services and the time the sale is consummated or rejected by the customer.

Any inability to adequately protect our proprietary technologies could harm our competitive position.

Our success will depend in part on our ability to obtain patents and maintain adequate protection of our intellectual property in the United States and other countries. If we do not protect our intellectual property adequately, competitors may be able to use our technologies and thereby erode our competitive advantage. The laws of some foreign countries do not protect proprietary rights to the same extent as the laws of the United States, and many companies have encountered significant problems in protecting their proprietary rights abroad. These problems can be caused by the absence of rules and methods for defending intellectual property rights.

The patent positions of companies developing tools for the life sciences and pharmaceutical industries, including our patent position, generally are uncertain and involve complex legal and factual questions. We will be able to protect our proprietary rights from unauthorized use by third parties only to the extent that our proprietary technologies are covered by valid and enforceable patents or are effectively maintained as trade secrets. We intend to apply for patents covering our technologies and products, as we deem appropriate. However, our patent applications may be challenged and may not result in issued patents or may be invalidated or narrowed in scope after they are issued. Questions as to inventorship may also arise. For example, a former employee recently filed a complaint against us, claiming he is entitled to be named as joint inventor of certain of our U.S. patents and pending U.S. and foreign patents and seeking a judgment that the related patents and applications are unenforceable. See ''Item 3. Legal Proceedings'' for a description of this complaint. Any finding that our patents and applications are unenforceable could harm our ability to prevent others from practicing the related technology, and a finding that others have inventorship rights to our patents and applications could require us to obtain licenses to practice the technology, which may not be available on favorable terms, if at all.

In addition, our existing patents and any future patents we obtain may not be sufficiently broad to prevent others from practicing our technologies or from developing competing products. There also is risk that others may independently develop similar or alternative technologies or design around our patented technologies. Also, our patents may fail to provide us with any competitive advantage. We may need to initiate additional lawsuits to protect or enforce our patents, or litigate against third party claims, which would be expensive and, if we lose, may cause us to lose some of our intellectual property rights and reduce our ability to compete in the marketplace.

We also rely upon trade secret protection for our confidential and proprietary information. We have taken security measures to protect our proprietary information. These measures, however, may not provide adequate protection for our trade secrets or other proprietary information. We seek to protect our proprietary information by entering into confidentiality agreements with employees, collaborators and consultants. Nevertheless, employees, collaborators or consultants may still disclose our proprietary information, and we may not be able to meaningfully protect our trade secrets. In addition, others may independently develop substantially equivalent proprietary information or techniques or otherwise gain access to our trade secrets.

Our manufacturing capacity may limit our ability to sell our products.

We are currently ramping up our capacity to meet our anticipated demand for our products. Although we have significantly increased our manufacturing capacity and we believe that we have plans in place to help ensure we have adequate capacity to meet our business plan in 2006, there are uncertainties inherent in expanding our manufacturing capabilities and we may not be able to increase our capacity in a timely manner. For example, manufacturing and product quality issues may arise as we increase production rates at our manufacturing facility and launch new products. As a result, we may experience difficulties in meeting customer, collaborator and internal demand, in which case we could lose customers or be required to delay new product introductions, and demand for our products could decline. Additionally, in the past, we have experienced variations in manufacturing conditions that have temporarily reduced production yields. Due to the intricate nature of manufacturing products that contain DNA, we may encounter similar or previously unknown manufacturing difficulties in the future that could significantly reduce production yields, impact our ability to launch or sell these products, or to produce them economically, prevent us from achieving expected performance levels or cause us to set prices that hinder wide adoption by customers.

Our sales, marketing and technical support organization may limit our ability to sell our products.

We currently have fewer resources available for sales and marketing and technical support services as compared to our primary competitors. In order to effectively commercialize our genotyping and gene expression systems and other products to follow, we will need to expand our sales, marketing and technical support staff both domestically and internationally. We may not be successful in establishing or maintaining either a direct sales force or distribution arrangements to market our products and services. In addition, we compete primarily with much larger companies, that have larger sales and distribution staffs and a significant installed base of products in place, and the efforts from a limited sales and marketing force may not be sufficient to build the market acceptance of our products required to support continued growth of our business.

If we are unable to develop and maintain operation of our manufacturing capability, we may not be able to launch or support our products in a timely manner, or at all.

We currently possess only one facility capable of manufacturing our products and services for both sale to our customers and internal use. If a natural disaster were to significantly damage our facility or if other events were to cause our operations to fail, these events could prevent us from developing and manufacturing our products and services. Also, many of our manufacturing processes are automated and are controlled by our custom-designed Laboratory Information Management System (''LIMS''). Additionally, as part of the decoding step in our array manufacturing process, we record several images of each array to identify what bead is in each location on the array and to validate each bead in the array. This requires significant network and storage infrastructure. If either our LIMS system or our networks or storage infrastructure were to fail for an extended period of time, it would adversely impact our ability to manufacture our products on a timely basis and may prevent us from achieving our expected shipments in any given period.

If we are unable to find third-party manufacturers to manufacture components of our products, we may not be able to launch or support our products in a timely manner, or at all.

The nature of our products requires customized components that currently are available from a limited number of sources. For example, we currently obtain the fiber optic bundles and BeadChip slides included in our products from single vendors. If we are unable to secure a sufficient supply of those or other product components, we will be unable to meet demand for our products. We may need to enter into contractual relationships with manufacturers for commercial-scale production of some of our products, or develop these capabilities internally, and we cannot assure you that we will be able to do this on a timely basis, for sufficient quantities or on commercially reasonable terms. Accordingly, we may not be able to establish or maintain reliable, high-volume manufacturing at commercially reasonable costs.

We may encounter difficulties in managing our growth. These difficulties could increase our losses.

We expect to experience rapid and substantial growth in order to achieve our operating plans, which will place a strain on our human and capital resources. If we are unable to manage this growth effectively, our losses could increase. Our ability to manage our operations and growth effectively requires us to continue to expend funds to enhance our operational, financial and management controls, reporting systems and procedures and to attract and retain sufficient numbers of talented employees. If we are unable to scale up and implement improvements to our manufacturing process and control systems in an efficient or timely manner, or if we encounter deficiencies in existing systems and controls, then we will not be able to make available the products required to successfully commercialize our technology. Failure to attract and retain sufficient numbers of talented employees will further strain our human resources and could impede our growth.

We may need additional capital in the future. If additional capital is not available on acceptable terms, we may have to curtail or cease operations.

Our future capital requirements will be substantial and will depend on many factors including our ability to successfully market our genetic analysis systems and services, the need for capital expenditures to support and expand our business, the progress and scope of our research and development projects, the filing, prosecution and enforcement of patent claims, the outcome of our legal proceedings with Affymetrix, the defense of any future litigation involving us and the need to enter into collaborations with other companies or acquire other companies or technologies to enhance or complement our product and service offerings. We anticipate that our current cash and cash equivalents, revenue from sales and funding from grants will be sufficient to fund our anticipated operating needs, barring unforeseen developments. However, this expectation is based upon on our current operating plan, which may change as a result of many factors. Consequently, we may need additional funding in the future. Our inability to raise capital would seriously harm our business and product development efforts. In addition, we may choose to raise additional capital due to market conditions or strategic considerations, such as an acquisition, even if we believe we have sufficient funds for our current or future operating plans. To the extent that additional capital is raised through the sale of equity, the issuance of these securities could result in dilution to our stockholders.

We currently have no credit facility or committed sources of capital available as of January 1, 2006. To the extent operating and capital resources are insufficient to meet future requirements, we will have to raise additional funds to continue the development and commercialization of our technologies. These funds may not be available on favorable terms, or at all. If adequate funds are not available on attractive terms, we may be required to curtail operations significantly or to obtain funds by entering into financing, supply or collaboration agreements on unattractive terms.

If we lose our key personnel or are unable to attract and retain additional personnel, we may be unable to achieve our goals.

We are highly dependent on our management and scientific personnel, including Jay Flatley, our president and chief executive officer and John Stuelpnagel, our senior vice president and chief operating officer. The loss of their services could adversely impact our ability to achieve our business objectives. We will need to hire additional qualified personnel with expertise in molecular biology, chemistry, biological information processing, sales, marketing and technical support. We compete for qualified management and scientific personnel with other life science companies, universities and research institutions, particularly those focusing on genomics. Competition for these individuals, particularly in the San Diego area, is intense, and the turnover rate can be high. Failure to attract and retain management and scientific personnel would prevent us from pursuing collaborations or developing our products or technologies.

Our planned activities will require additional expertise in specific industries and areas applicable to the products developed through our technologies, including the life sciences and healthcare industries. Thus, we will need to add new personnel, including management, and develop the expertise of existing management. The failure to do so could impair the growth of our business.

A significant portion of our sales are to international customers.

Approximately 38% of our revenue for the year ended January 1, 2006 was derived from customers outside the United States. We intend to continue to expand our international presence and export sales to international customers and we expect the total amount of non-U.S. sales to continue to grow. Export sales entail a variety of risks, including:

- currency exchange fluctuations;
- unexpected changes in legislative or regulatory requirements of foreign countries into which we import our products;
- difficulties in obtaining export licenses or other trade barriers and restrictions resulting in delivery delays; and
- significant taxes or other burdens of complying with a variety of foreign laws.

In addition, sales to international customers typically result in longer payment cycles and greater difficulty in accounts receivable collection. We are also subject to general geopolitical risks, such as political, social and economic instability and changes in diplomatic and trade relations. One or more of these factors could have a material adverse effect on our business, financial condition and operating results.

Our success depends upon the continued emergence and growth of markets for analysis of genetic variation and function.

We design our products primarily for applications in the life sciences and pharmaceutical industries. The usefulness of our technology depends in part upon the availability of genetic data and its usefulness in identifying or treating disease. We are initially focusing on markets for analysis of genetic variation and function, namely SNP genotyping and gene expression profiling. Both of these markets are new and emerging, and they may not develop as quickly as we anticipate, or reach their full potential. Other methods of analysis of genetic variation and function may emerge and displace the methods we are developing. Also, researchers may not seek or be able to convert raw genetic data into medically valuable information through the analysis of genetic variation and function. In addition, factors affecting research and development spending generally, such as changes in the regulatory environment affecting life sciences and pharmaceutical companies, and changes in government programs that provide funding to companies and research institutions, could harm our business. If useful genetic data is not available or if our target markets do not develop in a timely manner, demand for our products may grow at a slower rate than we expect, and we may not be able to achieve or sustain profitability.

We expect that our results of operations will fluctuate. This fluctuation could cause our stock price to decline.

Our revenue is subject to fluctuations due to the timing of sales of high-value products and services projects, the impact of seasonal spending patterns, the timing and size of research projects our customers perform, changes in overall spending levels in the life sciences industry, the timing and amount of government grant funding programs and other unpredictable factors that may affect customer ordering patterns. Given the difficulty in predicting the timing and magnitude of sales for our products and services, we may experience quarter-to-quarter fluctuations in revenue resulting in the potential for a sequential decline in quarterly revenue. A large portion of our expenses are relatively fixed, including expenses for facilities, equipment and personnel. In addition, we expect operating expenses to continue to increase significantly. Accordingly, if revenue does not grow as anticipated, we may not be able to maintain profitability. Any significant delays in the commercial launch of our products, unfavorable sales trends in our existing product lines, or impacts from the other factors mentioned above, could adversely affect our revenue growth in 2006 or cause a sequential decline in quarterly revenues. Due to the possibility of fluctuations in our revenue and expenses, we believe that quarterly comparisons of our operating results are not a good indication of our future performance. If our operating results fluctuate or do not meet the expectations of stock market analysts and investors, our stock price probably would decline.

Item 1B. ***Unresolved Staff Comments.***

None.

Item 2. ***Properties.***

Our principal research and development, manufacturing and administrative facilities occupy approximately 116,000 square feet of three buildings located in San Diego, California, which we purchased, along with eight acres of adjacent land, in January 2002. In connection with this purchase we assumed a $26.0 million, 10-year mortgage on the property at a fixed interest rate of 8.36%. In June 2004, we entered into a conditional agreement to sell our land and buildings for $42.0 million and to lease back such property for an initial term of ten years. The sale was completed in August 2004, at which time the lease was signed. Under the terms of the lease, we made a $1.9 million security deposit and are obligated to pay monthly rent of approximately $318,643 for the first year with an annual increase of 3% in each subsequent year. The current monthly rent under this lease is $328,202. The lease contains an option to review for three additional periods of five years each. In January 2006, we began leasing approximately 4,500 square feet of industrial space in San Diego, California to be used for distribution and storage of our products. The initial term of this lease is three years. In conjunction with our acquisition of CyVera in April 2005, we also lease office space for a facility located in Connecticut that occupies 14,884 square feet of office space. This lease is non-cancelable and expires as of April 2008. This facility is used primarily for research and development purposes. We expect that these facilities will be sufficient for our U.S.-based operations through at least 2006.

In February 2003, we began leasing approximately 3,300 square feet of office space in Tokyo and, in January 2004, we began leasing approximately 1,600 square feet of office space in Singapore. In November 2005, we began leasing approximately 200 square feet of office space in China. These facilities are used by local sales, marketing and field service personnel.

Item 3. ***Legal Proceedings.***

We have incurred substantial costs in defending ourselves against patent infringement claims, and expect to devote substantial financial and managerial resources to protect our intellectual property and to defend against the claims described below as well as any future claims asserted against us.

Affymetrix Litigation

On July 26, 2004, Affymetrix, Inc. (''Affymetrix'') filed a complaint in the U.S. District Court for the District of Delaware alleging that the use, manufacture and sale of our BeadArray products and services, including the Array Matrix and BeadChip products, infringe six Affymetrix patents. Affymetrix seeks an injunction against the sale of products, if any, that are determined to be infringing these patents, unspecified monetary damages, interest and attorneys' fees. On September 15, 2004, we filed our answer and counterclaims to Affymetrix' complaint, seeking declaratory judgments from the court that we do not infringe the Affymetrix patents, and that such patents are invalid, and filed counter-claims against Affymetrix for unfair competition and interference with actual and prospective economic advantage. On January 7, 2006, we sought leave to file our first amended answer and counterclaims, adding allegations of inequitable conduct with respect to all six asserted Affymetrix patents, violation of Section 2 of the Sherman Act, and unclean hands. Trial is scheduled for October 16, 2006. We believe we have meritorious defenses against each of the infringement claims alleged by Affymetrix and intend to vigorously defend ourselves against this suit. However, we cannot be sure that we will prevail in this matter. Any unfavorable determination, and in particular, any significant cash amounts required to be paid by us or prohibition of the sale of our products and services, could result in a material adverse effect on our business, financial condition and results of operations.

Dr. Anthony W. Czarnik v. Illumina, Inc.

On June 15, 2005, Dr. Anthony W. Czarnik, a former employee, filed suit against us in the U.S. District Court for the District of Delaware seeking correction of inventorship of certain our patents and patent applications and alleging that we committed inequitable conduct and fraud in not naming him as an inventor. Dr. Czarnik seeks an order requiring us and the U.S. Patent and Trademark Office to correct the inventorship of certain of our patents and patent applications by adding Dr. Czarnik as an inventor, a judgment declaring certain of our patents and patent applications unenforceable, unspecified monetary damages and attorney's fees. On August 4, 2005 we filed a motion to dismiss the complaint for lack of standing and failure to state a claim. While this motion was pending, Dr. Czarnik filed an amended complaint on September 23, 2005. On October 7, 2005, we filed a motion to dismiss the amended complaint for lack of standing and failure to state a claim, and this motion is still pending. There has been no trial date set for this case. We believe we have meritorious defenses against this claim.

Termination-of-Employment Lawsuit

In March 2001, a complaint seeking damages of an unspecified amount was filed against us by Dr. Czarnik in the Superior Court of the State of California in connection with the employee's termination of employment with Illumina. In June 2002, a California Superior Court judgment was rendered against us and we recorded a $7.7 million charge in our financial results for the second quarter of 2002 to cover total damages and remaining expenses. We appealed the decision, and in December 2004, the Fourth Appellate District Court of Appeal, in San Diego, California, reduced the amount of the award. We recorded interest expense on the $7.7 million during the appeal based on the statutory rate. As a result of the revised judgment, we reduced the $9.2 million liability on our balance sheet to $5.9 million and recorded a gain of $3.3 million as a litigation judgment in the fourth quarter of 2004. In January 2005, we paid the $5.9 million and removed the liability from our balance sheet.

Item 4. ***Submission of Matters to a Vote of Security Holders.***

No matters were submitted to a vote of security holders during the fourth quarter of 2005.

PART II

Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.*

Our common stock has been quoted on the Nasdaq National Market under the symbol ''ILMN'' since July 28, 2000. Prior to that time, there was no public market for our common stock. The following table sets forth, for the periods indicated, the quarterly high and low sales prices per share of our common stock as reported on the Nasdaq National Market. Our present policy is to retain earnings, if any, to finance future growth. We have never paid cash dividends and have no present intention to pay cash dividends in the foreseeable future.

	2005	
	High	Low
First Quarter	$11.35	$ 6.72
Second Quarter	12.95	7.90
Third Quarter	14.83	10.82
Fourth Quarter	16.80	12.76
	2004	
	High	**Low**
First Quarter	$10.24	$ 6.50
Second Quarter	8.88	6.07
Third Quarter	7.22	4.23
Fourth Quarter	9.65	6.16

At January 31, 2006, there were approximately 229 stockholders of record, and the closing price per share of our common stock, as reported on the Nasdaq National Market on such date, was $21.44.

Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

We did not repurchase any of our securities during 2005.

Use of Proceeds

We completed our initial public offering of common stock in July 2000, resulting in net proceeds of $101.3 million. We will continue to use proceeds from our initial public offering to fund operations. Through January 1, 2006, we have used approximately $30.9 million to purchase property, plant and equipment, approximately $2.4 million for the acquisition of CyVera, and approximately $46.8 million to fund general operating expenses. The remaining balance is invested in a variety of interest-bearing instruments including U.S. Treasury securities, and money market accounts.

Item 6. ***Selected Financial Data.***

The following selected historical consolidated financial data has been derived from our audited consolidated financial statements. The balance sheet data as of January 1, 2006 and January 2, 2005 and statement of operations data for each of the three years in the period ended January 1, 2006 are derived from audited consolidated financial statements included in this Annual Report on Form 10-K. The balance sheet data as of December 28, 2003, December 29, 2002, and December 30, 2001 and statement of operations data for each of the two years in the period ended December 29, 2002 are derived from our audited consolidated financial statements that are not included in this Annual Report on Form 10-K. The Company's fiscal year is 52 or 53 weeks ending the Sunday closest to December 31, with quarters of 13 or 14 weeks ending the Sunday closest to March 31, June 30, and September 30. The years ended January 1, 2006 and January 2, 2005 were 52 and 53 weeks, respectively. You should read this table in conjunction with Item 7, ''Management's Discussion and Analysis of Financial Condition and Results of Operations,'' and Item 8, ''Financial Statements and Supplementary Data.''

Statement of Operations Data

	Year Ended January 1, 2006	Year Ended January 2, 2005	Year Ended December 28, 2003	Year Ended December 29, 2002	Year Ended December 30, 2001
	(In thousands, except per share data)				
Revenue:					
Product revenue	$ 57,752	$40,497	$ 18,378	$ 4,103	$ 897
Service and other revenue	13,935	8,075	6,496	3,305	99
Research revenue	1,814	2,011	3,161	2,632	1,490
Total revenue	73,501	50,583	28,035	10,040	2,486
Costs and expenses:					
Cost of product revenue	19,920	11,572	7,437	1,815	489
Cost of service and other revenue	3,261	1,687	2,600	1,721	68
Research and development	27,725	21,114	22,511	26,848	20,735
Selling, general and administrative	27,972	25,080	18,899	9,099	5,663
Acquired in-process research and development	15,800	—	—	—	—
Amortization of deferred compensation and other stock-based compensation charges	270	844	2,454	4,360	5,850
Litigation judgment (settlement), net	—	(4,201)	756	8,052	—
Total costs and expenses	94,948	56,096	54,657	51,895	32,805
Loss from operations	(21,447)	(5,513)	(26,622)	(41,855)	(30,319)
Interest income	1,404	941	1,821	3,805	6,198
Interest and other expense	(831)	(1,653)	(2,262)	(2,281)	(702)
Net loss	$(20,874)	$ (6,225)	$(27,063)	$(40,331)	$(24,823)
Net loss per share, basic and diluted	$ (0.52)	$ (0.17)	$ (0.85)	$ (1.31)	$ (0.83)
Shares used in calculating net loss per share, basic and diluted	40,147	35,845	31,925	30,890	29,748

See Note 1 to the consolidated financial statements for an explanation of the determination of the number of shares used to compute basic and diluted net loss per share.

Balance Sheet Data

	January 1, 2006	January 2, 2005	December 28, 2003	December 29, 2002	December 30, 2001
			(In thousands)		
Cash, cash equivalents and current restricted cash and investments	$ 50,822	$ 66,994	$ 32,882	$ 66,294	$ 93,786
Working capital	57,992	64,643	32,229	58,522	91,452
Total assets	100,610	94,907	99,234	121,906	122,465
Long-term debt obligations	54	—	24,999	25,620	590
Accumulated deficit	(144,586)	(123,712)	(117,487)	(90,424)	(50,093)
Total stockholders' equity	72,497	72,262	47,388	71,744	106,791

Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operation.***

The following discussion and analysis should be read with ''Item 6. Selected Financial Data'' and our consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K. The discussion and analysis in this Annual Report on Form 10-K contains forward-looking statements that involve risks and uncertainties, such as statements of our plans, objectives, expectations and intentions. Words such as ''anticipate'', ''believe,'' ''continue,'' ''estimate,'' ''expect,'' ''intend,'' ''may,'' ''plan,'' ''potential,'' ''predict,'' ''project'' or similar words or phrases, or the negatives of these words, may identify forward-looking statements, but the absence of these words does not necessarily mean that a statement is not forward looking. Examples of forward-looking statements include, among others, statements regarding the integration of CyVera's technology with our existing technology, the commercial launch of new products, including products based on CyVera's technology, and the duration which our existing cash and other resources is expected to fund our operating activities. Forward-looking statements are subject to known and unknown risks and uncertainties and are based on potentially inaccurate assumptions that could cause actual results to differ materially from those expected or implied by the forward looking statements. Factors that could cause or contribute to these differences include those discussed in ''Item 1A. Risk Factors'' as well as those discussed elsewhere. The risk factors and other cautionary statements made in this Annual Report on Form 10-K should be read as applying to all related forward-looking statements wherever they appear in this Annual Report on Form 10-K.

Overview

We were incorporated in April 1998. We develop and market next-generation tools for the large-scale analysis of genetic variation and function. Understanding genetic variation and function is critical to the development of personalized medicine, a key goal of genomics. Using our technologies, we have developed a comprehensive line of products that are designed to provide the performance, throughput, cost effectiveness and flexibility necessary to enable researchers in the life sciences and pharmaceutical industries to perform the billions of tests necessary to extract medically valuable information from advances in genomics. This information is expected to correlate genetic variation and gene function with particular disease states, enhancing drug discovery, allowing diseases to be detected earlier and more specifically, and permitting better choices of drugs for individual patients.

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In 2001, we began commercial sale of short pieces of DNA called oligonucleotides, which we refer to as oligos, manufactured using our proprietary Oligator technology. We believe our Oligator technology is more cost effective than competing technologies, and this advantage enabled us to market our oligos under a price leadership strategy while still achieving attractive gross margins.

In 2001, we commercialized the first implementation of our BeadArray technology, the Sentrix Array Matrix. This is a disposable matrix with 96 fiber optic bundles arranged in a pattern that matches the standard 96-well microtiter plate. Each fiber optic bundle performs more than 1,500 unique assays, which enables researchers to perform focused genotyping experiments in a high-throughput format. This format was also used to initiate our single nucleotide polymorphism (''SNP'') genotyping services product line. As a result of the increasing market acceptance of our high throughput, low cost BeadArray technology, we have entered into genotyping services contracts with many leading genotyping centers, and were awarded $9.1 million from the National Institutes of Health to play a major role in the first phase of the International HapMap Project.

Our production-scale BeadLab is a turnkey platform that includes all hardware and software necessary to enable researchers to perform genetic analysis research on what we believe is an unprecedented scale. This system is being marketed to a small number of high-throughput genotyping users. As of January 1, 2006, we have installed and recorded revenue for 11 BeadLabs.

In 2003, we announced the launch of several new products, including 1) a new array format, the Sentrix BeadChip, which significantly expands market opportunities for our BeadArray technology and provides increased experimental flexibility for life science researchers; 2) a gene expression product line on both the Sentrix Array Matrix and the Sentrix BeadChip that allows researchers to analyze a focused set of genes across eight to 96 samples on a single array; and 3) a benchtop SNP genotyping and gene expression system, the BeadStation, for performing moderate-scale genotyping and gene expression using our technology. The BeadStation includes our BeadArray Reader, analysis software and assay reagents and is designed to match the throughput requirements and variable automation needs of individual research groups and core labs. Sales of these products began in the first quarter of 2004 and, as of January 1, 2006, we have shipped 115 BeadStations.

In late 2004, we announced a strategic collaboration with Invitrogen Corporation (''Invitrogen'') to synthesize and distribute oligos. In the third quarter of 2005, we began shipping oligo products in connection with this agreement. As part of the agreement, we have developed the next generation of our Oligator DNA synthesis technology, which we have designed to support both plate- and tube-based capabilities. Invitrogen is responsible for sales, marketing and technical support. Profits from sales of collaboration products are divided equally between the two companies.

In 2005, we began shipments of Sentrix BeadChips for whole-genome gene expression and whole-genome genotyping. The whole-genome gene expression BeadChips are designed to enable high-performance, cost-effective, whole-genome expression profiling of multiple samples on a single chip, resulting in a dramatic reduction in cost of whole-genome expression analysis. Our whole-genome expression product line includes multi-sample products for both the Human and Mouse Genomes. The whole-genome genotyping BeadChip is designed to scale to high levels of multiplexing without compromising data quality and to provide scientists the ability to query hundreds of thousands of SNPs in parallel. In the second quarter of 2005, we commenced shipment of our first whole-genome genotyping BeadChip, the HumanHap1, which interrogates more than 100,000 SNPs in parallel.

In April 2005, we completed the acquisition of CyVera Corporation, a privately-held Connecticut-based company, pursuant to which CyVera became a wholly-owned subsidiary of Illumina. We believe that CyVera's digital-microbead platform will be highly complementary to our portfolio of products and services. The acquisition is expected to provide us with a comprehensive approach to bead-based assays for biomarker research and development and in-vitro and molecular diagnostic opportunities, including those that require low-complexity as well as high-complexity testing. We expect the first products based on CyVera's technology to be available in the second half of 2006. The purchase price associated with the transaction was approximately $17.8 million. We allocated $15.8 million of this purchase price to acquired in-process research and development and charged such amount against earnings in the second quarter of 2005.

In January 2006, we began shipment of the new Sentrix HumanHap300 Genotyping BeadChip to customers around the world. Using the Infinium assay, which enables us to select virtually any SNP in the genome, the HumanHap300 BeadChip offers genomic coverage for more than 317,000 SNPs. We selected the SNP assays in collaboration with a consortium of scientists that are leaders in the genotyping field. We believe this product has quality and performance features that support our expectation that it will become an important discovery tool for researchers seeking to understand the genetic basis of common, yet complex diseases.

Our revenue is subject to fluctuations due to the timing of sales of high-value products and service projects, the impact of seasonal spending patterns, the timing and size of research projects our customers perform, changes in overall spending levels in the life science industry, the timing and amount of government grant funding programs and other unpredictable factors that may affect our customer ordering patterns. Any significant delays in the commercial launch or any lack or delay of commercial acceptance of new products, unfavorable sales trends in our existing product lines, or impacts from the other factors mentioned above, could adversely affect our revenue growth in 2006 or cause a sequential decline in quarterly revenues. Due to the possibility of fluctuations in our revenue and net income or loss, we believe quarterly comparisons of our operating results are not a good indication of our future performance.

We have incurred substantial operating losses since our inception. As of January 1, 2006, our accumulated deficit was $144.6 million, and total stockholders' equity was $72.5 million. These losses have principally occurred as a result of the substantial resources required for the research, development and manufacturing scale up effort required to commercialize our products and services, an acquired in-process research and development charge of $15.8 million related to our acquisition of CyVera and a charge of $5.9 million related to a termination-of-employment lawsuit. We expect to continue to incur substantial costs for research, development and manufacturing scale up activities over the next several years. We will also need to significantly increase our selling, general and administrative costs as we build up our sales and marketing infrastructure to expand and support the sale of systems, other products and services. As a result of the expected increase in expenses, we will need to increase revenue significantly to achieve sustained profitability.

Critical Accounting Policies and Estimates

General

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of financial statements requires that management make estimates, assumptions and judgments with respect to the application of accounting policies that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosures of contingent assets and liabilities. Actual results could differ from those estimates.

Our significant accounting policies are described in Note 1 to our consolidated financial statements. Certain accounting policies are deemed critical if 1) they require an accounting estimate to be made based on assumptions that were highly uncertain at the time the estimate was made, and 2) changes in the estimate that are reasonably likely to occur, or different estimates that we reasonably could have used would have a material effect on our consolidated financial statements.

Management has discussed the development and selection of these critical accounting policies with the Audit Committee of our Board of Directors, and the Audit Committee has reviewed the disclosure. In addition, there are other items within our financial statements that require estimation, but are not deemed critical as defined above.

We believe the following critical accounting policies reflect our more significant estimates and assumptions used in the preparation of the consolidated financial statements.

Revenue Recognition

Our revenue is generated primarily from the sale of products and services. Product revenue consists of sales of arrays, reagents, instrumentation, and oligos. Service and other revenue consists of revenue received for performing genotyping services, extended warranty sales and revenue earned from milestone payments. As described below, significant judgments and estimates must be made and used in connection with the revenue recognized in any accounting period.

We recognize revenue in accordance with the guidelines established by SEC Staff Accounting Bulletin (''SAB'') No. 104. Under SAB No. 104, revenue cannot be recorded until all of the following criteria have been met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; the seller's price to the buyer is fixed or determinable; and collectibility is reasonably assured.

Revenue for product sales is recognized generally upon shipment and transfer of title to the customer, provided no significant obligations remain and collection of the receivables is reasonably assured. Revenue from the sale of instrumentation is recognized when earned, which is generally upon shipment. However, in the case of BeadLabs, revenue is recognized upon the completion of installation, training and the receipt of customer acceptance. Revenue for genotyping services is recognized when earned, which is generally at the time the genotyping analysis data is delivered to the customer or as specific milestones are achieved.

In order to assess whether the price is fixed and determinable, we ensure there are no refund rights. If payment terms are based on future performance, we defer revenue recognition until the price becomes fixed and determinable. We assess collectibility based on a number of factors, including past transaction history with the customer and the creditworthiness of the customer. If we determine that collection of a payment is not reasonably assured, we defer revenue recognition until the time collection becomes reasonably assured, which is generally upon receipt of payment. Changes in judgments and estimates made in determining whether the criteria of SAB No. 104 have been met might result in a change in the timing or amount of revenue recognized.

Sales of instrumentation generally include a standard one-year warranty. We also sell separately priced maintenance (extended warranty) contracts, which are generally for one or two years, upon the expiration of the initial warranty. Revenue for extended warranty sales is recognized ratably over the term of the extended warranty period. Reserves are provided for estimated product warranty expenses at the time the associated revenue is recognized. If we were to experience an increase in warranty claims or if costs of servicing our warrantied products were greater than our estimates, our gross margins could be adversely affected.

While the majority of our sales agreements contain standard terms and conditions, we do enter into agreements that contain multiple elements or non-standard terms and conditions. Emerging Issues Task Force (''EITF'') No. 00-21, *Revenue Arrangements with Multiple Deliverables,* provides guidance on accounting for arrangements that involve the delivery or performance of multiple products, services, or rights to use assets within contractually binding arrangements. Significant contract interpretation is sometimes required to determine the appropriate accounting, including whether the deliverables specified in a multiple element arrangement should be treated as separate units of accounting for revenue recognition purposes, and if so, how the price should be allocated among the deliverable elements, when to recognize revenue for each element, and the period over which revenue should be recognized. We recognize revenue for delivered elements only when we determine that the fair values of undelivered elements are known and there are no uncertainties regarding customer acceptance.

Some of our agreements contain multiple elements that include milestone payments. Revenue from a milestone achievement is recognized when earned, as evidenced by acknowledgement from our collaborator, provided that (i) the milestone event is substantive and its achievability was not reasonably assured at the inception of the agreement, (ii) the milestone represents the culmination of an earnings process, (iii) the milestone payment is non-refundable and (iv) the performance obligations for both us and our collaborators after the milestone achievement will continue at a level comparable to the level before the milestone achievement. If all of these criteria are not met, the milestone achievement is recognized over the remaining minimum period of our performance obligations under the agreement. We defer non-refundable upfront fees received under our collaborations and recognize them over the period the related services are provided or over the estimated collaboration term using various factors specific to the collaboration. Advance payments we receive in excess of amounts earned are classified as deferred revenue until earned.

A third source of revenue, research revenue, consists of amounts earned under research agreements with government grants, which is recognized in the period during which the related costs are incurred. All revenue is recorded net of any applicable allowances for returns or discounts.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We evaluate the collectibility of our accounts receivable based on a combination of factors. We regularly analyze customer accounts, review the length of time receivables are outstanding and review historical loss rates. If the financial condition of our customers were to deteriorate, additional allowances could be required.

Inventory Valuation

We record adjustments to inventory for potentially excess, obsolete or impaired goods in order to state inventory at net realizable value. We must make assumptions about future demand, market conditions and the release of new products that will supercede old ones. We regularly review inventory for excess and obsolete products and components, taking into account product life cycle and development plans, product expiration and quality issues, historical experience and our current inventory levels. If actual market conditions are less favorable than anticipated, additional inventory adjustments could be required.

Contingencies

We are subject to legal proceedings primarily related to intellectual property matters. Based on the information available at the balance sheet dates and through consultation with our legal counsel, we assess the likelihood of any adverse judgments or outcomes of these matters, as well as the potential ranges of probable losses. If losses are probable and reasonably estimable, we will record a liability in accordance with Statement of Financial Accounting Standards (''SFAS'') No. 5, *Accounting for Contingencies*. Currently, we have no such liabilities recorded. This may change in the future depending upon new developments in each matter.

Goodwill and Intangible Asset Valuation

The purchase method of accounting for acquisitions requires extensive use of accounting estimates and judgments to allocate the purchase price to the fair value of the net tangible and intangible assets acquired, including in-process research and development (''IPR&D''). Goodwill and intangible assets deemed to have indefinite lives are not amortized, but are subject to annual impairment tests. The amounts and useful lives assigned to other acquired intangible assets impact future amortization, and the amount assigned to IPR&D is expensed immediately. Determining the fair values and useful lives of intangible assets especially requires the exercise of judgment. While there are a number of different acceptable generally accepted valuation methods to estimate the value of intangible assets acquired, we primarily use the discounted cash flow method. This method requires significant management judgment to forecast the future operating results used in the analysis. In addition, other significant estimates are required such as residual growth rates and discount factors. The estimates we use to value and amortize intangible assets are consistent with the plans and estimates that we use to manage our business and are based on available historical information and industry estimates and averages. These judgments can significantly affect our net operating results.

During 2001, we adopted SFAS No. 142. SFAS No. 142 requires that goodwill and certain intangible assets be assessed for impairment using fair value measurement techniques. If the carrying amount of a reporting unit exceeds its fair value, then a goodwill impairment test is performed to measure the amount of the impairment loss, if any. The goodwill impairment test compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. The implied fair value of goodwill is determined in the same manner as in a business combination. Determining the fair value of the implied goodwill is judgmental in nature and often involves the use of significant estimates and assumptions. These estimates and assumptions could have a significant impact on whether or not an impairment charge is recognized and also the magnitude of any such charge. Estimates of fair value are primarily determined using discounted cash flows and market comparisons. These approaches use significant estimates and assumptions, including projection and timing of future cash flows, discount rates reflecting the risk inherent in future cash flows, perpetual growth rates, determination of appropriate market comparables, and determination of whether a premium or discount should be applied to comparables. It is reasonably possible that the plans and estimates used to value these assets may be incorrect. If our actual results, or the plans and estimates used in future impairment analyses, are lower than the original estimates used to assess the recoverability of these assets, we could incur additional impairment charges. As of January 1, 2006, we had $2.1 million of goodwill. This goodwill is reported as a separate line item in the balance sheet for fiscal 2005.

Recently Issued Accounting Standards

In December 2004, the Financial Accounting Standards Board (''FASB'') issued SFAS No. 123 (revised 2004), *Share Based Payment* (''SFAS 123R''), which is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation*. This statement supercedes Accounting Principles Bulletin (''APB'') Opinion No. 25, *Accounting for Stock Issued to Employees,* and amends SFAS No. 95, *Statement of Cash Flows*. Generally, the approach in SFAS No. 123R is similar to the approach described in SFAS No. 123; however, SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative.

SFAS No. 123R permits companies to adopt its requirements using either a ''modified prospective'' method or a ''modified retrospective'' method. Under the ''modified prospective'' method, compensation cost is recognized in the financial statements beginning with the effective date, based on the requirements of SFAS No. 123R for all share-based payments granted after that date, and based on the requirements for SFAS No. 123 for all unvested awards granted prior to the effective date of SFAS No. 123R. Under the ''modified retrospective'' method, the requirements are the same as under the ''modified prospective'' method, but companies may restate financial statements of previous periods based on pro forma disclosures made in accordance with SFAS No. 123. We currently utilize the Black-Scholes model to measure the fair value of stock options granted to employees under the pro forma disclosure requirements of SFAS No. 123. While SFAS No. 123R permits companies to continue to use such model, it also permits the use of a ''lattice'' model. We have deterimined we will use the Black-Scholes model to measure the fair value of employee stock options under SFAS No. 123R. The new standard is effective for companies that are not small business issuers, like us, beginning with the first reporting period during the first fiscal year beginning on or after June 15, 2005, and we adopted SFAS No. 123R at the beginning of our new reporting period on January 2, 2006.

We currently account for share-based payments to employees using APB No. 25's intrinsic value method and, as such, recognize no compensation cost for employee stock options granted with exercise prices equal to or greater than the fair value of our common stock on the date of the grant. Accordingly, the adoption of SFAS No. 123R's fair value method is expected to result in significant non-cash charges which will increase our reported operating expenses. However, it will have no impact on our cash flows. The precise impact of adoption of SFAS No. 123R cannot be predicted at this time because it will depend on the level of share-based payments granted in the future. However, had we adopted SFAS No. 123R in prior periods, we believe the impact of that standard would have approximated the impact of SFAS No. 123 as described in the disclosure of pro forma net loss in the notes to our consolidated financial statements.

In November 2004, the FASB issued SFAS No. 151, *Inventory Costs.* We are required to adopt the provisions of SFAS No. 151, on a prospective basis, as of January 2, 2006. SFAS No. 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material. SFAS No. 151 requires that those items — if abnormal — be recognized as expenses in the period incurred. In addition, SFAS No. 151 requires the allocation of fixed production overheads to the costs of conversions based upon the normal capacity of the production facilities. We do not believe that the adoption of SFAS No. 151 will have a material impact on our financial position or results of operations.

Results of Operations

To enhance comparability, the following table sets forth audited consolidated statement of operations data for the years ended January 1, 2006, January 2, 2005, and December 28, 2003 stated as a percentage of total revenue.

	Year Ended January 1, 2006	Year Ended January 2, 2005	Year Ended December 28, 2003
Revenue			
Product revenue	79%	80%	66%
Service and other revenue	19	16	23
Research revenue	2	4	11
Total revenue	100	100	100
Costs and expenses:			
Cost of product revenue	27	23	27
Cost of service and other revenue	4	3	9
Research and development	38	41	80
Selling, general and administrative	38	50	67
Acquired in-process research and development	22	—	—
Amortization of deferred compensation and other stock-based compensation charges	—	2	9
Litigation judgment (settlement), net	—	(8)	3
Total costs and expenses	129	111	195
Loss from operations	(29)	(11)	(95)
Interest income	2	2	6
Interest and other expense	(1)	(3)	(8)
Net loss	(28%)	(12%)	(97%)

Comparison of Years Ended January 1, 2006 and January 2, 2005

Our fiscal year is 52 or 53 weeks ending the Sunday closest to December 31, with quarters of 13 or 14 weeks ending the Sunday closest to March 31, June 30, and September 30. The years ended January 1, 2006 and January 2, 2005 were 52 and 53 weeks, respectively.

Revenue

	Year Ended January 1, 2006	Year Ended January 2, 2005	Percentage Change
	(in thousands)		
Product revenue	$57,752	$40,497	43%
Service and other revenue	13,935	8,075	73
Research revenue	1,814	2,011	(10)
Total revenue	$73,501	$50,583	45%

Total revenue for the years ended January 1, 2006 and January 2, 2005 was $73.5 million and $50.6 million, respectively. This represents an increase of $22.9 million for 2005, or 45%, as compared to 2004.

Product revenue increased to $57.8 million for the year ended January 1, 2006 from $40.5 million for the year ended January 2, 2005. The increase in 2005 was primarily due to higher BeadStation, consumable and, to a lesser extent, oligo sales. Growth in consumable sales was due to the launch of several new products, as well as the growth in our installed base of BeadStations. As of January 1, 2006, we have shipped a total of 115 BeadStations and 11 BeadLabs.

Service and other revenue increased to $13.9 million in 2005 from $8.1 million in 2004. The increase in service and other revenue is primarily due to higher demand for third-party SNP genotyping service contracts during the 2005 period. In addition, due to the achievement of a milestone associated with our collaboration agreement with Invitrogen, we recognized revenue of $1.1 million in the fourth quarter of 2005. These increases were partially offset by decreased revenue related to the International HapMap Project. We completed all revenue-generating genotyping services for the International HapMap project early in the first quarter of 2005. We expect sales from third-party SNP genotyping services contracts to fluctuate on a yearly and quarterly basis, depending on the mix and number of contracts that are completed. The timing of completion of a SNP genotyping services contract is highly dependent on the customer's schedule for delivering the SNPs and samples to us.

Government grants and other research funding decreased to $1.8 million for the year ended January 1, 2006 from $2.0 million for the year ended January 2, 2005, due primarily to a decrease in internal research spending for our grants from the National Institutes of Health. We expect revenue from government grants to decline in the future as we continue to expand our focus on commercial operations.

Cost of Product and Service and Other Revenue

	Year Ended January 1, 2006	Year Ended January 2, 2005	Percentage Change
	(In thousands)		
Cost of product revenue	$19,920	$11,572	72%
Cost of service and other revenue	3,261	1,687	93
Total cost of product and service and other revenue	$23,181	$13,259	75%

Cost of product and service and other revenue represents manufacturing costs incurred in the production process, including component materials, assembly labor and overhead, installation, warranty, packaging and delivery costs, as well as costs associated with performing genotyping services on behalf of our customers. Costs related to research revenue are included in research and development expense. Cost of product and service and other revenue increased to $23.2 million for the year ended January 1, 2006, as compared to $13.3 million for the year ended January 2, 2005 due primarily to the significant increase in product revenue. Gross margin on product and service and other revenue was 68% for 2005, as compared to 73% for 2004.

Cost of product revenue increased to $19.9 million for the year ended January 1, 2006, as compared to $11.6 million for the year ended January 2, 2005, due to the significant increase in product revenue. Gross margin on product revenue decreased to 66% for the year ended January 1, 2006, as compared to 71% for the year ended January 2, 2005. The decrease in gross margin percentage is primarily due to the impact of product mix. A higher percentage of our revenue in 2005 was generated from the sale of instrumentation, which generally has a lower gross margin than other products. Other factors contributing to the decrease include decreased gross margins related to our consumable and oligo sales. Lower consumable margins can be primarily attributed to lower average selling prices on consumable sales in 2005, as compared to 2004, which were partially offset by decreased manufacturing costs. In addition, the gross margin associated with oligo products sold as a part of the Invitrogen collaboration was lower when compared to the prior year. The change in oligo gross margin is due to the fact that, under the Invitrogen collaboration, we no longer sell oligos directly. As a result, the gross margin related to this product line decreased; however, the net margin has increased due to the fact that most of the sales and marketing expenses surrounding the oligo business have shifted to our collaboration partner, Invitrogen.

Cost of service and other revenue increased to $3.3 million for the year ended January 1, 2006, as compared to $1.7 million for the year ended January 2, 2005. Gross margin on service and other revenue decreased to 77% for the year ended January 1, 2006 from 79% in the year ended January 2, 2005. The decrease is due primarily to a change in the mix of projects and decreased average selling prices.

We expect product mix to continue to affect our future gross margins. However, we expect our market to become increasingly price competitive and our margins may fluctuate.

Research and Development Expenses

	Year Ended January 1, 2006	Year Ended January 2, 2005	Percentage Change
	(In thousands)		
Research and development	$27,725	$21,114	31%

Our research and development expenses consist primarily of salaries and other personnel-related expenses, laboratory supplies and other expenses related to the design, development, testing and enhancement of our products. We expense our research and development expenses as they are incurred.

Research and development expenses increased to $27.7 million for the year ended January 1, 2006, as compared to $21.1 million for the year ended January 2, 2005. The increase in research and development expenses is primarily due to the development expenses incurred to develop our newly-acquired Microbead technology purchased in conjunction with our acquisition of CyVera in April 2005. Research and development expenses related to the Microbead technology totaled approximately $3.2 million in 2005. Additional factors contributing to the increased research and development expenses during 2005 relate to increased costs of $2.1 million associated with the cost of BeadArray research activities and $1.3 million related to research costs to support our Oligator technology platform. We believe a substantial investment in research and development is essential to remaining competitive and expanding into additional markets. Accordingly, we expect our research and development expenses to increase as we expand our product base.

Stock based compensation related to research and development employees and consultants was approximately $0.1 million for the year ended January 1, 2006, as compared to $0.3 million for the year ended January 2, 2005.

Selling, General and Administrative Expenses

	Year Ended January 1, 2006	Year Ended January 2, 2005	Percentage Change
	(In thousands)		
Selling, general and administrative	$27,972	$25,080	12%

Our selling, general and administrative expenses consist primarily of personnel costs for sales and marketing, finance, human resources, business development, legal and general management, as well as professional fees, such as expenses for legal and accounting services.

Selling, general and administrative expenses increased to $28.0 million for the year ended January 1, 2006, as compared to $25.1 million for the year ended January 2, 2005. Our sales and marketing expenses increased $3.6 million, of which $2.7 million was attributable to personnel related expenses for the build-out of our sales force and customer support staff, and $0.9 million is attributable to other non-personnel-related costs, including sales and marketing activities for our existing and new products. General and administrative expenses decreased by $0.7 million in 2005, as compared to 2004, due primarily to a $2.5 million decrease in litigation expenses, partially offset by a $1.5 million increase in personnel-related expenses.

We expect our selling, general and administrative expenses to accelerate as we expand our staff, add sales and marketing infrastructure and incur increased litigation costs and additional costs to support the commercialization and support of an increasing number of products.

Stock based compensation for selling, general and administrative employees, directors and consultants was $0.2 million for the year ended January 1, 2006, as compared to $0.5 million for the year ended January 2, 2005. During 2005, we recorded non-cash compensation expense for accelerated vesting of options for certain employees totaling approximately $0.1 million. This compensation was provided as incentive to continue to work as key members of the sales team associated with the Invitrogen collaboration.

Acquired In-Process Research and Development

	Year Ended January 1, 2006	Year Ended January 2, 2005	Percentage Change
	(In thousands)		
Acquired in-process research and development	$15,800	$—	N/A

During the year ended January 1, 2006, we recorded $15.8 million of acquired IPR&D resulting from the CyVera acquisition. These amounts were expensed on the acquisition dates because the acquired technology had not yet reached technological feasibility and had no alternative future uses. At the acquisition date, CyVera's ongoing research and development initiatives were primarily the development of its microbead technology platform and optical instrumentation/reader concepts. The IPR&D charge related to the CyVera acquisition was made up of two projects that were approximately 50% and 25% complete at the date of acquisition. The discount rate applied to calculate the IPR&D charge was 30%. Acquisitions of businesses, products or technologies by us in the future may result in substantial charges for acquired IPR&D that may cause fluctuations in our interim or annual operating results. There were no charges resulting from any acquisitions during the same period in 2004.

Amortization of Deferred Compensation and Other Stock-Based Compensation Charges

	Year Ended January 1, 2006	Year Ended January 2, 2005	Percentage Change
	(In thousands)		
Amortization of deferred compensation and other stock-based compensation charges	$270	$844	(68%)

Since our inception, in connection with the grant of certain stock options and sales of restricted stock to employees, founders and directors through July 25, 2000, we have recorded deferred stock compensation totaling approximately $17.6 million, representing the difference between the exercise or purchase price and the fair value of our common stock as estimated by our management for financial reporting purposes on the date such stock options were granted or restricted common stock was sold. Deferred compensation is included as a reduction of stockholders' equity and is being amortized over the vesting period of the options and restricted stock. In 2005, we recorded $0.2 million as deferred compensation related to unvested options associated with our acquisition of CyVera. In addition, in 2005, we granted a restricted stock award to an employee and recorded deferred stock compensation totaling $0.2 million. During the years ended January 1, 2006 and January 2, 2005, we recorded amortization of deferred stock compensation of approximately $0.3 million and $0.8 million, respectively.

We recognize compensation expense over the vesting period for employees, founders and directors, using an accelerated amortization methodology in accordance with FASB Interpretation No. 28. For consultants, deferred compensation is recorded at the fair value for the options granted or stock sold in accordance with SFAS No. 123 and is periodically re-measured and expensed in accordance with EITF No. 96-18.

In 2005, we recorded approximately $48,000 as deferred compensation expense related to our acquisition of CyVera. We also recorded non-cash compensation expense related to accelerated vesting of options for certain employees totaling approximately $0.1 million. This compensation was provided to these employees as incentive to continue to work as key members of the sales team associated with the Invitrogen collaboration. In addition, in 2005 we granted a restricted stock award to an employee and recorded a non-cash compensation charge of $21,000. We expect expenses related to stock-based compensation to increase significantly beginning in 2006 as we implement the requirements of SFAS No. 123R. Although the adoption of SFAS No. 123R's fair value method is expected to result in a significant increase in our reported operating expenses, it will have no impact on our cash flows. SFAS No. 123R is discussed further in ''Recently Issued Accounting Standards'' in Item 7 and in Note 1 to our consolidated financial statements.

Litigation Judgment (Settlement), net

	Year Ended January 1, 2006	Year Ended January 2, 2005	Percentage Change
	(In thousands)		
Litigation judgment (settlement), net	$—	$(4,201)	(100%)

We recorded a $7.7 million charge in June 2002 to cover total damages and estimated expenses related to a jury verdict in a termination-of-employment lawsuit. We appealed the decision, and in December 2004, the Fourth Appellate District Court of Appeal, in San Diego, California, reduced the amount of the award. During the appeal process, the court required us to incur interest charges on the judgment amount at statutory rates until the case was resolved. During the years ended January 2, 2005 and December 28, 2003, we recorded $0.6 million and $0.8 million, respectively, of such interest charges as litigation expense. As a result of the revised judgment, we reduced the $9.2 million liability on our balance sheet to $5.9 million and recorded a gain of $3.3 million as a litigation judgment in the fourth quarter of 2004. In addition, in August 2004, we recorded a $1.5 million gain as a result of a settlement with Applera.

Interest Income

	Year Ended January 1, 2006	Year Ended January 2, 2005	Percentage Change
	(In thousands)		
Interest income	$1,404	$941	49%

Interest income on our cash and cash equivalents and investments was $1.4 million and $0.9 million for the years ended January 1, 2006 and January 2, 2005, respectively. The increase was due to higher average cash balances and higher effective interest rates compared to the prior year.

Interest and Other Expense

	Year Ended January 1, 2006	Year Ended January 2, 2005	Percentage Change
	(In thousands)		
Interest and other expense	$831	$1,653	(50%)

Interest and other expense consists of interest expense, expenses related to foreign exchange transaction costs, foreign income taxes and gains and losses on disposals of assets. Interest and other expense decreased to $0.8 million for the year ended January 1, 2006, as compared to $1.7 million for the year ended January 2, 2005.

Interest expense was $7,000 for the year ended January 1, 2006, as compared to $1.4 million for the year ended January 2, 2005. Interest expense in the 2004 period relates primarily to a $26.0 million fixed rate loan that was paid off in August 2004 in connection with the sale of our San Diego facilities.

In the year ended January 1, 2006, we recorded approximately $0.4 million in losses due to foreign currency transactions compared to $0.2 million in foreign currency transaction losses for the year ended January 2, 2005. Estimated foreign income taxes were approximately $0.2 million and $0.1 million for the years ended January 1, 2006 and January 2, 2005, respectively. In addition in 2005, we recorded $0.3 million related to losses on disposal of assets. There were no gains or losses on disposals in 2004.

Provision for Income Taxes

We incurred net operating losses for the years ended January 1, 2006 and January 2, 2005 and, accordingly, we did not pay any U.S. federal or state income taxes. We have recorded a valuation allowance for the full amount of the resulting net deferred tax asset, as the future realization of the tax benefit is uncertain. As of January 1, 2006, we had net operating loss carryforwards for federal and California tax purposes of approximately $103.7 million and $40.1 million, respectively, which begin to expire in 2018 and 2006, respectively, unless previously utilized.

As of January 1, 2006, we also had U.S. federal and California research and development tax credit carryforwards of approximately $4.1 million and $3.8 million, respectively. The federal tax credit carryforwards will begin to expire in 2018 and the California carryforwards have no expiration.

Our utilization of the net operating losses and credits may be subject to substantial annual limitations pursuant to Section 382 and 383 of the Internal Revenue Code, and similar state provisions, as a result of changes in our ownership structure. CyVera Corporation had an ownership change upon our acquisition during 2005 and, accordingly, its net operating loss and tax credit carryforwards are subject to annual limitation. These annual limitations may result in the expiration of net operating losses and credits prior to utilization. We are in the final stages of completing our formal Section 382 and 383 analysis and it is anticipated that approximately $0.2 million of our net operating loss carryforwards may be limited.

Comparison of Years Ended January 2, 2005 and December 28, 2003

Our fiscal year is 52 or 53 weeks ending the Sunday closest to December 31, with quarters of 13 or 14 weeks ending the Sunday closest to March 31, June 30, and September 30. The years ended January 2, 2005 and December 28, 2003 were 53 and 52 weeks, respectively.

Revenue

	Year Ended January 2, 2005	Year Ended December 28, 2003	Percentage Change
	(In thousands)		
Product revenue	$40,497	$18,378	120%
Service revenue	8,075	6,496	24
Research revenue	2,011	3,161	(36)
Total revenue	$50,583	$28,035	80%

Revenue for the years ended January 2, 2005 and December 28, 2003 was $50.6 million and $28.0 million, respectively. Product revenue increased to $40.5 million in 2004 from $18.4 million in 2003. The increase resulted almost entirely from sales of consumables used on our BeadLabs and BeadStations and sales of our benchtop BeadStations, offset by fewer sales of our production-scale BeadLabs. In 2003, we had no sales of BeadStations and we only began selling consumable products in May 2003.

Service revenue increased to $8.1 million for the year ended January 2, 2005 from $6.5 million in for the year ended December 28, 2003. Substantially all of this increase relates to SNP genotyping services performed for the International HapMap Project. We are the recipient of a grant from the National Institutes of Health covering our participation in the first phase of the International HapMap Project, which is a $100 million internationally funded successor project to the Human Genome Project that will help identify a map of genetic variations that may be used to perform disease-related research. We received $9.1 million of funding for this project which covered basic research activities, the development of SNP assays and the genotyping to be performed on those assays. We had recognized revenue from this grant of $8.3 million through the end of 2004. The remaining $0.8 million of funding remaining related to this project was received and recognized as revenue in early 2005.

Government grants and other research funding decreased to $2.0 million for the year ended January 2, 2005 from $3.2 million for the year ended December 28, 2003, primarily due to a decrease in internal research spending for our grant from the National Institutes of Health covering our participation in the International HapMap Project.

Cost of Product and Service Revenue

	Year Ended January 2, 2005	Year Ended December 28, 2003	Percentage Change
	(In thousands)		
Cost of product revenue	$11,572	$ 7,437	56%
Cost of service revenue	1,687	2,600	(35%)
Total cost of product and service revenue	$13,259	$10,037	32%

Cost of product and service revenue represents manufacturing costs incurred in the production process, including component materials, assembly labor and overhead, installation, warranty, packaging and delivery costs, as well as costs associated with performing genotyping services on behalf of our customers. Costs related to research revenue are included in research and development expense.

Cost of product revenue increased to $11.6 million for the year ended January 2, 2005 from $7.4 million for the year ended December 28, 2003. Substantially all of this increase was driven by the sales of our BeadStations and consumables. Gross margin on product revenue increased to 71% in the year ended January 2, 2005, from 60% for the year ended December 28, 2003, due primarily to increased sales of higher margin consumable products, as well as efficiencies gained in oligo manufacturing.

Cost of service revenue decreased to $1.7 million for the year ended January 2, 2005 from $2.6 million for the year ended December 28, 2003. Gross margin on service revenue increased to 79% in the year ended January 2, 2005, from 60% for the year ended December 28, 2003. This decrease in cost and increase in gross margin is due primarily to efficiencies gained in SNP genotyping services, as well as lower costs of oligos used in the genotyping services process.

Research and Development Expenses

	Year Ended January 2, 2005	Year Ended December 28, 2003	Percentage Change
	(In thousands)		
Research and development	$21,114	$22,511	(6%)

Our research and development expenses consist primarily of salaries and other personnel-related expenses, laboratory supplies and other expenses related to the design, development, testing and enhancement of our products. We expense our research and development expenses as they are incurred. Research and development expenses decreased $1.4 million to $21.1 million for the year ended January 2, 2005 from $22.5 million for the year ended December 28, 2003. Approximately $0.9 million of the decrease is attributable to personnel-related expenses and related lab supplies and the majority of the remaining $0.5 million is attributable to lower manufacturing-related resources needed to support research efforts and a decrease in depreciation expense.

During the year ended January 2, 2005, the cost of BeadArray technology research activities decreased $0.4 million, as compared to the year ended December 28, 2003. The decrease is primarily the result of completing the development of several products that were commercially launched in late 2003 and 2004 such as our BeadStation and focused gene set array products.

Research to support our Oligator technology platform decreased $1.0 million in the year ended January 2, 2005, as compared to the year ended December 28, 2003. In the second quarter of 2003, we implemented additional Oligator manufacturing and software enhancements to expand capacity, increase throughput, and further reduce operating costs. In addition, as we increase our product sales, a smaller portion of our manufacturing resources are now used to support research efforts as compared to the same periods in 2003.

Stock based compensation related to research and development employees and consultants was $0.3 million for the year ended January 2, 2005, as compared to $1.3 million for the year ended December 28, 2003.

Selling, General and Administrative Expenses

	Year Ended January 2, 2005	Year Ended December 28, 2003	Percentage Change
	(In thousands)		
Selling, general and administrative	$25,080	$18,899	33%

Our selling, general and administrative expenses consist primarily of personnel costs for sales and marketing, finance, human resources, business development and general management, as well as professional fees, such as expenses for legal and accounting services. Selling, general and administrative expenses increased $6.2 million to $25.1 million for the year ended January 2, 2005 from $18.9 million for the year ended December 28, 2003. Approximately $5.2 million of the increase is due to higher sales and marketing costs, of which $4.1 million is attributable to personnel-related expenses and $0.7 million is attributable to an increase in facility-related expenses. Approximately $1.0 million of the increase in selling, general and administrative expenses is related to general and administrative costs, of which $0.4 million is related to personnel-related expenses, and the majority of the remaining $0.6 million is attributable to expenses associated with Sarbanes-Oxley compliance and our international expansion.

Stock based compensation related to selling, general and administrative employees, directors and consultants was $0.5 million for the year ended January 2, 2005, as compared to $1.2 million for the year ended December 28, 2003.

Amortization of Deferred Compensation and Other Stock-Based Compensation Charges

	Year Ended January 2, 2005	Year Ended December 28, 2003	Percentage Change
	(In thousands)		
Amortization of deferred compensation and other stock-based compensation charges	$844	$2,454	(66%)

From our inception through July 27, 2000, in connection with the grant of certain stock options and sales of restricted stock to employees, founders and directors, we have recorded deferred stock compensation totaling $17.6 million, representing the difference between the exercise or purchase price and the fair value of our common stock as estimated for financial reporting purposes on the date such stock options were granted or such restricted stock was sold. We recorded this amount as a component of stockholders' equity and amortize the amount as a charge to operations over the vesting period of the restricted stock and options.

We recorded amortization of deferred compensation of $0.8 million and $2.5 million for the years ended January 2, 2005 and December 28, 2003, respectively. We recognize compensation expense over the vesting period for employees, founders and directors, using an accelerated amortization methodology in accordance with the FIN No. 28. For consultants, deferred compensation is recorded at the fair value for the options granted or stock sold in accordance with SFAS No. 123 and is periodically re-measured and expensed in accordance with EITF No. 96-18.

Litigation Judgment (Settlement), net

	Year Ended January 2, 2005	Year Ended December 28, 2003	Percentage Change
	(In thousands)		
Litigation judgment (settlement), net	$(4,201)	$756	(656%)

We recorded a $7.7 million charge in June 2002 to cover total damages and estimated expenses related to a jury verdict in a termination-of-employment lawsuit. We appealed the decision, and in December 2004, the Fourth Appellate District Court of Appeal, in San Diego, California, reduced the amount of the award. During the appeal process, the court required us to incur interest charges on the judgment amount at statutory rates until the case was resolved. For the years ended January 2, 2005 and December 28, 2003 we recorded $0.6 million and $0.8 million, respectively, of such interest charges as litigation expense. As a result of the revised judgment, we reduced the $9.2 million liability on our balance sheet to $5.9 million and recorded a gain of $3.3 million as a litigation judgment in the fourth quarter of 2004.

In 1999, we entered into a joint development agreement with Applied Biosystems Group, an operating group of Applera Corporation, under which the companies agreed to jointly develop a SNP genotyping system that would combine our BeadArray technology with Applied Biosystems' assay chemistry and scanner technology. In conjunction with the agreement, Applied Biosystems agreed to provide us with non-refundable research and development support of $10.0 million, all of which was paid by December 2001 and recorded as a liability on our balance sheet as of December 28, 2003. In December 2002, Applied Biosystems initiated a patent infringement suit and sought to compel arbitration of an alleged breach of the joint development agreement. We initiated a suit in state court seeking to enjoin the arbitration and alleged that Applied Biosystems had breached the joint development agreement. In August 2004, we entered into a settlement and cross-license agreement with Applera. As a result of the settlement, we removed the $10.0 million liability from our balance sheet, made a payment of $8.5 million to Applera and recorded a gain of $1.5 million as a litigation settlement.

Interest Income

	Year Ended January 2, 2005	Year Ended December 28, 2003	Percentage Change
	(In thousands)		
Interest income	$941	$1,821	(48%)

Interest income on our cash and cash equivalents and investments was $0.9 million and $1.8 million for the years ended January 2, 2005 and December 28, 2003, respectively. The decrease is due to lower effective interest rates, partially offset by higher average cash balances.

Interest and Other Expense

	Year Ended January 2, 2005	Year Ended December 28, 2003	Percentage Change
	(In thousands)		
Interest and other expense	$1,653	$2,262	(27%)

Interest and other expense primarily consisted of interest expense, which was $1.4 million and $2.2 million for the years ended January 2, 2005 and December 28, 2003, respectively. Interest expense relates primarily to a $26.0 million fixed rate loan, which was paid off in August 2004 in connection with the sale of our San Diego facilities.

In the year ended January 2, 2005, we recorded approximately $150,000 in losses due to foreign currency transactions as compared to approximately $5,000 in gains for the year ended December 28, 2003. Estimated foreign income taxes were approximately $135,000 and $45,000 for the years ended January 2, 2005 and December 28, 2003, respectively.

Provision for Income Taxes

We incurred net operating losses for the years ended January 2, 2005 and December 28, 2003, and accordingly, we did not pay any U.S. federal or state income taxes. We have recorded a valuation allowance for the full amount of the resulting net deferred tax asset, as the future realization of the tax benefit is uncertain. As of January 2, 2005, we had net operating loss carryforwards for federal and state tax purposes of approximately $86.5 million and $39.1 million, respectively, which begin to expire in 2018, unless previously utilized.

As of January 2, 2005, we also had U.S. federal and state research and development tax credit carryforwards of approximately $3.1 million and $3.0 million, respectively, which begin to expire in 2018, unless previously utilized.

Liquidity and Capital Resources

Cashflow

	Year Ended January 1, 2006	Year Ended January 2, 2005	Year Ended December 28, 2003
		(In thousands)	
Net cash used in operating activities	$(9,008)	$(19,574)	$(18,256)
Net cash provided by (used in) investing activities	(1,535)	57,022	28,468
Net cash provided by financing activities	5,963	4,875	216
Effect of foreign currency translation	613	1	—
Net increase (decrease) in cash and cash equivalents	$(3,967)	$ 42,324	$ 10,428

As of January 1, 2006, we had cash and cash equivalents of approximately $50.8 million. We currently invest our excess cash balances in U.S. dollar-based, short-term money market mutual funds.

Our operating activities used cash of $9.0 million in the year ended January 1, 2006, as compared to $19.6 million in the year ended January 2, 2005. Net cash used in operating activities in the year ended January 1, 2006 was primarily the result of a net loss from operations of $20.9 million, a $6.0 million payment for a litigation judgment, a $7.0 million increase in accounts receivable and a $6.5 million increase in inventory, reduced by a $7.4 million increase in accounts payable and accrued liabilities, a $3.2 million increase in long-term liabilities primarily related to payments received from Invitrogen recorded as deferred revenue, non-cash charges of $4.1 million for depreciation and amortization and a non-cash acquired IPR&D charge of $15.8 million related to the CyVera acquisition. The accounts receivable and inventory increases over the prior year are primarily due to our significant year-over-year sales growth of 45%, which resulted from increased customer demand and our introduction of new products and services into the market. The increase in accounts payable and accrued liability balances was driven primarily by increases in general business activity associated with such sales growth, as well as expenses associated with the expansion of our corporate infrastructure to accommodate this growth. Net cash used in operating activities in the year ended January 2, 2005 was primarily the result of a net loss from operations of $6.2 million, the payment of an $8.5 million legal settlement, as described under ''Litigation Judgment (Settlement), net,'' a $7.2 million increase in accounts receivable due to increased sales and a $2.0 million increase in other assets primarily for the security deposit for the building lease, reduced by non-cash charges of $4.0 million for depreciation and amortization.

Our investing activities used cash of $1.5 million in the year ended January 1, 2006, as compared to providing cash of $57.0 million in the year ended January 2, 2005. Cash used in investing activities in the year ended January 1, 2006 was due to $11.4 million used for the purchase of property and equipment and $2.4 million paid for the acquisition of CyVera, reduced by $12.2 million from the sale or maturity of investment securities used to provide operating funds for our business. Cash provided by investing activities in the year ended January 2, 2005 was due to $40.7 million in proceeds from the sale of our land and buildings, net of fees, and $19.7 million from the sale or maturity of investment securities, net of purchases of investment securities used to provide operating funds for our business, reduced by $3.4 million for the purchase of property and equipment.

Our financing activities provided $6.0 million in the year ended January 1, 2006, as compared to $4.9 million for the year ended January 2, 2005. Cash provided from financing activities in the year ended January 1, 2006 was due primarily to proceeds from the issuance of common stock from option exercises. Cash provided from financing activities in the year ended January 2, 2005 was due primarily to proceeds from the issuance of common stock, including $28.7 million of net proceeds from the sale of approximately 4.6 million shares of our common stock in May 2004, offset by the $25.4 million in long-term debt we paid off in connection with the sale of our land and buildings.

In June 2002, we recorded a $7.7 million charge to cover total damages and estimated expenses related to a termination-of-employment lawsuit. As a result of our decision to appeal the ruling, we filed a surety bond with the court in October 2002 of 1.5 times the judgment amount, or approximately $11.3 million. Under the terms of the bond, we were required to maintain a letter of credit for 90% of the bond amount to secure the bond. Further, we were required to deposit approximately $12.5 million of marketable securities as collateral for the letter of credit and accordingly, these funds were restricted from use for corporate purposes. A judgment was rendered in December 2004 and a $5.9 million payment was made in early 2005, at which time the restricted funds were released.

We anticipate that our current cash and cash equivalents, revenue from sales and funding from grants will be sufficient to fund our anticipated operating needs, barring unforeseen developments. Operating needs include the planned costs to operate our business including amounts required to fund working capital and capital expenditures. At the present time, we have no material commitments for capital expenditures. However, our future capital requirements and the adequacy of our available funds will depend on many factors, including our ability to successfully commercialize our SNP genotyping and gene expression systems and extensions to those products and to expand our oligos and SNP genotyping services product lines, scientific progress in our research and development programs, the magnitude of those programs, competing technological and market developments, the successful resolution of our legal proceedings with Affymetrix, the success of our collaboration with Invitrogen and the need to enter into collaborations with other companies or acquire other companies or technologies to enhance or complement our product and service offerings. Therefore, we may require additional funding in the future. In addition, we may choose to raise additional capital due to market conditions or strategic considerations, such as an acquisition, even if we believe we have sufficient funds for our current or future operating plans. Further, any additional equity financing may be dilutive to our then existing stockholders and may adversely affect their rights and any debt financing may carry covenants that could restrict our operations.

In December 2003, we filed a shelf registration statement that would allow us to raise up to $65 million of funding through the sale of common stock in one or more transactions. In May 2004, we raised approximately $28.7 million, net of offering expenses, through the sale of our common stock under this shelf registration statement.

Off-Balance Sheet Arrangements and Contractual Obligations

We do not participate in any transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities (''SPEs''), which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of January 1, 2006, we were not involved in any SPE transactions.

In January 2002, we purchased two newly constructed buildings and assumed a $26.0 million, 10-year mortgage on the property at a fixed interest rate of 8.36%. In June 2004, we entered into a conditional agreement to sell our land and buildings for $42.0 million and to lease back such property for an initial term of ten years. The sale was completed in August 2004 at which time the lease was signed. After the repayment of the remaining $25.2 million debt and other related transaction expenses, we received $15.5 million in net cash proceeds. We removed the land and net book value of the buildings of $36.9 million from our balance sheet and are recording the resulting $3.7 million gain on the sale of the property over the ten-year lease term in accordance with SFAS No. 13, *Accounting for Leases*. Under the terms of the lease, we made a $1.9 million security deposit, with monthly rental payments of $318,643 for the first year with an annual increase of 3% in each subsequent year through August 2014. The current monthly rent under this lease is $328,202. The lease contains an option to renew for three additional periods of five years each.

We also lease office space for a facility in Connecticut, an additional manufacturing storage facility in San Diego and for three foreign facilities located in Japan, Singapore and China under non-cancelable operating leases that expire at various times through December 2008. These leases contain renewal options ranging from one to three years.

As of January 1, 2006, our contractual obligations are (in thousands):

	Payments Due by Period				
Contractual Obligation	Total	Less Than 1 Year	1 – 3 Years	3 – 5 Years	More Than 5 Years
Operating leases	$39,513	$4,557	$8,708	$8,833	$17,415
Total	$39,513	$4,557	$8,708	$8,833	$17,415

The above table does not include orders for goods and services entered into in the normal course of business that are not enforceable or legally binding.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk.*

Interest Rate Sensitivity

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio. The fair market value of fixed rate securities may be adversely impacted by fluctuations in interest rates while income earned on floating rate securities may decline as a result of decreases in interest rates. Under our current policies, we do not use interest rate derivative instruments to manage exposure to interest rate changes. We attempt to ensure the safety and preservation of our invested principal funds by limiting default risk, market risk and reinvestment risk. We mitigate default risk by investing in investment grade securities. We have historically maintained a relatively short average maturity for our investment portfolio, and we believe a hypothetical 100 basis point adverse move in interest rates along the entire interest rate yield curve would not materially affect the fair value of our interest sensitive financial instruments.

Foreign Currency Exchange Risk

Although most of our revenue is realized in U.S. dollars, some portions of our revenue are realized in foreign currencies. As a result, our financial results could be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in foreign markets. The functional currencies of our subsidiaries are their respective local currencies. Accordingly, the accounts of these operations are translated from the local currency to the U.S. dollar using the current exchange rate in effect at the balance sheet date for the balance sheet accounts, and using the average exchange rate during the period for revenue and expense accounts. The effects of translation are recorded in accumulated other comprehensive income as a separate component of stockholders' equity.

Exchange gains and losses arising from transactions denominated in foreign currencies are recorded in operations. In July 2004, we began hedging significant foreign currency firm sales commitments and accounts receivable with forward contracts. We only use derivative financial instruments to reduce foreign currency exchange rate risks; we do not hold any derivative financial instruments for trading or speculative purposes. Our forward exchange contracts have been designated as cash flow hedges and accordingly, to the extent effective, any unrealized gains or losses on these foreign currency forward contracts are reported in other comprehensive income. Realized gains and losses for the effective portion are recognized with the underlying hedge transaction. The notional settlement amount of the foreign currency forward contracts outstanding at January 1, 2006 and January 2, 2005 were $0.1 million and $4.0 million, respectively. As of January 1, 2006, we had one foreign currency forward contract outstanding. This contract had a fair value of $882, representing an unrealized gain, and was included in other current assets at January 1, 2006. This contract is set to expire in March 2006 and is with a reputable bank institution. As of January 2, 2005, the outstanding contracts had a fair value of $0.2 million, representing an unrealized loss, and were included in other current liabilities at January 2, 2005. We settled foreign exchange contracts of $5.2 million and $0.3 million for the years ended January 1, 2006 and January 2, 2005, respectively. Our hedging program reduces, but does not entirely eliminate the impact of currency exchange rate movements. We believe we have hedged all significant firm commitments denominated in foreign currencies, and as a result, any increase or decrease in the exchange rates of these commitments would have no material net effect to our balance sheet or our results of operations. The Company did not hold any derivative financial instruments prior to fiscal 2004.

Item 8. ***Financial Statements and Supplementary Data.***

The Report of Independent Registered Public Accounting Firm, Financial Statements and Notes to Financial Statements begin on page F-1 immediately following the signature page and are incorporated herein by reference.

Our fiscal year is 52 or 53 weeks ending on the Sunday closest to December 31, with quarters of 13 or 14 weeks ending on the Sunday closest to March 31, June 30 and September 30. The years ended January 1, 2006 and January 2, 2005 were 52 and 53 weeks, respectively.

Item 9. ***Changes In and Disagreements With Accountants on Accounting and Financial Disclosure.***

None.

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Item 9A. ***Controls and Procedures.***

We have established and maintain disclosure controls and procedures that are designed to ensure that we record, process, summarize, and report information we are required to disclose in our periodic reports filed with the Securities and Exchange Commission in the manner and within the time periods specified in the SEC's rules and forms. We also design our disclosure controls to ensure that the information is accumulated and communicated to our management, including the chief executive officer and the chief financial officer, as appropriate to allow timely decisions regarding required disclosure. We also maintain internal controls and procedures that are designed to ensure that we comply with applicable laws and our established financial policies. We design our internal controls to provide reasonable assurance that (1) our transactions are properly authorized; (2) our assets are safeguarded against unauthorized or improper use; and (3) our transactions are properly recorded and reported in conformity with U.S. generally accepted accounting principles.

We have evaluated the design and operation of our disclosure controls and procedures to determine whether they are effective in ensuring that the disclosure of required information is timely made in accordance with the Exchange Act and the rules and regulations of the Securities and Exchange Commission. This evaluation was made under the supervision and with the participation of management, including our chief executive officer and chief financial officer as of January 1, 2006. Our management does not expect that our disclosure controls or our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

An evaluation was also performed under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of any change in our internal control over financial reporting that occurred during our last fiscal quarter and that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. That evaluation did not identify any such change.

The chief executive officer and chief financial officer have concluded, based on their review, that as of January 1, 2006, our disclosure controls and procedures, as defined by Exchange Act Rules 13a-15(e) and 15d-15(e), are effective to ensure that information required to be disclosed by us in reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. In addition, no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting has occurred during the fourth quarter of 2005.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

We conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control — Integrated Framework,* our management concluded that our internal control over financial reporting was effective as of January 1, 2006.

Our management's assessment of the effectiveness of our internal control over financial reporting as of January 1, 2006 has been audited by Ernst & Young LLP, Independent Registered Public Accounting Firm. This report from Ernst & Young LLP, which expressed an unqualified opinion on management's assessment and the effectiveness of our internal controls over financial reporting as of January 1, 2006, is included herein.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Directors and Stockholders
Illumina, Inc.

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Illumina, Inc. maintained effective internal control over financial reporting as of January 1, 2006, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Illumina Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, management's assessment that Illumina, Inc. maintained effective internal control over financial reporting as of January 1, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Illumina, Inc. maintained, in all material respects, effective internal control over financial reporting as of January 1, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Illumina, Inc. as of January 1, 2006 and January 2, 2005, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years ended January 1, 2006, January 2, 2005 and December 28, 2003 of Illumina, Inc. and our report dated February 15, 2006 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Diego, California
February 15, 2006

Item 9B. ***Other Information.***

None.

PART III

Item 10. ***Directors and Executive Officers of the Registrant.***

(a) Identification of Directors. Information concerning our directors is incorporated by reference from the section entitled ''Proposal 1 — Election of Directors'' contained in our definitive Proxy Statement with respect to our 2006 Annual Meeting of Stockholders to be filed with the SEC no later than May 1, 2006.

(b) Identification of Executive Officers. Information concerning our executive officers is set forth under ''Executive Officers'' in Part I of this Annual Report on Form 10-K and is incorporated herein by reference.

(c) Compliance with Section 16(a) of the Exchange Act. Information concerning compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated by reference from the section entitled ''Compliance with Section 16(a) of the Securities Exchange Act'' contained in our definitive Proxy Statement with respect to our 2006 Annual Meeting of Stockholders to be filed with the SEC no later than May 1, 2006.

(d) Information concerning the audit committee financial expert as defined by the SEC rules adopted pursuant to the Sarbanes-Oxley Act of 2002 is incorporated by reference from our definitive Proxy Statement with respect to our 2006 Annual Meeting of Stockholders to be filed with the SEC no later than May 1, 2006.

Code of Ethics

We have adopted a code of ethics for our directors, officers and employees, which is available on our website at www.illumina.com in the Corporate Governance section under ''Investors.'' The information on our website is not incorporated by reference into this report.

Item 11. ***Executive Compensation.***

Information concerning executive compensation is incorporated by reference from the sections entitled ''Executive Compensation and Other Information'' contained in our definitive Proxy Statement with respect to our 2006 Annual Meeting of Stockholders to be filed with the SEC no later than May 1, 2006.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.***

Information concerning the security ownership of certain beneficial owners and management is incorporated by reference from the section entitled ''Ownership of Securities'' contained in our definitive Proxy Statement with respect to our 2006 Annual Meeting of Stockholders to be filed with the SEC no later than May 1, 2006.

Equity Compensation Plan Information

The following table presents information about our common stock that may be issued upon the exercise of options, warrants and rights under all our existing equity compensation plans as of January 1, 2006. We currently have two active equity compensation plans, the 2000 employee stock purchase plan and the 2005 stock incentive plan, which replaced the 2000 stock plan. Prior to our initial public offering, we granted options under our 1998 stock incentive plan. All of these plans have been approved by our stockholders. Options outstanding include options granted under the 1998 stock incentive plan, the 2000 stock plan and the 2005 stock incentive plan.

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options	(b)Weighted-Average Exercise Price of Outstanding Options	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by security holders	7,326,431	$7.96	5,660,884(1)(2)
Equity compensation plans not approved by security holders	—	—	—
Total	7,326,431	$7.96	5,660,884

Please refer to Note 6 to the consolidated financial statements included in this Annual Report on Form 10-K for a description of our equity compensation plans.

(1) Includes 3,870,374 shares available for grant under our 2005 stock incentive plan. The 2005 stock incentive plan provides for an automatic annual increase in the shares reserved for issuance by the lesser of (1) five percent of outstanding shares of our common stock on the last day of the immediately preceding fiscal year, (2) 1,200,000 shares or (3) a lesser amount as determined by our Board of Directors.

(2) Includes 1,790,510 shares available for grant under our 2000 employee stock purchase plan. The 2000 employee stock purchase plan provides for an automatic annual increase in the shares reserved for issuance by the lesser of (1) three percent of outstanding shares of our common stock on the last day of the immediately preceding fiscal year or (2) 1,500,000 shares.

Item 13. *Certain Relationships and Related Transactions.*

Information concerning certain relationships and related transactions is incorporated by reference from the sections entitled ''Proposal One: Election of Directors,'' ''Executive Compensation and Other Information'' and ''Certain Transactions'' contained in our Definitive Proxy Statement with respect to our 2006 Annual Meeting of Stockholders to be filed with the SEC no later than May 1, 2006.

Item 14. *Principal Accounting Fees and Services.*

Information concerning principal accounting fees and services is incorporated by reference from the sections entitled ''Proposal Two: Ratification of Independent Auditors'' contained in our Definitive Proxy Statement with respect to our 2006 Annual Meeting of Stockholders to be filed with the SEC no later than May 1, 2006.

PART IV

Item 15. ***Exhibits, Financial Statement Schedules.***

(a) The following documents are filed as a part of this report:

(1) *Consolidated Financial Statements:*

	Page
Index to Consolidated Financial Statements	F-1
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets as of January 1, 2006 and January 2, 2005	F-3
Consolidated Statements of Operations for the years ended January 1, 2006, January 2, 2005, and December 28, 2003	F-4
Consolidated Statements of Stockholders' Equity for the period from December 29, 2002 to January 1, 2006	F-5
Consolidated Statements of Cash Flows for the years ended January 1, 2006, January 2, 2005 and December 28, 2003	F-6
Notes to Consolidated Financial Statements	F-7

(2) *Financial Statement Schedule:*

Valuation and Qualifying Account and Reserves for the three years ended January 1, 2006	F-31

(3) *Exhibits:*

Exhibit Number	Description of Document
2.1(16)	Agreement and Plan of Merger by and among Illumina, Inc., Semaphore Acquisition Sub, Inc., and Cyvera Corporation, dated February 22, 2005.
3.1(2)	Amended and Restated Certificate of Incorporation.
3.2(1)	Bylaws.
3.3(5)	Certificate of Designation for Series A Junior Participating Preferred Stock (included as an exhibit to exhibit 4.3).
4.1(1)	Specimen Common Stock Certificate.
4.2(1)	Amended and Restated Investors Rights Agreement, dated November 5, 1999, by and among the Registrant and certain stockholders of the Registrant.
4.3(5)	Rights Agreement, dated as of May 3, 2001, between the Company and Equiserve Trust Company, N.A.
+10.1(1)	Form of Indemnification Agreement between the Registrant and each of its directors and officers.
+10.2(1)	1998 Incentive Stock Plan.
+10.3(1)	2000 Employee Stock Purchase Plan.
10.4(1)	Sublease Agreement dated August 1998 between Registrant and Gensia Sicor Inc. for Illumina's principal offices.
10.5(1)	License Agreement dated May 1998 between Tufts and Registrant (with certain confidential portions omitted).
10.6(1)	Master Loan and Security Agreement, dated March 6, 2000, by and between Registrant and FINOVA Capital Corporation.
+10.7(1)	2000 Stock Plan.
10.8(1)	Eastgate Pointe Lease, dated July 6, 2000, between Diversified Eastgate Venture and Registrant.

Exhibit Number	Description of Document
10.9(1)	Option Agreement and Joint Escrow Instructions, dated July 6, 2000, between Diversified Eastgate Venture and Registrant.
10.10(4)	First Amendment to Joint Development Agreement dated March 27, 2001 between Registrant and PE Corporation, now known as Applied Biosystems Group (with certain confidential portions omitted).
10.11(6)	First Amendment to Option Agreement and Escrow Instructions dated May 25, 2001 between Diversified Eastgate Venture and Registrant.
10.12(13)	Second Amendment to Option Agreement and Escrow Instructions dated July 18, 2001 between Diversified Eastgate Venture and Registrant.
10.13(14)	Third Amendment to Option Agreement and Escrow Instructions dated September 27, 2001 between Diversified Eastgate Venture and Registrant.
10.14(15)	First Amendment to Eastgate Pointe Lease dated September 27, 2001 between Diversified Eastgate Venture and Registrant.
10.15(8)	Replacement Reserve Agreement, dated as of January 10, 2002, between the Company and BNY Western Trust Company as Trustee for Washington Capital Joint Master Trust Mortgage Income Fund.
10.16(17)	Loan Assumption and Modification Agreement, dated as of January 10, 2002, between the Company, Diversified Eastgate Venture and BNY Western Trust Company as Trustee for Washington Capital Joint Master Trust Mortgage Income Fund.
10.17(18)	Tenant Improvement and Leasing Commission Reserve Agreement, dated as of January 10, 2002, between the Company and BNY Western Trust Company as Trustee for Washington Capital Joint Master Trust Mortgage Income Fund.
+10.18(19)	2000 Employee Stock Purchase Plan as amended and restated through March 21, 2002.
+10.19(20)	2000 Stock Plan as amended and restated through March 21, 2002.
10.20(21)	Non-exclusive License Agreement dated January 2002 between Amersham Biosciences Corp. and Registrant (with certain confidential portions omitted).
10.21(22)	License Agreement dated June 2002 between Dade Behring Marburg GmbH and Registrant (with certain confidential portions omitted).
10.22(23)	Purchase and Sale Agreement and Escrow Instructions dated June 18, 2004 between Bernardo Property Advisors, Inc. and Registrant.
10.23(24)	Single Tenant Lease dated August 18, 2004 between BioMed Realty Trust Inc. and Registrant.
10.24(25)	Settlement and Cross License Agreement dated August 18, 2004 between Applera Corporation and Registrant (with certain confidential portions omitted).
10.28(26)	Collaboration Agreement dated December 17, 2004 between Invitrogen Incorporated and Registrant (confidential treatment has been requested with respect to certain portions of this exhibit).
10.29(27)	Offer letter for Christian O. Henry dated April 26, 2005.
10.30(28)	Forms of Stock Option Agreement under 2000 Stock Plan.
14(10)	Code of Ethics.
21.1	Subsidiaries of the Company.
23.1	Consent of Independent Registered Public Accounting Firm.
24.1	Power of Attorney (included on the signature page).
31.1	Certification of Jay T. Flatley pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Christian O. Henry pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit Number	Description of Document
32.1	Certification of Jay T. Flatley pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Christian O. Henry pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

+ Management contract or corporate plan or arrangement

(1) Incorporated by reference to the same numbered exhibit filed with our Registration Statement on Form S-1 (333-33922) filed April 3, 2000, as amended.

(2) Incorporated by reference to the same numbered exhibit filed with our Annual Report on Form 10-K (File No. 000-30361) for the year ended December 31, 2000 filed March 29, 2001.

(3) [reserved]

(4) Incorporated by reference to Exhibit 10.13 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended March 31, 2001 filed May 8, 2001.

(5) Incorporated by reference to the same numbered exhibit filed with our Registration Statement on Form 8-A (File No. 000-30361) filed May 14, 2001.

(6) Incorporated by reference exhibit 10.15 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended June 30, 2001 filed August 13, 2001.

(7) Incorporated by reference to the same numbered exhibit filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended September 30, 2001 filed November 14, 2001.

(8) Incorporated by reference to the exhibit 10.18 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended March 31, 2002 filed May 13, 2002.

(9) Incorporated by reference to the same numbered exhibit filed with Amendment No. 1 to our Registration Statement on Form S-3 (File No. 333-111496) filed March 2, 2004.

(10) Incorporated by reference to the same numbered exhibit filed with our Annual Report on Form 10-K (File No. 000-30361) for the year ended December 28, 2003 filed March 12, 2004.

(11) Incorporated by reference to the same numbered exhibit filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended June 27, 2004 filed August 6, 2004.

(12) Incorporated by reference to the same numbered exhibit filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended October 3, 2004 filed November 12, 2004.

(13) Incorporated by reference to exhibit 10.16 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended September 30, 2001 filed November 14, 2001.

(14) Incorporated by reference to exhibit 10.17 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended September 30, 2001 filed November 14, 2001.

(15) Incorporated by reference to exhibit 10.18 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended September 30, 2001 filed November 14, 2001.

(16) Incorporated by reference to exhibit 2.01 filed with our Form 8-K (File No. 000-30361) filed April 14, 2005.

(17) Incorporated by reference to the exhibit 10.19 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended March 31, 2002 filed May 13, 2002.

(18) Incorporated by reference to the exhibit 10.20 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended March 31, 2002 filed May 13, 2002.

(19) Incorporated by reference to the exhibit 10.21 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended March 31, 2002 filed May 13, 2002.

(20) Incorporated by reference to the exhibit 10.22 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended March 31, 2002 filed May 13, 2002.

(21) Incorporated by reference to exhibit 10.24 filed with Amendment No. 1 to our Registration Statement on Form S-3 (File No. 333-111496) filed March 2, 2004.

(22) Incorporated by reference to exhibit 10.23 filed with our Amendment No. 1 to our Registration Statement on Form S-3 (File No. 333-111496) filed March 2, 2004.

(23) Incorporated by reference to exhibit 10.25 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended June 27, 2004 filed August 6, 2004.

(24) Incorporated by reference to exhibit 10.26 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended October 3, 2004 filed November 12, 2004.

(25) Incorporated by reference to exhibit 10.27 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended October 3, 2004 filed November 12, 2004.

(26) Incorporated by reference to exhibit 10.28 filed with our Form 10-K (File No. 000-30361) for the year ended January 2, 2005 filed March 8, 2005.

(27) Incorporated by reference to exhibit 10.33 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended July 3, 2005 filed August 8, 2005.

(28) Incorporated by reference to exhibit 10.29 filed with our Form 10-K (File No. 000-30361) for the year ended January 2, 2005 filed March 8, 2005.

Supplemental Information

No Annual Report to stockholders or proxy materials has been sent to stockholders as of the date of this report. The Annual Report to stockholders and proxy material will be furnished to our stockholders subsequent to the filing of this Annual Report on Form 10-K and we will furnish such material to the SEC at that time.

SIGNATURES

Pursuant to the requirements of the Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 6, 2006.

ILLUMINA, INC.

By: /s/ JAY T. FLATLEY
Jay T. Flatley
President and Chief Executive Officer

March 6, 2006

POWER OF ATTORNEY

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ JAY T. FLATLEY Jay T. Flatley	President, Chief Executive Officer and Director (Principal Executive Officer)	March 6, 2006
/s/ CHRISTIAN O. HENRY Christian O. Henry	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 6, 2006
/s/ JOHN R. STUELPNAGEL John R. Stuelpnagel	Senior Vice President, Chief Operating Officer and Director	March 6, 2006
/s/ WILLIAM H. RASTETTER William H. Rastetter	Chairman of the Board of Directors	March 6, 2006
/s/ DANIEL M. BRADBURY Daniel M. Bradbury	Director	March 6, 2006

/s/ KARIN EASTHAM Karin Eastham	Director	March 6, 2006
/s/ PAUL GRINT Paul Grint	Director	March 6, 2006
/s/ DAVID R. WALT David R. Walt	Director	March 6, 2006

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Illumina, Inc.

We have audited the accompanying consolidated balance sheets of Illumina, Inc. as of January 1, 2006 and January 2, 2005, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years ended January 1, 2006, January 2, 2005, and December 28, 2003. Our audits also include the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Illumina, Inc. as of January 1, 2006 and January 2, 2005, and the results of its operations and its cash flows for the years ended January 1, 2006, January 2, 2005, and December 28, 2003, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Illumina, Inc.'s internal control over financial reporting as of January 1, 2006, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 15, 2006 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Diego, California
February 15, 2006

ILLUMINA, INC.

CONSOLIDATED BALANCE SHEETS

	January 1, 2006	January 2, 2005
	(In thousands, except share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 50,822	$ 54,789
Restricted cash and investments	—	12,205
Accounts receivable, net	17,620	11,891
Inventory, net	10,309	3,807
Prepaid expenses and other current assets	959	999
Total current assets	79,710	83,691
Property and equipment, net	16,131	8,574
Goodwill	2,125	—
Intangible and other assets, net	2,644	2,642
Total assets	$ 100,610	$ 94,907
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 7,390	$ 2,684
Accrued liabilities	14,210	10,407
Litigation judgment	—	5,957
Current portion of long-term debt	118	—
Total current liabilities	21,718	19,048
Long-term debt, less current portion	54	—
Deferred gain on sale of land and building	2,843	3,218
Other long term liabilities	3,498	379
Commitments and contingencies		
Stockholders' equity:		
Common stock, $0.01 par value, 120,000,000 shares authorized, 41,294,003 shares issued and outstanding at January 1, 2006, 38,120,685 shares issued and outstanding at January 2, 2005	413	381
Additional paid-in capital	216,766	195,653
Deferred compensation	(354)	(156)
Accumulated other comprehensive income	258	96
Accumulated deficit	(144,586)	(123,712)
Total stockholders' equity	72,497	72,262
Total liabilities and stockholders' equity	$ 100,610	$ 94,907

See accompanying notes to the consolidated financial statements

ILLUMINA, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended January 1, 2006	Year Ended January 2, 2005	Year Ended December 28, 2003
	(In thousands, except per share amounts)		
Revenue			
Product revenue	$ 57,752	$ 40,497	$ 18,378
Service and other revenue	13,935	8,075	6,496
Research revenue	1,814	2,011	3,161
Total revenue	73,501	50,583	28,035
Costs and expenses:			
Cost of product revenue	19,920	11,572	7,437
Cost of service and other revenue	3,261	1,687	2,600
Research and development	27,725	21,114	22,511
Selling, general and administrative	27,972	25,080	18,899
Acquired in-process research and development	15,800	—	—
Amortization of deferred compensation and other stock-based compensation charges	270	844	2,454
Litigation judgment (settlement), net	—	(4,201)	756
Total costs and expenses	94,948	56,096	54,657
Loss from operations	(21,447)	(5,513)	(26,622)
Interest income	1,404	941	1,821
Interest and other expense	(831)	(1,653)	(2,262)
Net loss	$(20,874)	$ (6,225)	$(27,063)
Net loss per share, basic and diluted	$ (0.52)	$ (0.17)	$ (0.85)
Shares used in calculating net loss per share, basic and diluted	40,147	35,845	31,925
The composition of stock-based compensation is as follows:			
Research and development	$ 84	$ 348	$ 1,289
Selling, general and administrative	186	496	1,165
	$ 270	$ 844	$ 2,454

See accompanying notes to the consolidated financial statements

ILLUMINA, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common stock		Additional Paid-In Capital	Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount					
	(In thousands)						
Balance as of December 29, 2002	32,500	$325	$164,483	$(3,617)	$ 977	$ (90,424)	$ 71,744
Issuance of common stock for cash	408	4	899	—	—	—	903
Repurchase of restricted common stock	(21)	—	(8)	—	—	—	(8)
Amortization of deferred compensation	—	—	12	2,442	—	—	2,454
Reversal of deferred compensation related to unvested stock options and restricted stock of terminated employees	—	—	(72)	72	—	—	—
Comprehensive loss:							
Unrealized gain on available-for sale securities	—	—	—	—	(702)	—	(702)
Foreign currency translation adjustment	—	—	—	—	60	—	60
Net loss	—	—	—	—	—	(27,063)	(27,063)
Comprehensive loss							(27,705)
Balance as of December 28, 2003	32,887	329	165,314	(1,103)	335	(117,487)	47,388
Issuance of common stock for cash	5,278	53	30,454	—	—	—	30,507
Repurchase of restricted common stock	(44)	(1)	(12)	—	—	—	(13)
Amortization of deferred compensation	—	—	—	844	—	—	844
Reversal of deferred compensation related to unvested stock options and restricted stock of terminated employees	—	—	(103)	103	—	—	—
Comprehensive loss:							
Unrealized loss on available-for-sale securities	—	—	—	—	(305)	—	(305)
Unrealized loss on hedging contracts	—	—	—	—	(46)	—	(46)
Foreign currency translation adjustment	—	—	—	—	112	—	112
Net loss	—	—	—	—	—	(6,225)	(6,225)
Comprehensive loss							(6,464)
Balance as of January 2, 2005	38,121	381	195,653	(156)	96	(123,712)	72,262
Issuance of common stock for cash	1,592	16	6,030	—	—	—	6,046
Issuance of common stock in conjunction with an acquisition	1,580	16	14,812	—	—	—	14,828
Deferred compensation related to unvested CyVera stock options assumed	—	—	—	(197)	—	—	(197)
Compensation expense related to acceleration of options for terminated employees	—	—	79	—	—	—	79
Deferred compensation related to a restricted stock award	1	—	192	(192)	—	—	—
Amortization of deferred compensation	—	—	—	191	—	—	191
Comprehensive loss:							
Unrealized gain on available-for-sale securities	—	—	—	—	29	—	29
Unrealized gain on hedging contracts	—	—	—	—	56	—	56
Foreign currency translation adjustment	—	—	—	—	77	—	77
Net loss	—	—	—	—	—	(20,874)	(20,874)
Comprehensive loss							(20,712)
Balance as of January 1, 2006	41,294	$413	$216,766	$ (354)	$ 258	$(144,586)	$ 72,497

See accompanying notes to the consolidated financial statements

ILLUMINA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended January 1, 2006	Year Ended January 2, 2005	Year Ended December 28, 2003
		(In thousands)	
Cash flows from operating activities:			
Net loss	$(20,874)	$ (6,225)	$(27,063)
Adjustments to reconcile net loss to net cash used in operating activities:			
Acquired in-process research and development	15,800	—	—
Depreciation and amortization	4,116	3,956	4,545
Loss on disposal of property and equipment	293	—	175
Amortization of premium on investments	(14)	354	432
Amortization of deferred compensation and other stock-based compensation charges	270	844	2,454
Amortization of gain on sale of land and building	(375)	(156)	—
Changes in operating assets and liabilities:			
Accounts receivable	(7,039)	(7,202)	(1,296)
Inventory	(6,502)	(1,785)	277
Prepaid expenses and other current assets	290	(29)	8
Other assets	395	(2,041)	(151)
Accounts payable	3,193	697	260
Accrued liabilities	4,214	1,958	1,742
Litigation judgment	(5,957)	567	606
Other long-term liabilities	3,182	(512)	(245)
Advance payment from former collaborator	—	(10,000)	—
Net cash used in operating activities	(9,008)	(19,574)	(18,256)
Cash flows from investing activities:			
Cash paid for acquisition, net of cash acquired	(2,388)	—	—
Purchases of available-for-sale securities	—	(6,603)	(1,940)
Sales and maturities of available-for-sale securities	12,248	26,348	32,456
Proceeds from sale of land and building, net of fees	—	40,667	—
Purchase of property and equipment	(11,395)	(3,355)	(2,032)
Acquisition of intangible assets	—	(35)	(16)
Net cash (used in) provided by investing activities	(1,535)	57,022	28,468
Cash flows from financing activities:			
Payments on long-term debt	(83)	(25,387)	(342)
Payments on equipment financing	—	(232)	(337)
Proceeds from issuance of common stock	6,046	30,507	903
Repurchase of common stock	—	(13)	(8)
Net cash provided by financing activities	5,963	4,875	216
Effect of foreign currency translation on cash and cash equivalents	613	1	—
Net increase (decrease) in cash and cash equivalents	(3,967)	42,324	10,428
Cash and cash equivalents at beginning of the year	54,789	12,465	2,037
Cash and cash equivalents at end of the year	$ 50,822	$ 54,789	$ 12,465
Supplemental disclosures of cash flow information:			
Cash paid during the year for interest	$ 15	$ 1,368	$ 2,222

See accompanying notes to the consolidated financial statements

1. Organization and Summary of Significant Accounting Policies

Organization and Business

Illumina, Inc. (the ''Company'') was incorporated on April 28, 1998. The Company develops and markets next-generation tools for the large-scale analysis of genetic variation and function. Using the Company's technologies, it has developed a comprehensive line of products that are designed to provide the performance, throughput, cost effectiveness and flexibility necessary to enable researchers in the life sciences and pharmaceutical industries to perform the billions of tests necessary to extract medically valuable information from advances in genomics. This information is expected to correlate genetic variation and gene function with particular disease states, enhancing drug discovery, allowing diseases to be detected earlier and more specifically, and permitting better choices of drugs for individual patients.

Basis of Presentation

The consolidated financial statements of the Company have been prepared in conformity with U.S. generally accepted accounting principles and include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Fiscal Year

The Company's fiscal year is 52 or 53 weeks ending the Sunday closest to December 31, with quarters of 13 or 14 weeks ending the Sunday closest to March 31, June 30, and September 30. The years ended January 1, 2006 and January 2, 2005 were 52 and 53 weeks, respectively.

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation.

Use of Estimates

The preparation of financial statements requires that management make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, goodwill and related disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents are comprised of short-term, highly liquid investments primarily in money market-type funds.

Investments

The Company applies Statement of Financial Accounting Standards (''SFAS'') No. 115, *Accounting for Certain Investments in Debt and Equity Securities,* to its investments. Under SFAS No. 115, the Company classifies its investments as ''Available-for-Sale'' and records such assets at estimated fair value in the balance sheet, with unrealized gains and losses, if any, reported in stockholders' equity. The Company invests in marketable debt securities, primarily government securities and corporate bonds and notes, with strong credit ratings or short maturity mutual funds providing similar financial returns. As of January 1, 2006, the Company's excess cash balances were invested mainly in short-term, highly liquid money market mutual funds. The Company limits the amount of investment exposure as to institutions, maturity and investment type. The cost of securities sold is determined based on the specific identification method. Gross realized gains totaled $0, $453,750 and $342,693 for the years ended January 1, 2006, January 2, 2005 and December 28, 2003, respectively. Gross realized losses were not material for all periods presented.

Restricted Cash and Investments

As of January 2, 2005, restricted cash and investments consisted of corporate debt securities that are used as collateral against a letter of credit and a $100,000 bond deposit with the San Diego Superior Court related to the Applied Biosystems litigation as described more fully in Note 7. The letter of credit and bond deposit were released in January of 2005.

Fair Value of Financial Instruments

The carrying amounts of certain of the Company's financial instruments, including cash and cash equivalents, accounts and notes receivable, accounts payable and accrued liabilities, approximate fair value.

Accounts and Notes Receivable

Trade accounts receivable are recorded at net invoice value and notes receivable are recorded at contractual value plus earned interest. Interest income on notes receivable is recognized according to the terms of each related agreement. The Company considers receivables past due based on the contractual payment terms. The Company reviews its exposure to amounts receivable and reserves specific amounts if collectibility is no longer reasonably assured. The Company also reserves a percentage of the net trade receivable balance based on collection history. The Company re-evaluates such reserves on a regular basis and adjusts its reserves as needed.

Concentrations of Risk

Cash equivalents, investments and accounts receivable are financial instruments that potentially subject the Company to concentrations of credit risk. Most of the Company's cash and cash equivalents as of January 1, 2006 were deposited with financial institutions in the United States and Company policy restricts the amount of credit exposure to any one issuer and to any one type of investment, other than securities issued by the U.S. Government. The Company has historically not experienced significant credit losses from accounts receivable. The Company performs a regular review of customer activity and associated credit risks and generally does not require collateral. The Company maintains an allowance for doubtful accounts based upon a percentage of the net trade receivable balance based on collection history and re-evaluates such reserves on a regular basis.

The Company's products require customized components that currently are available from a limited number of sources. The Company obtains certain key components included in its products from single vendors. No assurance can be given that these or other product components will be available in sufficient quantities at acceptable costs in the future.

Approximately 38%, 52% and 51% of the Company's revenue for the year ended January 1, 2006, January 2, 2005 and December 28, 2003 was derived from customers outside the United States. Approximately 48% and 70% of the Company's net accounts receivable balance as of January 1, 2006 and January 2, 2005, respectively, was related to customers outside the United States. Sales to territories outside of the United States are generally denominated in U.S. dollars. International sales entail a variety of risks, including currency exchange fluctuations, longer payment cycles and greater difficulty in accounts receivable collection. The Company is also subject to general geopolitical risks, such as political, social and economic instability and changes in diplomatic and trade relations. The risks of international sales are mitigated in part by the extent to which sales are geographically distributed.

Inventories

Inventories are stated at the lower of standard cost (which approximates actual cost) or market. Inventory includes raw materials and finished goods that may be used in the research and development process and such items are expensed as consumed. Provisions for slow moving, excess and obsolete inventories are provided based on product life cycle and development plans, product expiration and quality issues, historical experience and inventory levels.

Property and Equipment

Property and equipment are stated at cost, subject to review of impairment, and depreciated over the estimated useful lives of the assets (generally three to seven years) using the straight-line method. Amortization of leasehold improvements is computed over the shorter of the lease term or the estimated useful life of the related assets.

Intangible Assets

Intangible assets consist of license agreements and acquired technology. The cost of the Company's license agreements was $844,450 and the Company has amortized $785,366 through January 1, 2006. Amortization expense related to license agreements for the years ending January 1, 2006, January 2, 2005 and December 28, 2003 was $292,033, $300,000 and $185,000, respectively. The licenses will be fully amortized by 2008.

Long-Lived Assets

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, if indicators of impairment exist, the Company assesses the recoverability of the affected long-lived assets by determining whether the carrying value of such assets can be recovered through undiscounted future operating cash flows. If impairment is indicated, the Company measures the future discounted cash flows associated with the use of the asset and adjusts the value of the asset accordingly. While the Company's current and historical operating and cash flow losses are indicators of impairment, the Company believes the future cash flows to be received from the long-lived assets recorded at January 1, 2006 will exceed the assets' carrying value, and accordingly the Company has not recognized any impairment losses through January 1, 2006.

Reserve for Product Warranties

The Company generally provides a one-year warranty on instrumentation. At the time revenue is recognized, the Company establishes an accrual for estimated warranty expenses associated with system sales. This expense is recorded as a component of cost of revenue.

Revenue Recognition

The Company's revenue is generated primarily from the sale of products and services. Product revenue consists of sales of arrays, reagents, instrumentation, and oligos. Service and other revenue consists of revenue received for performing genotyping services, extended warranty sales and revenue earned from milestone payments.

The Company recognizes revenue in accordance with the guidelines established by SEC Staff Accounting Bulletin (''SAB'') No. 104. Under SAB No. 104, revenue cannot be recorded until all of the following criteria have been met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; the seller's price to the buyer is fixed or determinable; and collectibility is reasonably assured.

Revenue for product sales is recognized generally upon shipment and transfer of title to the customer, provided no significant obligations remain and collection of the receivables is reasonably assured. Revenue from the sale of instrumentation is recognized when earned, which is generally upon shipment. However, in the case of BeadLabs, revenue is recognized upon the completion of installation, training and the receipt of customer acceptance. Revenue for genotyping services is recognized when earned, which is generally at the time the genotyping analysis data is delivered to the customer or as specific milestones are achieved.

In order to assess whether the price is fixed and determinable, the Company ensures there are no refund rights. If payment terms are based on future performance, the Company defers revenue recognition until the price becomes fixed and determinable. The Company assesses collectibility based on a number of factors, including past transaction history with the customer and the creditworthiness of the customer. If the Company determines that collection of a payment is not reasonably assured, revenue recognition is deferred until the time collection becomes reasonably assured, which is generally upon receipt of payment. Changes in judgments and estimates made in determining whether the criteria of SAB No. 104 have been met might result in a change in the timing or amount of revenue recognized.

Sales of instrumentation generally include a standard one-year warranty. The Company also sells separately priced maintenance (extended warranty) contracts, which are generally for one or two years, upon the expiration of the initial warranty. Revenue for extended warranty sales is recognized ratably over the term of the extended warranty period. Reserves are provided for estimated product warranty expenses at the time the associated revenue is recognized. If the Company were to experience an increase in warranty claims or if costs of servicing its warrantied products were greater than its estimates, gross margins could be adversely affected.

While the majority of its sales agreements contain standard terms and conditions, the Company does enter into agreements that contain multiple elements or non-standard terms and conditions. Emerging Issues Task Force (''EITF'') No. 00-21, *Revenue Arrangements with Multiple Deliverables,* provides guidance on accounting for arrangements that involve the delivery or performance of multiple products, services, or rights to use assets within contractually binding arrangements. Significant contract interpretation is sometimes required to determine the appropriate accounting, including whether the deliverables specified in a multiple element arrangement should be treated as separate units of accounting for revenue recognition purposes, and if so, how the price should be allocated among the deliverable elements, when to recognize revenue for each element, and the period over which revenue should be recognized. The Company recognizes revenue for delivered elements only when it determines that the fair values of undelivered elements are known and there are no uncertainties regarding customer acceptance.

Some of the Company's agreements contain multiple elements that include milestone payments. Revenue from a milestone achievement is recognized when earned, as evidenced by acknowledgement from the Company's collaborator, provided that (i) the milestone event is substantive and its achievability was not reasonably assured at the inception of the agreement, (ii) the milestone represents the culmination of an earnings process, (iii) the milestone payment is non-refundable and (iv) the performance obligations for both the Company and its collaborators after the milestone achievement will continue at a level comparable to the level before the milestone achievement. If all of these criteria are not met, the milestone achievement is recognized over the remaining minimum period of the Company's performance obligations under the agreement. The Company defers non-refundable upfront fees received under its collaborations and recognizes them over the period the related services are provided or over the estimated collaboration term using various factors specific to the collaboration. Advance payments received in excess of amounts earned are classified as deferred revenue until earned.

A third source of revenue, research revenue, consists of amounts earned under research agreements with government grants, which is recognized in the period during which the related costs are incurred. All revenue is recorded net of any applicable allowances for returns or discounts.

Shipping and Handling Expenses

Shipping and handling expenses are included in cost of product revenue and totaled $1,287,802, $493,052 and $224,210 for the years ended January 1, 2006, January 2, 2005 and December 28, 2003, respectively.

Research and Development

Expenditures relating to research and development are expensed in the period incurred.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising costs were $1,208,263, $792,508 and $439,710 for the years ended January 1, 2006, January 2, 2005 and December 28, 2003, respectively.

Income Taxes

A deferred income tax asset or liability is computed for the expected future impact of differences between the financial reporting and tax bases of assets and liabilities, as well as the expected future tax benefit to be derived from tax loss and credit carryforwards. Deferred income tax expense is generally the net change during the year in the deferred income tax asset or liability. Valuation allowances are established when realizability of deferred tax assets is uncertain. The effect of tax rate changes is reflected in tax expense during the period in which such changes are enacted.

Foreign Currency Translation

The functional currencies of the Company's wholly-owned subsidiaries are their respective local currencies. Accordingly, all balance sheet accounts of these operations are translated to U.S. dollars using the exchange rates in effect at the balance sheet date, and revenues and expenses are translated using the average exchange rates in effect during the period. The gains and losses from foreign currency translation of these subsidiaries' financial statements are recorded as a separate component of stockholders' equity under the caption ''accumulated other comprehensive income.''

Stock-Based Compensation

As of January 1, 2006, the Company has two stock-based employee and non-employee director compensation plans, which are described in Note 6. As permitted by SFAS No. 123, *Accounting for Stock-Based Compensation,* the Company accounts for common stock options granted, and restricted stock sold, to employees, founders and directors using the intrinsic value method and, thus, recognizes no compensation expense for options granted, or restricted stock sold, with exercise prices equal to or greater than the fair value of the Company's common stock on the date of the grant. The Company has recorded deferred stock compensation related to certain stock options, and restricted stock, which were granted prior to the Company's initial public offering, with exercise prices below estimated fair value, which are being amortized on an accelerated amortization methodology in accordance with Financial Accounting Standards Board Interpretation Number (''FIN'') No. 28. In the year ending January 1, 2006, the Company recorded deferred stock compensation as part of a business acquisition as well as deferred stock compensation related to a restricted stock grant awarded to an employee, which are being amortized over the vesting period on a straight-line basis.

In June 2005, the stockholders of the Company approved the 2005 Stock and Incentive Plan (the ''2005 Stock Plan''). Upon adoption of the 2005 Stock Plan, issuance of options under the 2000 Stock Plan ceased. The 2005 Stock Plan provides that an aggregate of up to 11,542,358 shares of the Company's common stock be reserved and available to be issued. In addition, the 2005 Stock Plan provides for an automatic annual increase in the shares reserved for issuance by the lesser of 5% of outstanding shares of the Company's common stock on the last day of the immediately preceding fiscal year, 1,200,000 shares or such lesser amount as determined by the Company's board of directors.

Pro forma information regarding net loss is required by SFAS No. 123 and has been determined as if the Company had accounted for its employee stock options and employee stock purchases under the fair value method of that statement. The fair value for these options was estimated at the dates of grant using the fair value option pricing model (Black-Scholes) with the following weighted-average assumptions for 2005, 2004 and 2003:

	Year Ended January 1, 2006	Year Ended January 2, 2005	Year Ended December 28, 2003
Weighted average risk-free interest rate	4.08%	3.25%	3.03%
Expected dividend yield	0%	0%	0%
Weighted average volatility	90%	97%	103%
Estimated life (in years)	5	5	5
Weighted average fair value of options granted	$7.38	$5.25	$3.31

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the vesting period. The Company's pro forma information is as follows (in thousands, except per share amounts):

	Year Ended January 1, 2006	Year Ended January 2, 2005	Year Ended December 28, 2003
Net loss, as reported	$(20,874)	$ (6,225)	$(27,063)
Add: Stock-based compensation expense recorded	270	844	2,454
Less: Assumed stock compensation expense	(8,393)	(10,302)	(9,517)
Pro forma net loss	$(28,997)	$(15,683)	$(34,126)
Basic and diluted net loss per share:			
As reported	$ (0.52)	$ (0.17)	$ (0.85)
Pro forma basic and diluted net loss per share	$ (0.72)	$ (0.44)	$ (1.07)

In December 2004, the Financial Accounting Standards Board (''FASB'') issued SFAS No. 123 (revised 2004), *Share Based Payment* (''SFAS No. 123R''), which is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation*. This statement supercedes Accounting Principles Bulletin (''APB'') Opinion No. 25, *Accounting for Stock Issued to Employees,* and amends SFAS No. 95, *Statement of Cash Flows*. Generally, the approach in SFAS No. 123R is similar to the approach described in SFAS No. 123; however, SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative.

SFAS No. 123R permits companies to adopt its requirements using either a ''modified prospective'' method or a ''modified retrospective'' method. Under the ''modified prospective'' method, compensation cost is recognized in the financial statements beginning with the effective date, based on the requirements of SFAS No. 123R for all share-based payments granted after that date, and based on the requirements for SFAS No. 123 for all unvested awards granted prior to the effective date of SFAS No. 123R. Under the ''modified retrospective'' method, the requirements are the same as under the ''modified prospective'' method, but companies may restate financial statements of previous periods based on pro forma disclosures made in accordance with SFAS No. 123. The Company currently utilizes the Black-Scholes model to measure the fair value of stock options granted to employees under the pro forma disclosure requirements of SFAS No. 123. While SFAS No. 123R permits companies to continue to use such model, it also permits the use of a ''lattice'' model. The Company has determined it will use the Black-Scholes model to measure the fair value of employee stock options under SFAS No. 123R. The new standard is effective for companies that are not small business issuers, like the Company, beginning with the first reporting period during the first fiscal year beginning on or after June 15, 2005, and the Company adopted SFAS No. 123R at the beginning of its new reporting period on January 2, 2006.

The Company currently accounts for share-based payments to employees using APB No. 25's intrinsic value method and, as such, recognizes no compensation cost for employee stock options granted with exercise prices equal to or greater than the fair value of the Company's common stock on the date of the grant. Accordingly, the adoption of SFAS No. 123R's fair value method is expected to result in significant non-cash charges which will increase the Company's reported operating expenses. However, it will have no impact on its cash flows. The precise impact of adoption of SFAS No. 123R cannot be predicted at this time because it will depend on the level of share-based payments granted in the future. However, had the Company adopted SFAS No. 123R in prior periods, it believes the impact of that standard would have approximated the impact of SFAS No. 123 as described in the disclosure of pro forma net loss in this note.

Deferred compensation for options granted, and restricted stock sold, to consultants has been determined in accordance with SFAS No. 123 and EITF 96-18 as the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measured. Deferred charges for options granted and restricted stock sold, to consultants are periodically remeasured as the underlying options vest.

Net Loss per Share

Basic and diluted net loss per common share are presented in conformity with SFAS No. 128, *Earnings per Share,* for all periods presented. In accordance with SFAS No. 128, basic and net loss per share is computed using the weighted-average number of shares of common stock outstanding during the period, less shares subject to repurchase. Diluted net loss per share is typically computed using the weighted average number of common and dilutive common equivalent shares from stock options using the treasury stock method. However, for all periods presented, diluted net loss per share is the same as basic net loss per share because the Company reported a net loss and therefore the inclusion of weighted average shares of common stock issuable upon the exercise of stock options would be antidilutive.

	Year Ended January 1, 2006	Year Ended January 2, 2005	Year Ended December 28, 2003
		(In thousands)	
Weighted-average shares outstanding	40,199	36,165	32,733
Less: Weighted-average shares of common stock subject to repurchase	(52)	(320)	(808)
Weighted-average shares used in computing net loss per share, basic and diluted	40,147	35,845	31,925

The total number of shares excluded from the calculation of diluted net loss per share, prior to application of the treasury stock method for options and shares of restricted stock, was 7,368,181, 6,360,023 and 5,809,649 for the years ended January 1, 2006, January 2, 2005, and December 28, 2003, respectively.

Comprehensive Income (Loss)

Comprehensive loss is comprised of net loss and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on the Company's available-for-sale securities, changes in the fair value of derivatives designated as effective as cash flow hedges, and foreign currency translation adjustments. The Company has disclosed comprehensive loss as a component of stockholders' equity.

The components of accumulated other comprehensive income (loss) are as follows (in thousands):

	Year Ended January 1, 2006	Year Ended January 2, 2005	Year Ended December 28, 2003
Foreign currency translation adjustments	$248	$171	$ 60
Unrealized gain (loss) on available-for-sale securities	—	(29)	275
Unrealized gain (loss) on cash flow hedges	10	(46)	—
Accumulated other comprehensive income	$258	$ 96	$335

Acquisition of CyVera Corporation

On April 8, 2005, the Company completed its acquisition of 100% of the voting equity interests of CyVera Corporation (''CyVera''). Pursuant to an Agreement and Plan of Merger, dated as of February 22, 2005 (the ''Merger Agreement''), by and among Illumina, Semaphore Acquisition Sub, Inc., a Delaware corporation and wholly owned subsidiary of Illumina (''Merger Sub''), and CyVera, Merger Sub merged with and into CyVera, with CyVera surviving as a wholly owned subsidiary of Illumina. The results of CyVera's operations have been included in the Company's consolidated financial statements since the acquisition date of April 8, 2005.

CyVera was created in October 2003 to commercialize its digital microbead technology platform and optical instrumentation/reader concepts. The Company believes that the CyVera technology will be highly complementary to the Company's own portfolio of products and services; will enhance the Company's capabilities to service its existing customers; and will accelerate the development of additional technologies, products and services. The Company believes that integrating CyVera's capabilities with the Company's technologies will better position the Company to address the emerging biomarker research and development and in-vitro and molecular diagnostic markets.

Pursuant to the Merger Agreement, Illumina issued 1.6 million shares (the ''Shares'') of Illumina common stock, paid $2.3 million in cash and assumed the net liabilities of CyVera. In addition, Illumina assumed the outstanding stock options of CyVera. Approximately 250,000 of the Shares were deposited into an escrow account with a bank. For a period of one year from the closing date, these shares will be held by the bank to satisfy any claims for indemnification made by the Company or CyVera pursuant to the Merger Agreement. To the extent that some, or all, of these shares are not required to satisfy indemnification claims, then such shares will be distributed pro rata among the CyVera stockholders.

The results of CyVera's operations have been included in the accompanying consolidated financial statements from the date of the acquisition. The total cost of the acquisition is as follows (in thousands):

Fair market value of securities issued, net	$14,433
Cash paid	2,291
Transaction costs	681
Fair market value of options assumed	394
Total purchase price	$17,799

The fair value of the Shares was determined based on the average closing price of the Company's common stock for five trading days preceding, and following, February 22, 2005 (the date the transaction was announced). The Company believes that this time period gives proper consideration to matters such as price fluctuations and quantities traded and represents a reasonable period before and after the date on which the terms of the acquisition were agreed. Based on these closing prices, the Company estimated the fair value of its common stock to be $9.167 per share, which equates to a total fair value of $14.4 million.

The final purchase price allocation is shown below:

	As of April 8, 2005
	(In thousands)
Cash	$ 4
Prepaid expenses	12
Fixed assets	349
Deferred compensation on unvested stock options assumed	196
Accounts payable and accrued liabilities	(432)
Debt assumed	(255)
Net book value of net liabilities assumed	(126)
In-process research and development	15,800
Goodwill	2,125
	$17,799

In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, the goodwill is not amortized, but will be subject to a periodic assessment for impairment by applying a fair-value-based test. None of this goodwill is expected to be deductible for tax purposes. The Company expects to perform its annual test for impairment of goodwill in May of each year. The Company is required to perform a periodic assessment between annual tests in certain circumstances. As of January 1, 2006, the Company has determined there has been no impairment of goodwill.

The Company allocated $15.8 million of the purchase price to in-process research and development projects. In-process research and development (''IPR&D'') represents the valuation of acquired, to-be-completed research projects. At the acquisition date, CyVera's ongoing research and development initiatives were primarily involved with the development of its microbead technology platform and optical instrumentation/reader concepts. These two projects were approximately 50% and 25% complete at the date of acquisition.

The value assigned to purchased IPR&D was determined by estimating the costs to develop the acquired technology into commercially viable products, estimating the resulting net cash flows from the projects, and discounting the net cash flows to their present value. The revenue projections used to value the IPR&D were, in some cases, reduced based on the probability of developing a new technology, and considered the relevant market sizes and growth factors, expected trends in technology, and the nature and expected timing of new product introductions by the Company and its competitors. The resulting net cash flows from such projects are based on the Company's estimates of cost of sales, operating expenses, and income taxes from such projects. The rates utilized to discount the net cash flows to their present value were based on estimated cost of capital calculations. Due to the nature of the forecast and the risks associated with the projected growth and profitability of the developmental projects, discount rates of 30% were considered appropriate for the IPR&D. The Company believes that these discount rates were commensurate with the projects' stage of development and the uncertainties in the economic estimates described above.

If these projects are not successfully developed, the sales and profitability of the combined company may be adversely affected in future periods. The Company believes that the foregoing assumptions used in the IPR&D analysis were reasonable at the time of the acquisition. No assurance can be given, however, that the underlying assumptions used to estimate expected project sales, development costs or profitability, or the events associated with such projects, will transpire as estimated. At the date of acquisition, the development of these projects had not yet reached technological feasibility, and the research and development in progress had no alternative future uses. Accordingly, these costs were charged to expense in the second quarter of 2005.

The following unaudited pro forma information shows the results of the Company's operations for the years ended January 1, 2006, January 2, 2005 and December 28, 2003 as though the acquisition had occurred as of the beginning of the periods presented:

	Year Ended January 1, 2006	Year Ended January 2, 2005	Year Ended December 28, 2003
	(In thousands, except per share data)		
Revenue	$73,501	$50,583	$ 28,035
Net loss	(6,234)	(9,965)	(27,616)
Net loss per share, basic and diluted	(0.15)	(0.27)	(0.82)

The pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the actual results of operations had the acquisition taken place as of the beginning of the periods presented, or the results that may occur in the future. The pro forma results exclude the non-cash acquired IPR&D charge recorded upon the closing of the acquisition during the second quarter of 2005.

Recent Accounting Pronouncements

In November 2004, the FASB issued SFAS No. 151, *Inventory Costs*. The Company is required to adopt the provisions of SFAS No. 151, on a prospective basis, as of January 2, 2006. SFAS No. 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material. SFAS No. 151 requires that those items — if abnormal — be recognized as expenses in the period incurred. In addition, SFAS No. 151 requires the allocation of fixed production overheads to the costs of conversions based upon the normal capacity of the production facilities. The Company does not believe that the adoption of SFAS No. 151 will have a material impact on its financial position or results of operations.

2. Balance Sheet Account Details

Investments, including restricted investments, consist of the following, (in thousands):

		January 2, 2005		
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Market Value
Restricted corporate debt securities	$12,134	$—	$(29)	$12,105

The Company had no investments as of January 1, 2006.

Accounts receivable consist of the following (in thousands):

	January 1, 2006	January 2, 2005
Accounts receivable from product and service sales	$17,055	$11,182
Notes receivable from product sales	441	464
Accounts receivable from government grants	180	108
Other receivables	257	283
	17,933	12,037
Allowance for doubtful accounts	(313)	(146)
Total	$17,620	$11,891

Inventory consists of the following (in thousands):

	January 1, 2006	January 2, 2005
Raw materials	$ 4,575	$1,487
Work in process	4,546	1,714
Finished goods	1,188	606
Total	$10,309	$3,807

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

	January 1, 2006	January 2, 2005
Leasehold improvements	$ 819	$ 347
Manufacturing and laboratory equipment	19,430	11,067
Computer equipment and software	8,121	6,116
Furniture and fixtures	2,139	2,095
	30,509	19,625
Accumulated depreciation and amortization	(14,378)	(11,051)
Total	$ 16,131	$ 8,574

Depreciation expense was $3.8 million, $3.7 million and $4.4 million for the years ended January 1, 2006, January 2, 2005 and December 28, 2003, respectively.

Accrued liabilities consist of the following (in thousands):

	January 1, 2006	January 2, 2005
Compensation	$ 4,922	$ 3,798
Legal and other professional fees	2,311	1,488
Taxes	939	928
Reserve for product warranties	751	387
Customer deposits	1,361	1,671
Short-term deferred revenue	1,937	915
Short-term deferred gain on sale of building	375	375
Other	1,614	845
Total	$14,210	$10,407

3. Derivative Financial Instruments

SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* requires that all derivatives be recognized on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. The Company assesses, both at its inception and on an on-going basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting the changes in cash flows of hedged items. The Company also assesses hedge ineffectiveness on a quarterly basis and records the gain or loss related to the ineffective portion to current earnings to the extent significant.

The Company has a foreign exchange hedging program principally designed to mitigate the potential impact due to changes in foreign currency exchange rates. The Company does not hold any derivative financial instruments for trading or speculative purposes. The Company primarily uses forward exchange contracts to hedge foreign currency exposures and they generally have terms of one year or less. These contracts have been designated as cash flow hedges and accordingly, to the extent effective, any unrealized gains or losses on these foreign currency forward contracts are reported in other comprehensive income. Realized gains and losses for the effective portion are recognized with the underlying hedge transaction. The notional settlement amount of the foreign currency forward contracts outstanding at January 1, 2006 and January 2, 2005 were $0.1 million and $4.0 million, respectively. As of January 1, 2006, the Company had one foreign currency forward contract outstanding. This contract had a fair value of $882, representing an unrealized gain, and was included in other current assets at January 1, 2006. This contract is set to expire in March 2006 and is with a reputable bank institution. As of January 2, 2005, the outstanding contracts had a fair value of $0.2 million, representing an unrealized loss, and were included in other current liabilities at January 2, 2005. The Company settled foreign exchange contracts of $5.2 million and $0.3 million for the years ended January 1, 2006 and January 2, 2005, respectively. The Company's hedging program reduces, but does not entirely eliminate the impact of currency exchange rate movements. The Company believes it has hedged all significant firm commitments denominated in foreign currencies, and as a result, any increase or decrease in the exchange rates of these commitments would have no material net effect to the Company's balance sheet or its results of operations. The Company did not hold any derivative financial instruments prior to fiscal 2004.

4. Warranties and Maintenance Contracts

The Company generally provides a one-year warranty on genotyping and gene expression systems. At the time revenue is recognized, the Company establishes an accrual for estimated warranty expenses associated with system sales. This expense is recorded as a component of cost of product revenue. Estimated warranty expenses associated with extended maintenance contracts are recorded as cost of revenue ratably over the term of the maintenance contract.

Changes in the Company's warranty liability during the three years ended January 1, 2006 are as follows (in thousands):

Balance as of December 29, 2002	$ —
Additions charged to cost of revenue	230
Balance as of December 28, 2003	230
Additions charged to cost of revenue	603
Repairs and replacements	(446)
Balance as of January 2, 2005	387
Additions charged to cost of revenue	1,094
Repairs and replacements	(730)
Balance as of January 1, 2006	$ 751

5. Commitments and Long-term Debt

Building Loan

In July 2000, the Company entered into a 10-year lease to rent space in two newly constructed buildings in San Diego that are now occupied by the Company. That lease contained an option to purchase the buildings together with certain adjacent land that has been approved for construction of an additional building. The Company exercised that option and purchased the properties in January 2002 and assumed a $26.0 million, 10-year mortgage on the property at a fixed interest rate of 8.36%. The Company made monthly payments of $208,974, representing interest and principal, through August 2004. Interest expense was $0, $1.4 million and $2.2 million for the years ended January 1, 2006, January 2, 2005 and December 28, 2003, respectively.

In June 2004, the Company entered into a conditional agreement to sell its land and buildings for $42.0 million and to lease back such property for an initial term of ten years. The sale was completed in August 2004 at which time the lease was signed. After the repayment of the remaining $25.2 million debt and other related transaction expenses, the Company received $15.5 million in net cash proceeds. The Company removed the land and net book value of the buildings of $36.9 million from its balance sheet, deferred the resulting $3.7 million gain on the sale of the property, and is amortizing the deferred gain over the ten year lease term in accordance with SFAS No. 13, *Accounting for Leases.*

The Company leased a portion of the space to a tenant under a lease which expired in June 2004. Rental income was recorded as an offset to the Company's facility costs. Rental income was $0, $409,517, and $695,282 for the years ended January 1, 2006, January 2, 2005, and December 28, 2003, respectively.

Capital Leases

In April 2000, the Company entered into a $3,000,000 loan arrangement to be used at its discretion to finance purchases of capital equipment. The loan was secured by the capital equipment financed. As of January 1, 2005, all loan payments were made, the underlying equipment was purchased and the loan arrangement was closed. Cost and accumulated depreciation of equipment under capital leases at January 1, 2006 and January 2, 2005 was $0 and $1,287,789, respectively. Depreciation of equipment under capital leases was included in depreciation expense. Interest expense related to capital leases was $0, $10,500 and $56,661 for the years ended January 1, 2006, January 2, 2005 and December 28, 2003 respectively.

Operating Leases

In August 2004, the Company entered into a ten-year lease for its San Diego facility after the land and building were sold (as discussed above). Under the terms of the lease, the Company paid a $1.9 million security deposit and is paying monthly rent of $318,643 for the first year with an annual increase of 3% in each subsequent year through August 2014. The current monthly rent under this lease is $328,202. The lease contains an option to renew for three additional periods of five years each. In accordance with SFAS No. 13, the Company records rent expense on a straight-line basis and the resulting deferred rent is included in other long-term liabilities in the accompanying consolidated balance sheet. The Company also leases office space for a facility in Connecticut, an additional distribution and storage facility in San Diego and for three foreign facilities located in Japan, Singapore and China under non-cancelable operating leases that expire at various times through December 2008. These leases contain renewal options ranging from one to three years.

As of January 1, 2006, annual future minimum payments under these operating leases are as follows (in thousands):

2006	4,557
2007	4,365
2008	4,343
2009	4,351
2010	4,482
2011 and thereafter	17,415
Total	$39,513

Rent expense, net of amortization of the deferred gain on sale of property, was $4,737,218, $1,794,234, and $238,065 for the years ended January 1, 2006, January 2, 2005 and December 28, 2003, respectively.

6. Stockholders' Equity

Common stock

As of January 1, 2006, the Company had 41,294,003 shares of common stock outstanding, of which 4,802,319 shares were sold to employees and consultants subject to restricted stock agreements. The restricted common shares vest in accordance with the provisions of the agreements, generally over five years. All unvested shares are subject to repurchase by the Company at the original purchase price. As of January 1, 2006, 41,750 shares of common stock were subject to repurchase. In addition, the Company also issued 12,000 shares for a restricted stock award to an employee under the Company's new 2005 Stock and Incentive Plan based on service performance. These shares vest monthly over a three-year period.

Stock Options

2005 Stock and Incentive Plan

In June 2005, the stockholders of the Company approved the 2005 Stock and Incentive Plan (the ''2005 Stock Plan''). Upon adoption of the 2005 Stock Plan, issuance of options under the Company's existing 2000 Stock Plan ceased. The 2005 Stock Plan provides that an aggregate of up to 11,542,358 shares of the Company's common stock be reserved and available to be issued. In addition, the 2005 Stock Plan provides for an automatic annual increase in the shares reserved for issuance by the lesser of 5% of outstanding shares of the Company's common stock on the last day of the immediately preceding fiscal year, 1,200,000 shares or such lesser amount as determined by the Company's board of directors.

The Company's stock option activity under all stock option plans from December 29, 2002 through January 1, 2006 is as follows:

	Options	Weighted-Average Exercise Price
Outstanding at December 29, 2002	4,422,781	$ 7.94
Granted	1,241,175	$ 3.31
Exercised	(102,590)	$ 1.25
Cancelled	(331,492)	$ 8.36
Outstanding at December 28, 2003	5,229,874	$ 6.95
Granted	1,453,400	$ 7.08
Exercised	(139,768)	$ 1.98
Cancelled	(337,486)	$ 8.80
Outstanding at January 2, 2005	6,206,020	$ 6.99
Granted	2,992,300	$10.02
Exercised	(869,925)	$ 4.66
Cancelled	(1,001,964)	$11.00
Outstanding at January 1, 2006	7,326,431	$ 7.96

At January 1, 2006, options to purchase approximately 2,763,225 shares were exercisable and 3,870,374 shares remain available for future grant.

Following is a further breakdown of the options outstanding as of January 1, 2006:

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price of Options Exercisable
$0.03 - 4.44	1,401,109	6.80	$ 3.14	789,881	$ 2.91
$4.64 - 6.53	1,298,379	6.89	$ 5.77	472,989	$ 5.63
$6.55 - 8.52	1,943,164	8.17	$ 8.10	604,053	$ 7.92
$8.60 - 10.26	1,290,701	7.63	$ 9.11	557,114	$ 9.30
$10.30 - 16.00	1,235,978	8.85	$12.67	227,042	$12.73
$16.03 - 45.00	157,100	6.33	$20.75	112,146	$22.59
$0.03 - 45.00	7,326,431	7.66	$ 7.96	2,763,225	$ 7.37

2000 Employee Stock Purchase Plan

In February 2000, the board of directors and stockholders adopted the 2000 Employee Stock Purchase Plan (the ''Purchase Plan''). A total of 3,589,168 shares of the Company's common stock have been reserved for issuance under the Purchase Plan. The Purchase Plan permits eligible employees to purchase common stock at a discount, but only through payroll deductions, during defined offering periods.

The price at which stock is purchased under the Purchase Plan is equal to 85% of the fair market value of the common stock on the first or last day of the offering period, whichever is lower. The initial offering period commenced in July 2000. In addition, the Purchase Plan provides for annual increases of shares available for issuance under the Purchase Plan beginning with fiscal 2001. 717,164, 585,855 and 304,714 shares were issued under the 2000 Employee Stock Purchase Plan during fiscal 2005, 2004 and 2003, respectively. As of January 1, 2006, there were 1,790,510 shares available for issuance under the Purchase Plan.

Deferred Stock Compensation

Since the inception of the Company, in connection with the grant of certain stock options and sales of restricted stock to employees, founders and directors through July 25, 2000, the Company has recorded deferred stock compensation totaling approximately $17.6 million, representing the difference between the exercise or purchase price and the fair value of the Company's common stock as estimated by the Company's management for financial reporting purposes on the date such stock options were granted or restricted common stock was sold. Deferred compensation is included as a reduction of stockholders' equity and is being amortized to expense over the vesting period of the options and restricted stock. In 2005, the Company recorded $0.2 million as deferred compensation related to unvested options associated with our acquisition of CyVera. In addition, in 2005, the Company granted a restricted stock award to an employee and recorded deferred stock compensation totaling $0.2 million. During the years ended January 1, 2006, January 2, 2005 and December 28, 2003, the Company recorded amortization of deferred stock compensation of approximately $0.3 million, $0.8 million and $2.5 million, respectively.

Stockholder Rights Plan

On May 3, 2001, the Board of Directors of the Company declared a dividend of one preferred share purchase right (a ''Right'') for each outstanding share of common stock of the Company. The dividend was payable on May 14, 2001 (the ''Record Date'') to the stockholders of record on that date. Each Right entitles the registered holder to purchase from the Company one unit consisting of one-thousandth of a share of its Series A Junior Participating Preferred Stock at a price of $100 per unit. The Rights will be exercisable if a person or group hereafter acquires beneficial ownership of 15% or more of the outstanding common stock of the Company or announces an offer for 15% or more of the outstanding common stock. If a person or group acquires 15% or more of the outstanding common stock of the Company, each Right will entitle its holder to purchase, at the exercise price of the right, a number of shares of common stock having a market value of two times the exercise price of the right. If the Company is acquired in a merger or other business combination transaction after a person acquires 15% or more of the Company's common stock, each Right will entitle its holder to purchase, at the Right's then-current exercise price, a number of common shares of the acquiring company which at the time of such transaction have a market value of two times the exercise price of the right. The Board of Directors will be entitled to redeem the Rights at a price of $0.01 per Right at any time before any such person acquires beneficial ownership of 15% or more of the outstanding common stock. The rights expire on May 14, 2011 unless such date is extended or the rights are earlier redeemed or exchanged by the Company.

7. Legal Proceedings

The Company has incurred substantial costs in defending itself against patent infringement claims, and expects to devote substantial financial and managerial resources to protect its intellectual property and to defend against the claims described below as well as any future claims asserted against it.

Affymetrix Litigation

On July 26, 2004, Affymetrix, Inc. (''Affymetrix'') filed a complaint in the U.S. District Court for the District of Delaware alleging that the use, manufacture and sale of the Company's BeadArray products and services, including the Array Matrix and BeadChip products, infringe six Affymetrix patents. Affymetrix seeks an injunction against the sale of products, if any, that are determined to be infringing these patents, unspecified monetary damages, interest and attorneys' fees. On September 15, 2004, the Company filed its answer and counterclaims to Affymetrix' complaint, seeking declaratory judgments from the court that the Company does not infringe the Affymetrix patents, and that such patents are invalid, and filed counterclaims against Affymetrix for unfair competition and interference with actual and prospective economic advantage. On January 7, 2006, the Company sought leave to file the first amended answer and counterclaims, adding allegations of inequitable conduct with respect to all six asserted Affymetrix patents, violation of Section 2 of the Sherman Act, and unclean hands. Trial is scheduled for October 16, 2006. The Company believes it has meritorious defenses against each of the infringement claims alleged by Affymetrix and intends to vigorously defend against this suit. However, the Company cannot be sure that it will prevail in this matter. Any unfavorable determination, and in particular, any significant cash amounts required to be paid by the Company or prohibition of the sale of products and services, could result in a material adverse effect on its business, financial condition and results of operations.

Dr. Anthony W. Czarnik v. Illumina, Inc.

On June 15, 2005, Dr. Anthony Czarnik, a former employee, filed suit against the Company in the U.S. District Court for the District of Delaware seeking correction of inventorship of certain Company patents and patent applications and alleging that the Company committed inequitable conduct and fraud in not naming him as an inventor. Dr. Czarnik seeks an order requiring the Company and the U.S. Patent and Trademark Office to correct the inventorship of certain of its patents and patent applications by adding Dr. Czarnik as an inventor, a judgment declaring certain of its patents and patent applications unenforceable, unspecified monetary damages and attorney's fees. On August 4, 2005, the Company filed a motion to dismiss the complaint for lack of standing and failure to state a claim. While this motion was pending, Dr. Czarnik filed an amended complaint on September 23, 2005. On October 7, 2005, the Company filed a motion to dismiss the amended complaint for lack of standing and failure to state a claim, and this motion is still pending. There has been no trial date set for this case. The Company believes it has meritorious defenses against this claim.

Termination-of-Employment Lawsuit

In March 2001, a complaint seeking damages of an unspecified amount was filed against the Company by Dr. Anthony W. Czarnik, a former employee, in the Superior Court of the State of California in connection with the employee's termination of employment with the Company. In June 2002, a California Superior Court judgment was rendered against the Company and the Company recorded a $7.7 million charge in its financial results for the second quarter of 2002 to cover total damages and remaining expenses. The Company appealed the decision, and in December 2004, the Fourth Appellate District Court of Appeal, in San Diego, California, reduced the amount of the award. The Company recorded interest expense on the $7.7 million during the appeal based on the statutory rate. As a result of the revised judgment, the Company reduced the $9.2 million liability on its balance sheet to $5.9 million and recorded a gain of $3.3 million as a litigation judgment in the fourth quarter of 2004. In January 2005, the Company paid the $5.9 million and removed the liability from its balance sheet.

Litigation with Applera Corporation's Applied Biosystems Group

In 1999, the Company entered into a joint development agreement with Applied Biosystems Group, an operating group of Applera Corporation, under which the companies agreed to jointly develop a SNP genotyping system that would combine the Company's BeadArray technology with Applied Biosystems' assay chemistry and scanner technology. In conjunction with the agreement, Applied Biosystems agreed to provide the Company with non-refundable research and development support of $10.0 million, all of which was paid by December 2001 and recorded as a liability on the Company's balance sheet as of December 28, 2003. In December 2002, Applied Biosystems initiated a patent infringement suit and sought to compel arbitration of an alleged breach of the joint development agreement. The Company initiated a suit in state court seeking to enjoin the arbitration and alleged that Applied Biosystems had breached the joint development agreement. In August 2004, the Company entered into a settlement and cross-license agreement with Applera. As a result of the settlement, the Company removed the $10.0 million liability from its balance sheet, made a payment of $8.5 million to Applera and recorded a gain of $1.5 million as a litigation settlement.

8. Collaborative Agreements

Invitrogen Corporation

In December 2004, the Company entered into a strategic collaboration with Invitrogen Corporation (''Invitrogen''). The goal of the collaboration is to combine the Company's expertise in oligonucleotide manufacturing with the sales, marketing and distribution capabilities of Invitrogen. In connection with the collaboration, the Company is developing the next generation Oligator® DNA synthesis technology. This technology is expected to include both plate- and tube-based capabilities. Under the terms of the agreement, Invitrogen paid the Company an upfront non-refundable collaboration payment of $2.3 million during the first quarter of 2005. Additionally, upon the achievement of a certain milestone, Invitrogen was obligated to make a milestone payment of $1.1 million to the Company. The milestone was achieved in November of 2005 and payment of $1.1 million was made by Invitrogen.

The Company began manufacturing and shipping the plate-based and certain tube-based oligo products under the collaboration in the third quarter of 2005 and, therefore, has begun to amortize the upfront collaboration payment of $2.3 million as product revenue over the life of the agreement on a straight-line basis. The unamortized portion of the collaboration payment has been recorded as short- and long-term deferred revenue. The Company recorded the $1.1 million milestone payment in service and other revenue upon achievement of the milestone during the fourth quarter of 2005. The Company recorded revenue related to the milestone payment referred to in the prior paragraph upon its achievement, as evidenced by acknowledgment from Invitrogen and due to the fact that (i) the milestone event is substantive and its achievability was not reasonably assured at the inception of the agreement, (ii) the milestone represents the culmination of an earnings process, (iii) the milestone payment is non-refundable and (iv) the performance obligations for both the Company and Invitrogen after the milestone achievement will continue at a level comparable to the level before the milestone achievement. In addition, the agreement provides for the transfer of the Company's Oligator technology into two Invitrogen facilities outside North America. The Company recognizes product revenue upon shipment of collaboration products based on the Company's actual manufacturing cost. Collaboration profit, as defined in the collaboration agreement, from the sale of collaboration products is divided equally between the two companies and is recorded as product revenue.

International HapMap Project

The Company was the recipient of a grant from the National Institutes of Health covering its participation in the first phase of the International HapMap Project, which is a $100 million, internationally funded successor project to the Human Genome Project that will help identify a map of genetic variations that may be used to perform disease-related research. The Company was awarded a $9.1 million grant from the National Institutes of Health in September 2002 to perform genotyping services in connection with the first phase of the International HapMap Project that covered basic research activities, the development of SNP assays and the genotyping performed on those assays. For the year ending January 1, 2006, January 2, 2005, and December 28, 2003, the Company recorded revenue related to this project totaling $0.8 million, $4.6 million and $3.7 million, respectively.

9. Income Taxes

As of January 1, 2006, the Company had federal and California tax net operating loss carryforwards of approximately $103.7 million and $40.1 million, respectively. The federal and state tax loss carryforwards will begin expiring in fiscal year 2018 and 2006, respectively, unless previously utilized. The Company also has federal and California research and development tax credit carryforwards of approximately $4.1 million and $3.8 million, respectively. The federal tax credit carryforwards will begin to expire in 2018 and the California carryforwards have no expiration.

Pursuant to Sections 382 and 383 of the Internal Revenue Code, annual use of the Company's net operating loss and credit carryforwards may be limited in the event of a cumulative ownership change of more than 50 percentage points within a three-year period. CyVera Corporation had an ownership change upon acquisition by the Company during 2005, and accordingly, its federal and Connecticut net operating loss carryforwards and its federal research and development tax credit carryforwards are subject to annual limitation. The Company is in the final stages of completing its formal Section 382 and 383 analysis and it is anticipated that approximately $0.2 million of its net operating loss carryforwards may be limited. CyVera Corporation's federal net operating loss carryforwards and research and development tax credit carryforwards as of the date of acquisition were approximately $6.5 million and $0.2 million, respectively. To the extent these assets are recognized, the adjustment will be offset as a credit to goodwill.

Significant components of the Company's deferred tax assets as of January 1, 2006 and January 2, 2005 are shown below (in thousands). A valuation allowance has been established as of January 1, 2006 and January 2, 2005 to offset the net deferred tax assets, as realization of such assets has not met the ''more likely than not'' threshold required under SFAS No. 109.

	January 1, 2006	January 2, 2005
Deferred tax assets:		
Net operating losses	$ 37,801	$ 32,161
Tax credits	6,634	5,076
Deferred revenue	1,037	—
Capitalized research and development costs	1,523	1,857
Property and equipment	(1,134)	(299)
Other	3,681	6,732
Net deferred tax assets	49,542	45,527
Valuation allowance on deferred tax assets	(49,542)	(45,527)
Net deferred taxes	$ —	$ —

Deferred tax assets of approximately $2.5 million and $0.4 million as of January 1, 2006 and January 2, 2005, respectively, resulted from the exercise of employee stock options. When recognized, the tax benefit of these assets will be accounted for as a credit to goodwill (with respect to vested stock options issued to employees of CyVera Corporation upon acquisition), or as a credit to additional paid-in capital, rather than a reduction of the income tax provision.

The Company's provision for income taxes for the years ended January 1, 2006 and January 2, 2005 consisted of $163,000 and $135,000, respectively, for income tax expense related to its foreign operations. This expense is included with interest and other expense in the consolidated statements of operations.

The following is a reconciliation of the statutory federal income tax to the Company's effective tax (in thousands):

	Year Ended January 1, 2006	Year Ended January 2, 2005	Year Ended December 28, 2003
Tax at federal statutory rate	$(7,043)	$(2,179)	$ (9,472)
State, net of federal benefit	633	(336)	(1,434)
Research and other credits	(1,239)	34	(1,374)
Acquired in-process research & development	5,372	—	—
Adjustments to deferred tax balances	2,952	—	—
Change in valuation allowance	(1,138)	2,330	12,130
Permanent differences	(226)	(264)	738
Other	852	550	(588)
Income tax expense	$ 163	$ 135	$ —

10. Retirement Plan

The Company has a 401(k) savings plan covering substantially all of its employees. Company contributions to the plan are discretionary and no such contributions were made during the years ended January 1, 2006, January 2, 2005 and December 28, 2003.

11. Segment Information, Geographic Data and Significant Customers

The Company has determined that, in accordance with SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, it operates in one segment as it only reports operating results on an aggregate basis to chief operating decision makers of the Company. The Company had revenue in the following regions for the years ended January 1, 2006, January 2, 2005 and December 28, 2003 (in thousands):

	Year Ended January 1, 2006	Year Ended January 2, 2005	Year Ended December 28, 2003
United States	$45,480	$24,166	$13,666
Europe	17,551	12,528	5,909
Asia	6,850	9,703	5,557
Other	3,620	4,186	2,903
Total	$73,501	$50,583	$28,035

The Company had no customer that provided more than 10% of total revenue in the year ended January 1, 2006; one customer that provided approximately 14% of total revenue in the year ended January 2, 2005 (exclusive of revenue recorded from the National Institutes of Health) and approximately 18% of total revenue in the year ended December 28, 2003. Revenue from the National Institutes of Health accounted for approximately 1%, 13% and 21% of total revenue for the years ended January 1, 2006, January 2, 2005 and December 28, 2003, respectively.

12. Quarterly Financial Information (unaudited)

The following financial information reflects all normal recurring adjustments, except as noted below, which are, in the opinion of management, necessary for a fair statement of the results of interim periods. Summarized quarterly data for fiscal 2005 and 2004 are as follows (in thousands except per share data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2005:				
Total revenue	$15,148	$ 15,824	$19,516	$23,013
Total cost of revenue	4,599	4,734	6,599	7,249
Net income (loss)	(1,235)	(18,539)(1)	(1,426)	326
Historical net income (loss) per share, basic	(0.03)	(0.46)	(0.03)	0.01
Historical net income (loss) per share, diluted	(0.03)	(0.46)	(0.03)	0.01
2004:				
Total revenue	$10,803	$ 11,486	$13,512	$14,782
Total cost of revenue	2,802	3,067	3,517	3,873
Net income (loss)	(3,931)	(3,516)	(2,026)(2)	3,248(2)
Historical net income (loss) per share, basic	(0.12)	(0.10)	(0.05)	0.09
Historical net income (loss) per share, diluted	(0.12)	(0.10)	(0.05)	0.08

The four quarters for net income (loss) per share for each fiscal year presented may not add for the year because of the different numbers of shares outstanding during the years presented.

(1) During the second quarter of 2005, the Company recorded a $15.8 million charge related to acquired in-process research and development from the CyVera acquisition.

(2) During the third quarter of 2004, the Company recorded a $1.5 million reduction in expense for a legal settlement and, in the fourth quarter of 2004, the Company recorded a $3.3 million reduction in expense related to the reduction of a legal judgement (see Note 7).

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS AND RESERVES FOR THE THREE YEARS ENDED JANUARY 1, 2006

	Allowance for Doubtful Accounts	Reserve for Inventory
	(In thousands)	
Balance as of December 29, 2002	$145	$ 273
Charged to expense	118	710
Utilizations	(85)	(353)
Balance as of December 28, 2003	178	630
Charged to expense	49	946
Utilizations	(81)	(538)
Balance as of January 2, 2005	146	1,038
Charged to expense	167	304
Utilizations	—	(247)
Balance as of January 1, 2006	$313	$1,095

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Corporate Directory

Corporate Information

BOARD OF DIRECTORS

Jay T. Flatley
President and Chief Executive Officer
ILLUMINA, INC.

Daniel M. Bradbury
Chief Operating Officer
AMYLIN PHARMACEUTICALS

Karin Eastham
Executive Vice President and
Chief Operating Officer
THE BURNHAM INSTITUTE
FOR MEDICAL RESEARCH

Paul Grint, M.D.
Chief Medical Officer and
Head of Development
KALYPSYS, INC.

William H. Rastetter, Ph.D.
Non-Executive Chairman
ILLUMINA, INC.

John R. Stuelpnagel, D.V.M.
Senior Vice President and
Chief Operating Officer
ILLUMINA, INC.

David R. Walt, Ph.D.
Robinson Professor of Chemistry
TUFTS UNIVERSITY

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President and Chief Executive Officer

John R. Stuelpnagel, D.V.M.
Senior Vice President and
Chief Operating Officer

Christian O. Henry
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Chief Financial Officer

Tristan B. Orpin
Vice President of Worldwide Sales

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Dewey Ballantine LLP
New York, NY 10019

FORM 10-K

Included with this report is a copy of the Company's Form 10-K filed with the Securities and Exchange Commission. Additional copies are available by contacting Illumina's Investor Relations Department:

www.illumina.com
investor@illumina.com
+1 858.202.4750.

ANNUAL MEETING

The Company's Annual Meeting of Stockholders will be held at the Company's corporate headquarters at 10:00 a.m. on June 8, 2006.

SELECTED COMMON STOCK DATA

The Company's common stock, par value $0.01, has been traded under the symbol ILMN since July 28, 2000 on the NASDAQ National Market.

As of April 20, 2006, there were approximately 212 record holders of the Company's common stock. The Company has not paid any cash dividends since its inception and does not anticipate paying any cash dividends in the foreseeable future.

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: this release may contain forward-looking statements that involve risks and uncertainties. Among the important factors that could cause actual results to differ materially from those in any forward-looking statements are the costs and outcome of Illumina's litigation with Affymetrix, Illumina's ability to scale and integrate CyVera technology, the ability to further scale oligo synthesis output and technology to satisfy market demand deriving from Illumina's collaboration with Invitrogen, Illumina's ability to further develop and commercialize its BeadArray technologies and to deploy new gene expression and genotyping products and applications for its platform technology, to manufacture robust Sentrix® arrays, including HumanHap BeadChips, and Oligator® oligonucleotides, and other factors detailed in the Company's filings with the Securities and Exchange Commission including its recent filings on Forms 10-K and 10-Q or in information disclosed in public conference calls, the date and time of which are released beforehand. Illumina disclaims any intent or obligation to update these forward-looking statements beyond the date they are made.

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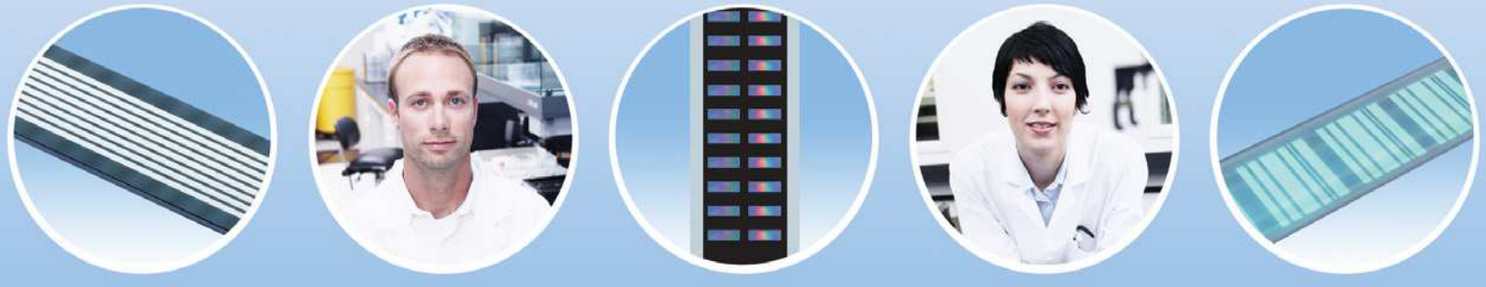
EXHIBIT 2.d

illumina®

2006 Annual Report



you&i

Let's find the answers together.

ILLUM-2197

customers&community

More than a company, we are an organization focused on building an expanding network of customers, investors, and employees. We have a passion and energy for genetic discovery and are committed to helping scientists find answers to complex biological questions. In over 25 different disease areas including cancer, asthma, and cardiovascular disease, studies that were not possible just a few years ago are being conducted with Illumina's tools. This past year, scientists used Illumina technology to discover significant genetic variations in Type-2 diabetes, Crohn's and Parkinson's disease, and prostate cancer. As a result, findings were quickly accepted and published in leading peer-reviewed journals such as *The Lancet*, *Science*, and *Nature*.

Illumina's tools have been rapidly adopted by the traditional life science community in academic and government laboratories. In 2006, we experienced increased penetration into top pharmaceutical and biotechnology companies, some of which are using our products and services to investigate and develop new therapies for difficult-to-treat diseases. Whether our customers aspire to make significant discoveries, generate scientific publications, or bring tests into the clinic, we are helping them reach their goals faster.

The largest women's genomic study ever. Illumina technology is enabling the largest genomic-scale women's health study in history—a collaboration between Amgen and the Brigham & Women's Hospital in Cambridge, Massachusetts to study more than 28,000 samples for the Women's Genome Health Study. Using the HumanHap300-Duo BeadChip, this study is designed to uncover genetic variation in American women with breast cancer, osteoporosis, cardiovascular disease, stroke, and diabetes.

The largest cohort study in Europe. Erasmus MC, at the University Medical Centre in Rotterdam, is the Netherlands' largest academic medical facility. Using Illumina technology, scientists are running more than 10,000 samples on the HumanHap550 BeadChip as part of the most extensive cohort study undertaken in Europe to date.

Smith&Wesson

products&services

Fueled by intensive technology advances in our Infinium® product line, we launched more than one product per month this past year. With forward compatibility always a focus, we innovated in ways that preserve the investments our customers have already made. Epigenetic tools like the GoldenGate® Cancer and Custom Methylation panels are now available to better understand how genes are turned on or off. The recent launch of the HumanCNV370-Duo BeadChip, which is the first solution specifically designed to target novel regions of copy number variation (CNV), and the anticipated launch of the Human1M BeadChip are examples of our ongoing efforts to deliver industry-leading DNA analysis solutions.

In the gene expression market, we listened when researchers said that they wanted to run more biological samples and replicates without additional expense. In return, we launched new versions of our highly reproducible gene expression arrays at unprecedented pricing levels. The September 2006 release from the Food and Drug Administration's Microarray Quality Control Project (MAQC), which demonstrated good data correlation between all the major commercial gene expression microarray platforms, added even more impetus to our growing expression business.

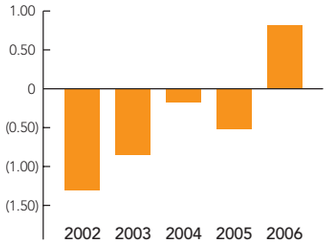
Solexa merger creates industry's most complete offering. With the addition of the Solexa® sequencing technology to the Illumina product family, we became the only company with genome-scale technology for genotyping, gene expression, and gene sequencing—the three cornerstones of genetic analysis. This technology enables researchers to sequence genomes at revolutionary speed and cost, creating the next era of opportunity for large-scale genetic discovery. As a result, adoption has been rapid with over 40 orders received within 30 days of the completion of the early access period.

commercial highlights

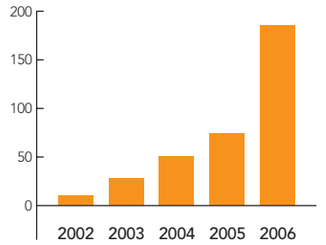
- Achieved an installed base of 246 BeadArray Readers.
- Launched over 15 new products, including new applications in methylation and CNV analysis.
- Introduced the HumanHap300-Duo, the world's first multi-sample whole-genome genotyping BeadChip product.
- Released the world's first multi-sample rat whole-genome expression product.
- Completed the development of VeraCode™ technology and the BeadXpress™ Reader for DNA and protein applications, launched in March 2007.
- Delivered a record-breaking 4 billion genotypes in a single quarter in FastTrack Genotyping Services.
- Awarded Frost and Sullivan's 2006 North American Drug Discovery Technologies Product Innovation of the Year.

ILLUM-2201

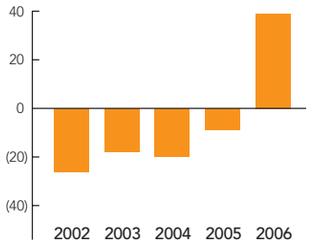
DILUTED GAAP EPS
($ in dollars)



REVENUE GROWTH
($ in millions)



CASH FLOW
($ in millions)



investors&employees

In 2006, revenue grew 151 percent compared to 2005, reaching more than $184 million. Including the first quarter of 2007, we recorded 23 consecutive quarters of revenue growth. We created an environment poised for sustained performance by strengthening our leadership team and adding additional talent to our Board of Directors. We doubled our employee base from 400 to 800 and added new operations in Hayward, California and Chesterford, United Kingdom. To accommodate the expansion of employees, product portfolio, and manufacturing capacity, we plan to nearly double our headquarters facility in 2008.

Illumina has set the genotyping industry standard, and continues to lead the market in genomic coverage and data quality. In gene expression, we redefined value with our multi-sample BeadChips and high standards of performance. Solexa's technology redefines the market in terms of cost and scale. It represents a "best-of-breed" technology that, in January 2007, reached a major milestone of one billion finished bases per instrument run.

At the top of *Forbes* fastest growing tech company list.

"Taking eBay's place on this year's list—which we rank according to 5-year sales growth—is Illumina, a newcomer that tops our 2007 list. By posting its first profitable 12-month period in five years, this rapidly growing manufacturer of equipment for the exploration and analysis of genetic material finally qualified as one of our fast tech companies."

FORBES.COM

"Illumina shares a consistent vision with the life sciences community, focused on accelerating the pace of genetic discovery. Inside the company, there is a tangible energy in the employee base that connects with this vision. The level of passion and focus that our employees bring with them to work every day is amazing and that is what makes Illumina unique."

TRISTAN ORPIN
Senior Vice President of Commercial Operations
Illumina, Inc.

financial highlights

- 151 percent annual revenue growth in 2006 to $184.6 million.
- 23 consecutive quarters of revenue growth through the first quarter of 2007.
- 2006 earnings per share increased by 258 percent.
- 2006 product and services gross margin of 67 percent.
- Named #1 on *Forbes* 2006 fastest growing technology survey.
- May 2006 secondary stock offering.
- February 2007 $400 million convertible debt offering.

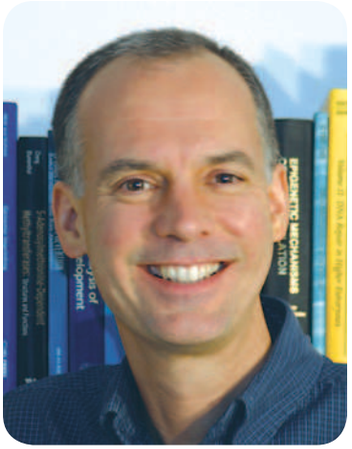
quotes&testimonials

"Our team chose to work with Illumina's HumanHap300 BeadChip because it provided outstanding genotype quality and the genomic coverage necessary for broad, unbiased screening for the contribution of common genetic variation to inflammatory bowel disease. More importantly, due to the speed and accuracy of the technology and the significance of the results, only 10 months elapsed between initiating the study and publication."

RICHARD DUERR, M.D.
Associate Professor of Medicine and Human Genetics
Co-Director, Inflammatory Bowel Disease Center
Head, Inflammatory Bowel Disease Genetics Program
University of Pittsburgh School of Medicine

"Illumina's technology enabled our group to finally perform the kind of quality studies we have wanted to do for more than two decades. Even though the genetic causes of diabetes have long been studied, only a few variants that represent a small part of the genetically determined disease risk have been uncovered. Our findings are proof of principle that whole-genome analysis technology, as implemented by Illumina, is the obvious choice for the elucidation of a genetically complex trait like diabetes."

CONSTANTIN POLYCHRONAKOS, M.D., F.R.C.P.C.
Professor, Departments of Pediatrics and Human Genetics
Director, Pediatric Endocrinology
McGill University Health Center (Children's Hospital)



"This is the only platform that provides both high sample throughput and broad, flexible content at the level of quality we need to perform methylation profiling. The data are impressive, with reproducibility rates greater than 0.98 and clear clustering of methylation behavior among various tumor and normal DNA samples found on the heat map. Moreover, from bisulfite conversion to data analysis, the entire process took less than one week to complete."

PETER W. LAIRD, PH.D.
Associate Professor
University of Southern California

dear fellow shareholders:

2006 was a breakthrough year for Illumina. We achieved 151 percent annual revenue growth to more than $184 million, increased our earnings per share by 258 percent, maintained gross margins of 67 percent, and achieved $37.8 million of operating profit. Anchored by solid investments in future growth, our financial results may be among the best in the history of the life sciences.

KEY ACCOMPLISHMENTS

Financial growth this past year was driven by the commercialization of eight new products in the Infinium product line, as well as a significant increase in the installed base of BeadArray Readers. We made strategic investments in manufacturing and infrastructure to expand capacity and meet high customer demand. Superb planning and execution resulted in manufacturing capacity that struck the delicate balance between too much and not enough.

The Solexa/Illumina merger in early 2007 was an accomplishment of major strategic importance. Along with its next-generation sequencing technology, Solexa added a team of talented people, a solid technology portfolio, and a customer base that is synergistic with our genotyping and gene expression business. Enthusiastic adoption of this platform has resulted in a strong order pipeline within a very short time after initial marketing of the system.

ACCELERATING GROWTH

Our focus on large, emerging markets and our open approach towards technology has propelled the company from a single technology platform at the end of 2006 to our current portfolio of three key platforms. This unique collection of genomics tools span the range from sequencing whole genomes to analysis of a handful of markers in a diagnostic application, and from discovery through clinical validation and on to deployment of genetic information in molecular diagnostic tests. From Solexa to BeadArray™ to VeraCode technologies, we are delivering industry-leading data quality at a scale and cost that enable researchers to move their research forward faster.

At an application level, we are transforming the field of genetic analysis by leveraging the interrelationship of genotyping, gene expression, and sequencing. The integration of these three applications will be critically valuable to research programs by supplying a more complete genetic picture than ever before.

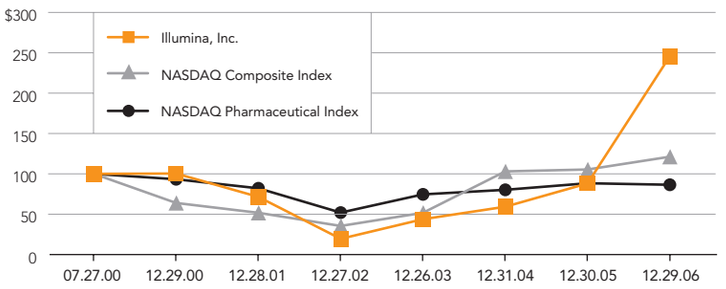
We have structured our business in a way that prepares us for explosive growth. Joining us during the year was Christian Cabou as Senior Vice President, General Counsel and Secretary, Arthur Holden as Senior Vice President of Corporate and Market Development, and Matt Posard as Vice President of Global Sales. John West, former CEO of Solexa, now leads our sequencing business and John Stuelpnagel leads our array business. New to our Board of Directors are Blaine Bowman, Roy Whitfield, and Jack Goldstein.

A significant improvement in cash flow fueled by increased product sales, a $97 million secondary stock offering in 2006, and a $400 million convertible debt offering in early 2007 give us the resources we need to make bold and strategic moves in the future. Our solid management team, combined with the breadth and depth of our employee base, provides us with the assets that we will need to continue the trend of rapid growth and strong financial return.

It is important to note that none of this growth would be possible without all of our employees, who are what we consider the foundation of

STOCK PERFORMANCE GRAPH*

($ in dollars)



**The graph depicted at left shows a comparison of cumulative total stockholder returns for our common stock, the NASDAQ Composite Index, and the NASDAQ Pharmaceutical Index, from the date of our initial public offering on July 27, 2000 through December 29, 2006. The graph assumes that $100 was invested on July 27, 2000, in our common stock and in each index. No cash dividends have been declared on our common stock. Stockholder returns over the indicated period should not be considered indicative of future stockholder returns.*

the Illumina Community. Visitors to our San Diego headquarters often comment on the energy generated by the Illumina teams. The passion, talent, and focus brought to work are key to our success, which directly affects the success of our customers. Despite a doubling of the employee base this year, our rigorous hiring practices have kept that energy intact.

PREPARING FOR THE FUTURE

Our genotyping system remains the platform of choice for researchers, and our teams are focused on extending the success we enjoyed in 2006 into 2007. In addition to leading the charge in next-generation sequencing with the Solexa technology, we are planning to continue our innovation in the Infinium product line. The recent launch of the BeadXpress system opens up new market opportunities in lower complexity experiments and in molecular diagnostics. As new orders are placed and fulfilled, we will focus on developing applications that provide new ways to query the genome, some of which will be delivered to the market in 2007.

Our research and development investments will continue to pay dividends, keeping us on track to make numerous major new product releases at a pace that is on par with 2006.

We are strengthening our diagnostic business with additional leadership to explore and capitalize on this potential blockbuster market. By developing proprietary content that will result in FDA approved tests, we are aligning ourselves with large future market opportunities. Our partnership with deCODE genetics to develop a panel for myocardial infarction is an excellent example of how we are putting relationships in place that will fuel our entry into diagnostics. These relationships and our introduction of new technologies are putting Illumina into a position of strength in the emerging molecular diagnostics market.

Illumina's technology is helping to accelerate the pace of remarkable discoveries. We are committed to meeting and further driving this pace through constant innovation. With this philosophy and approach, the members of the Illumina Community will continue to transform the face of medicine.

Best regards,

JAY T. FLATLEY
President and Chief Executive Officer

LET'S FIND THE ANSWERS TOGETHER.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2006

or

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

For the transition period from to .

Commission file number: 000-30361

Illumina, Inc.

(Exact name of Registrant as Specified in Its Charter)

Delaware	**33-0804655**
(State or other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*
9885 Towne Centre Drive, San Diego, California	**92121**
(Address of Principal Executive Offices)	*(zip code)*

Registrant's telephone number, including area code: (858) 202-4500

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

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

Common Stock, $0.01 par value

(Title of class)

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

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

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

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

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

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐

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

As of February 1, 2007, there were 60,049,268 shares of the Registrant's Common Stock outstanding. The aggregate market value of the Common Stock held by non-affiliates of the Registrant as of June 30, 2006 (the last business day of the Registrant's most recently completed second fiscal quarter), based on the closing price for the Common Stock on the NASDAQ Global Market on that date, was $1,289,642,486. This amount excludes an aggregate of 2,471,651 shares of Common Stock held by officers and directors and each person known by the Registrant to own 10% or more of the outstanding Common Stock. Exclusion of shares held by any person should not be construed to indicate that such person possesses the power, directly or indirectly, to direct or cause the direction of the management or policies of the Registrant, or that the Registrant is controlled by or under common control with such person.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement for the annual meeting of stockholders expected to be held on June 7, 2007 are incorporated by reference into Items 10 through 14 of Part III of this Report.

ILLUMINA, INC.

FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

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PART I

ITEM 1. *Business.*

This Annual Report on Form 10-K may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. These statements relate to future events or our future financial performance. We have attempted to identify forward-looking statements by terminology including "anticipates," "believes," "can," "continue," "could," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "should" or "will" or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks outlined under "Item 1A. Risk Factors" in this Annual Report, that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels or activity, performance or achievements expressed or implied by these forward-looking statements. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Accordingly, you should not unduly rely on these forward-looking statements, which speak only as of the date of this Annual Report. We are not under any duty to update any of the forward-looking statements after the date we file this Annual Report on Form 10-K or to conform these statements to actual results, unless required by law. You should, however, review the factors and risks we describe in the reports we file from time to time with the Securities and Exchange Commission.

Illumina®, Array of Arrays™, BeadArray™, BeadXpress™, CSPro™, DASL®, GoldenGate®, Infinium®, IntelliHyb™, iSelect™, Making Sense Out of Life®, Oligator®, Sentrix®, VeraCode™, Solexa®, MPSS™ are our trademarks. This report also contains brand names, trademarks or service marks of companies other than Illumina, and these brand names, trademarks and service marks are the property of their respective holders.

Available Information

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports are available free of charge on our website, www.illumina.com. The information on our website is not incorporated by reference into this report. Such reports are made available as soon as reasonably practicable after filing with, or furnishing to, the Securities and Exchange Commission. The SEC also maintains an Internet site at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that electronically file with the SEC.

Overview

We are a leading developer, manufacturer and marketer of next-generation life science tools and integrated systems for the large scale analysis of genetic variation and biological function. Using our proprietary technologies, we provide a comprehensive line of products and services that currently serve the sequencing, genotyping and gene expression markets, and we expect to enter the market for molecular diagnostics. Our customers include leading genomic research centers, pharmaceutical companies, academic institutions, clinical research organizations and biotechnology companies. Our tools provide researchers around the world with the performance, throughput, cost effectiveness and flexibility necessary to perform the billions of genetic tests needed to extract valuable medical information from advances in genomics and proteomics. We believe this information will enable researchers to correlate genetic variation and biological function, which will enhance drug discovery and clinical research, allow diseases to be detected earlier and permit better choices of drugs for individual patients.

On January 26, 2007, we completed the acquisition of Solexa, Inc. (Solexa) for approximately 13.1 million shares of our common stock. Solexa develops and commercializes genetic analysis technologies used to perform a range of analyses, including whole genome resequencing, gene expression analysis and small RNA analysis. We believe our combined company is the only company with genome-scale technology for genotyping, gene expression and sequencing, the three cornerstones of modern genetic analysis.

We were incorporated in California in April 1998. We reincorporated in Delaware in July 2000. Our principal executive offices are located at 9885 Towne Centre Drive, San Diego, California 92121. Our telephone number is (858) 202-4500.

Industry Background

Genetic Variation and Biological Function

Every person inherits two copies of each gene, one from each parent. The two copies of each gene may be identical, or they may be different. These differences are referred to as genetic variation. Examples of the physical consequences of genetic variation include differences in eye and hair color. Genetic variation can also have important medical consequences. Genetic variation affects disease susceptibility, including predisposition to cancer, diabetes, cardiovascular disease and Alzheimer's disease. In addition, genetic variation may cause people to respond differently to the same drug treatment. Some people may respond well, others may not respond at all, and still others may experience adverse side effects. A common form of genetic variation is a single-nucleotide polymorphism, or SNP. A SNP is a variation in a single position in a DNA sequence. It is estimated that the human genome contains over nine million SNPs.

While in some cases a single SNP will be responsible for medically important effects, it is now believed that combinations of SNPs may contribute to the development of most major diseases. Since there are millions of SNPs, it is important to investigate many representative, well-chosen SNPs simultaneously in order to discover medically valuable information.

Another contributor to disease and dysfunction is the over- or under-expression of genes within an organism's cells. A very complex network of genes interacts to maintain health in complex organisms. The challenge for scientists is to delineate the associated genes' expression patterns and their relationship to disease. Until recently, this problem was addressed by investigating effects on a gene-by-gene basis. This is time consuming, and difficulties exist when several pathways cannot be observed or "controlled" at the same time. With the advent of microarray technology, thousands of genes can now be tested at the same time.

SNP Genotyping

SNP genotyping is the process of determining which base (A, C, G or T) is present at a particular site in the genome within an individual or other organism. The use of SNP genotyping to obtain meaningful statistics on the effect of an individual SNP or a collection of SNPs, and to apply that information to clinical trials and diagnostic testing, requires the analysis of millions of SNP genotypes and the testing of large populations for each disease. For example, a single large clinical trial could involve genotyping 300,000 SNPs per patient in 1,000 patients, thus requiring 300 million assays. Using previously available technologies, this scale of SNP genotyping was both impractical and prohibitively expensive.

Large-scale SNP genotyping can be used in a variety of ways, including studies designed to understand the genetic contributions to disease (disease association studies), genomics-based drug development, clinical trial analysis, disease predisposition testing, and disease diagnosis. SNP genotyping can also be used outside of healthcare, for example in the development of plants and animals with desirable commercial characteristics. These markets will require billions of SNP genotyping assays annually.

Gene Expression Profiling

Gene expression profiling is the process of determining which genes are active in a specific cell or group of cells and is accomplished by measuring mRNA, the intermediary messenger between genes (DNA) and proteins. Variation in gene expression can cause disease, or act as an important indicator of disease or predisposition to disease. By comparing gene expression patterns between cells from different environments, such as normal tissue compared to diseased tissue or in the presence or absence of a drug, specific genes or groups of genes that play a role in these processes can be identified. Studies of this type, often used in drug discovery, require monitoring thousands, and preferably tens of thousands, of mRNAs in large numbers of samples. Once a smaller set of genes of interest has been identified, researchers can then examine how these genes are expressed or suppressed across numerous samples, for example, within a clinical trial.

As gene expression patterns are correlated to specific diseases, gene expression profiling is becoming an increasingly important diagnostic tool. Diagnostic use of expression profiling tools is anticipated to grow rapidly with the combination of the sequencing of various genomes and the availability of more cost-effective technologies.

Sequencing

DNA sequencing is the process of determining the order of bases (A, C, G or T) in a DNA sample, which can be further divided into de novo sequencing, re-sequencing, and tag sequencing. In de novo sequencing, the goal is to determine the sequence of a representative individual from a species never before sequenced. Understanding the similarities and differences in DNA sequence between many species can help to improve our understanding of the function of the structures found in the DNA.

In re-sequencing, one determines the sequences of many individuals from the same species, generally comparing each to a standard or reference sequence. This is an extremely comprehensive form of genotyping, in which every single base is characterized for possible mutations. Mutations tend to fall in two categories: those which occur fairly frequently at a tiny fraction of bases (e.g. at about 0.1% of bases in humans), and those which occur much less frequently but at a large number of locations. Both types can contribute to diseases. Genotyping can subsequently be used to characterize the former, but re-sequencing is used to assay the latter. With the merger of Illumina and Solexa, we will have state-of-the-art technologies for both.

In tag sequencing, short sequences, each representative of a larger molecule or genomic location, are detected and counted. In these applications, the number of times that each tag is seen provides quantification of an underlying biological process. As an example, in digital gene expression, one tag sequence may exist for each gene, and the number of copies of this tag which are detected in an experiment is a measure of how actively that gene is being expressed in the tissue sample being analyzed.

Our Technologies

BeadArray Technology

We have developed a proprietary array technology that enables the large-scale analysis of genetic variation and biological function. Our BeadArray technology combines microscopic beads and a substrate in a simple proprietary manufacturing process to produce arrays that can perform many assays simultaneously. Our BeadArray technology provides a unique combination of high throughput, cost effectiveness, and flexibility. We achieve high throughput with a high density of test sites per array and we are able to format arrays either in a pattern arranged to match the wells of standard microtiter plates or in various configurations in the format of standard microscope slides. We seek to maximize cost effectiveness by reducing consumption of expensive reagents and valuable samples, and through the low manufacturing costs associated with our technologies. Our ability to vary the size, shape and format of the well patterns and to create specific bead pools, or sensors, for different applications provides the flexibility to address multiple markets and market segments. We believe that these features have enabled our BeadArray technology to become a leading platform for the emerging high-growth market of SNP genotyping and expect they will enable us to become a key player in the gene expression market.

Our proprietary BeadArray technology combines microwells etched into a substrate and specially prepared beads that self-assemble into an array. We have deployed our BeadArray technology in two different array formats, the Array Matrix and the BeadChip. Our first bead-based product was the Array Matrix which incorporates fiber optic bundles. The fiber optic bundles, which we cut into lengths of less than one inch, are manufactured to our specifications. Each bundle is comprised of approximately 50,000 individual fibers and 96 of these bundles are placed into an aluminum plate, which forms an Array Matrix. BeadChips are fabricated in microscope slide-shaped sizes with varying numbers of sample sites per slide. Both formats are chemically etched to create tens to hundreds of thousands of wells for each sample site.

In a separate process, we create sensors by affixing a specific type of molecule to each of the billions of microscopic beads in a batch. We make different batches of beads, with the beads in a given batch coated with one particular type of molecule. The particular molecules on a bead define that bead's function as a sensor. For example, we create a batch of SNP sensors by attaching a particular DNA sequence, or oligo, to each bead in the batch. We combine batches of coated beads to form a pool specific to the type of array we intend to create. A bead pool one milliliter in volume contains sufficient beads to produce thousands of arrays.

To form an array, a pool of coated beads is brought into contact with the array surface where they are randomly drawn into the wells, one bead per well. The tens of thousands of beads in the wells comprise our individual arrays. Because the beads assemble randomly into the wells, we perform a final procedure called 'decoding' in order to determine which bead type occupies which well in the array. We employ several proprietary methods for decoding, a process that requires only a few steps to identify all the beads in the array. One beneficial by-product of the decoding process is a validation of each bead in the array. This quality control test characterizes the performance of each bead and can identify and eliminate use of any empty wells. We ensure that each bead type on the array is sufficiently represented by including multiple copies of each bead type. Multiple bead type copies improve the reliability and accuracy of the resulting data by allowing statistical processing of the results of identical beads. We believe we are the only microarray company to provide this level of quality control in the industry.

ILLUM-2211

An experiment is performed by preparing a sample, such as DNA from a patient, and introducing it to the array. The design features of our Array Matrix allow it to be simply dipped into a solution containing the sample, whereas our BeadChip allows processing of samples on a slide-sized platform. The molecules in the sample bind to their matching molecules on the coated bead. These molecules in either the sample or on the bead are labeled with a fluorescent dye either before or after the binding. The BeadArray Reader detects the fluorescent dye by shining a laser on the fiber optic bundle or on the BeadChip. This allows the detection of the molecules resulting in a quantitative analysis of the sample.

VeraCode Technology

The BeadArray technology is most effective in applications which require mid- to high levels of multiplexing from low to high levels of throughput. Multiplexing refers to the number of individual pieces of information that are simultaneously extracted from one sample. We believe the molecular diagnostics market will require systems which are extremely high throughput and cost effective in the mid- to low-multiplex range. To address this market, we acquired the VeraCode technology through our acquisition of CyVera Corporation in April 2005. Based on digitally encoded microbeads, VeraCode enables low-cost multiplexing from 1 to 384-plex in a single well. We plan to implement the VeraCode technology using our newly designed BeadXpress system and our existing assays. We believe that this system will enable lower multiplex genotyping, gene expression and protein based assays. In the research market, we expect our customers to utilize our BeadArray technology for their higher multiplex projects and then move to our BeadXpress system for their lower multiplex projects utilizing the same assays. Additionally, we believe that the cost and multiplex advantages of the BeadXpress system using our VeraCode technology will be welcomed in the molecular diagnostics market. We expect to launch the BeadXpress system during the first quarter of 2007, along with several assays for the system.

Oligator Technology

Genomic applications require many different short pieces of DNA that can be made synthetically, called oligos. We have developed our proprietary Oligator technology for the parallel synthesis of many different oligos to meet the requirements of large-scale genomics applications. We believe that our Oligator technology is substantially more cost effective and provides significantly higher throughput than available commercial alternatives. Our synthesis machines are computer controlled and utilize many robotic processes to minimize the amount of labor used in the manufacturing process. In 2005, we implemented our fourth-generation Oligator technology, which is capable of manufacturing over 13,000 different oligos per run. This is an improvement over prior generations of technology where we could only manufacture approximately 3,000 oligos per run. This increase in scale was necessary to enable us to support the manufacture of oligos under our collaboration with Invitrogen as well as to support our increased internal need for oligos, a critical component of our BeadArray technology, for product sales and new product development.

Sequencing Technology

Our DNA sequencing technology, acquired as part of the Solexa merger which was completed on January 26, 2007, is based on use of our sequencing-by-synthesis (SBS) biochemistry. In SBS, single stranded DNA is extended from a priming site, one base at a time, using reversible terminator nucleotides. These are DNA bases which can be added to a growing second strand, but which initially cannot be further extended. This means that at each cycle of the chemistry, only one base can be added. Each base which is added includes a fluorescent label which is specific to the particular base. Thus following incorporation, the fluorescence can be imaged, its color determined, and the base itself can be inferred. Once this is done, an additional step removes both the fluorescence and the block that had prevented further extension of the second strand. This allows another base to be added, and the cycle can be repeated. We have shown data in which this cycle is repeated up to 50 times, thus determining DNA sequences which are up to 50 bases long. This may well increase in the future as we further develop this technology. The reversible terminator bases which we use are novel synthetic molecules which we manufacture. They are not well incorporated by naturally occurring polymerases, so we have also developed proprietary enzymes for this purpose. Both the nucleotides and enzymes are the subject of significant intellectual property.

In our DNA sequencing systems, we apply the SBS biochemistry on microscopic islands of DNA. These are called DNA clusters. Each cluster starts as a single DNA molecule, typically a few hundred bases long, attached to the inside surface of a flow cell. We then use a proprietary amplification biochemistry to create copies of each starting molecule. As the copies are made, they are covalently linked to the surface, so they cannot diffuse away. After a number of cycles of amplification, each cluster might have 500 to 1,000 copies of the original starting molecule, but still be only about a micron (one-millionth of a meter) in diameter. By making so many copies, the fluorescent signal from each cluster is significantly increased. Because the clusters are so small though, tens of millions of clusters can be independently formed inside a single flow cell. This large number of clusters can then be sequenced simultaneously, by alternate cycles of SBS biochemistry and electronic imaging.

Key Advantages of Our Technology

We believe that our technology provides distinct advantages, in a variety of applications, over competing technologies, by creating cost-effective, highly miniaturized arrays with the following characteristics:

High Throughput. The miniaturization of our BeadArray technology provides very high information content per unit area. To increase sample throughput, we have formatted our array matrix in a pattern arranged to match the wells of standard microtiter plates, allowing throughput levels of up to nearly 150,000 unique assays per microtiter plate, and we use laboratory robotics to speed process time. Similarly, we have patterned our whole-genome expression BeadChips to support up to 48,000 gene expression assays for six samples with each BeadChip, and our whole-genome genotyping BeadChips to support up to 650,000 genotypes with each BeadChip. Our Infinium and GoldenGate assays are supported by full automation and LIMS to address high throughput laboratories. Our Illumina Genome Analyzer can analyze the DNA sequences of tens of millions of clusters at one time.

Cost Effectiveness. Our array products substantially reduce the cost of our customers' experiments as a result of our proprietary manufacturing process and our ability to capitalize on cost reductions generated by advances in fiber optics, plasma etching processes, digital imaging and bead chemistry. In addition, our products require smaller reagent volumes than other array technologies, thereby reducing reagent costs for our customers. Our Oligator technology further reduces reagent costs, as well as reducing our cost of coating beads used in our BeadArray and VeraCode technologies. We expect the Illumina Genome Analyzer to allow DNA sequencing at 1/100th of the cost of conventional capillary instruments.

Flexibility. We are able to offer flexible solutions to our customers based on our ability to attach different kinds of molecules, including DNA, RNA, proteins and other chemicals, to our beads. In addition, we can have BeadChips manufactured in multiple shapes and sizes with wells organized in various arrangements to optimize them for different markets and market segments. In combination, the use of beads and etched wells provides the flexibility and scalability for our BeadArray technology to be tailored to perform many applications in many different market segments, from drug discovery to diagnostics. Our Oligator technology allows us to manufacture a wide diversity of lengths and quantities of oligos. DNA sequences determined with our Illumina Genome Analyzer can also be used to identify larger DNA or RNA molecules from which the sequences have been derived, which leads to a series of applications based on tag sequencing, including digital gene expression analysis and microRNA discovery and quantification.

Quality and Reproducibility. The quality of our products is dependent upon each element in the system — the array, the assay used to perform the experiment and the instrumentation and software used to capture the results. Each array is manufactured with a high density of beads, which enables us to have multiple copies of each individual bead type. We measure the copies simultaneously and combine them into one data point. This allows us to make a comparison of each bead against its own population of identical beads, which permits the statistical calculation of a more reliable and accurate value for each data point. Finally, the manufacture of the array includes a proprietary decoding step that also functions as a quality control test of every bead on every array, improving the overall quality of the data. When we develop the assays used with our products, we focus on performance, cost and ease of use. By developing assays that are easy to use, we can reduce the potential for the introduction of error into the experiment. We believe that this enables researchers to obtain high quality and reproducible data from their experiments. Additionally, we manufacture substantially all of the reagents used in our assays, allowing us to control the quality of the product delivered to the customer.

Our Strategy

Our goal is to make our BeadArray, BeadXpress and Illumina Genome Analyzer platforms the industry standard for products and services addressing the genetic analysis markets. We plan to achieve this by:

- focusing on emerging high-growth markets;
- rapidly commercializing our BeadLab, BeadStation, BeadXpress, Illumina Genome Analyzer, Array Matrix and BeadChip products;
- expanding our technologies into multiple product lines, applications and market segments; and
- strengthening our technological leadership.

Products and Services

The first implementation of our BeadArray technology, the Array Matrix, is a disposable matrix with 96 fiber optic bundles arranged in a pattern that matches the standard 96-well microtiter plate. Each fiber optic bundle performs more than 1,500 unique assays. The BeadChip, introduced in 2003, is fabricated in multiple configurations to support multiple applications and scanning technologies.

We have provided genotyping services using our proprietary BeadArray technology since 2001. In addition, we have developed our first genotyping and gene expression products based on this technology. These products include disposable Array Matrices and BeadChips, GoldenGate and Infinium reagent kits for SNP genotyping, BeadArray Reader scanning instruments and an evolving portfolio of custom and standard gene expression products.

SNP Genotyping

In 2001, we introduced the first commercial application of our BeadArray technology by launching our SNP genotyping services product line. Since this launch, we have had peak days in which we operated at over 60 million genotypes per day. To our knowledge, no other genotyping platform can achieve comparable levels of throughput while delivering such high accuracy and low cost.

We designed our first consumable BeadArray product, the Array Matrix, for SNP genotyping. The Array Matrix uses a universal format that allows it to analyze any set of SNPs. We have also developed reagent kits based on GoldenGate assay protocols and the BeadArray Reader, a laser scanner, which is used to read our array products.

Depending on throughput and automation requirements, our customers can select the system configuration to best meet their needs. For production-scale throughput, our BeadLab would be appropriate, and for moderate-scale throughput, our BeadStation would be selected. Our BeadLab includes our BeadArray Reader, combined with LIMS, standard operating procedures and analytical software and fluid handling robotics. This production-scale system was commercialized in late 2002 and when installed, this system can routinely produce millions of genotypes per day.

The BeadStation, a system for performing moderate-scale genotyping designed to match the throughput requirements of individual research groups and core labs, was commercialized in late 2003. The BeadStation includes our BeadArray Reader and genotyping and/or gene expression analysis software. Multiple BeadStations can be configured to achieve different levels of desired throughput and are fully upgradeable to a full BeadLab through various steps that add automation, sample preparation equipment and LIMS capability.

In 2003, we announced the availability of an assay set for genetic linkage analysis. This standard product has been deployed in our genotyping services operation and is also sold to customers who use our SNP genotyping systems. Genetic linkage analysis can help identify chromosomal regions with potential disease associations across a related set of samples.

In 2005, we announced the introduction of the Major Histocompatability Complex (MHC) Panel Set, which allows the interrogation of a difficult-to-assay area of the genome, often associated with autoimmune diseases. In addition, we announced the introduction of Mouse-6 and MouseRef-8 Gene Expression BeadChip allowing the study of the levels of gene expression in mouse model.

In 2005, we commenced shipping the Sentrix Human-1 Genotyping BeadChip for whole-genome genotyping. This BeadChip provides to scientists the ability to interrogate over 100,000 SNPs located in high-value genetic regions of the human genome. Also, in the fourth quarter of 2005, we began shipping the new Sentrix HumanHap300 Genotyping BeadChip to customers around the world. Using the Infinium assay, which enables us to select virtually any SNP in the genome, the HumanHap300 BeadChip allows analysis of more than 317,000 SNPs. We selected the SNPs for inclusion on the chip in collaboration with a consortium of scientists that are leaders in the genotyping field. We believe this product's quality and performance support our expectation that it will become an important discovery tool for researchers seeking to understand the genetic basis of common yet complex diseases.

In 2006, we introduced several new SNP genotyping products, including:

- *Sentrix HumanHap240S BeadChip.* The HumanHap240S BeadChip is a companion to our Sentrix HumanHap300 BeadChip for genome-wide disease association studies that enables researchers to interrogate an additional 240,000 SNPs utilizing our Infinium assay. We began shipment of this product in the first quarter of 2006.

- *Sentrix HumanHap550 BeadChip.* The HumanHap550 BeadChip contains over 550,000 SNPs on a single microarray. We began shipment of this product in the second quarter of 2006.

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- *Sentrix HumanHap650Y BeadChip.* The HumanHap650Y BeadChip contains over 650,000 SNP markers on a single microarray, which we believe provides the most comprehensive genomic coverage and highest data quality of any whole-genome genotyping product currently available. We began shipment of this product in the third quarter of 2006.

- *Sentrix HumanHap550+ BeadChip.* The HumanHap550+ BeadChip allows customers to add up to 120,000 custom SNP markers to supplement the standard content provided on the existing Sentrix HumanHap550 BeadChip, yielding up to 670,000 markers for association studies.

- *iSelect Infinium genotyping products.* The iSelect Infinium genotyping product line is used for focused content applications. Customers can create a custom array of up to 60,000 SNP markers per sample with 12 samples per chip. We began shipment of these products in the third quarter of 2006.

- *HumanHap300-Duo and the Human Hap300-Duo+ Genotyping BeadChips.* The HumanHap300-Duo allows researchers to analyze two samples simultaneously, with over 634,000 total tag SNPs on a single BeadChip. The HumanHap300-Duo+ allows for the addition of 60,000 custom SNP loci to the base product, enabling researchers to enrich that product with SNPs of interest in any genomic region. We began shipment of the HumanHap300-Duo in the fourth quarter of 2006.

- *RatRef-12 Expression BeadChip.* The RatRef-12 Expression BeadChip enables analysis of 12 samples in parallel on a single BeadChip. Content for this BeadChip is derived from the NCBI RefSeq database (Release 16), with over 22,000 rat transcripts represented. We began shipment of this product in the fourth quarter of 2006.

Through an application called Copy Number Polymorphisms, the HumanHap family of BeadChips also provides high-resolution information on amplifications, deletions and loss of heterozygosity throughout the genome, abnormalities common in cancers and congenital diseases. In addition, we announced additional standard panels in the first quarter of 2006, including mouse linkage and cancer panels.

Gene Expression Profiling

With the addition of application specific accessory kits, our production-scale BeadLabs and BeadStations are capable of performing a growing number of applications, including gene expression profiling.

In 2003, we introduced our focused set gene expression products on both the Array Matrix and BeadChip platforms. Our system includes a BeadArray Reader for imaging Array Matrices and BeadChips, a hybridization chamber and software for data extraction. In addition, we have developed standard gene expression products for each of the human, mouse and arabidopsis genomes with an additional panel that focuses on human toxicology.

In 2005, we began shipment of the Human-6 and HumanRef-8 Expression BeadChip products. Both products allow large-scale expression profiling of multiple samples on a single chip and are imaged using our BeadArray Reader. The Human-6 BeadChip is designed to analyze six discrete whole-human-genome samples on one chip, interrogating in each sample approximately 48,000 transcripts from the estimated 30,000 genes in the human genome. The HumanRef-8 BeadChip product analyzes eight samples in parallel against 24,000 transcripts from the roughly 22,000 genes represented in the consensus RefSeq database, a well-characterized whole-genome subset used broadly in genetic analysis. We expect that these gene expression BeadChips will dramatically reduce the cost of whole-genome expression analysis, allowing researchers to expand the scale and reproducibility of large-scale biological experimentation. In 2006, we began shipment of the RatRef-12, which analyzes twelve samples in parallel against 22,226 transcripts from the roughly 21,910 genes represented in the RefSeq database, release 16.

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Scanning Instrumentation

The BeadArray Reader, an instrument we developed, is a key component of both our production-scale BeadLab and our benchtop BeadStation. This scanning equipment uses a laser to read the results of experiments that are captured on our arrays and was designed to be used in all areas of genetic analysis that use our Array Matrices and BeadChips. In the second quarter of 2006, we began shipment of the AutoLoader, which automates BeadChip loading and scanning and increases lab throughput. The Autoloader is designed to support up to two BeadArray Readers simultaneously for unattended operation.

High-Throughput Oligo Synthesis

We have put in place a state-of-the-art oligo manufacturing facility. This facility serves both the commercial needs under our collaboration with Invitrogen and our internal needs. In addition to their use to coat beads, these oligos are components of the reagent kits for our BeadArray products and are used for assay development. We manufacture oligos in a wide range of lengths and in several scales, with the ability to add many types of modifications. We offer a range of quality control options and have implemented a laboratory information management system to control much of the manufacturing process. In 2005, we stopped selling oligos directly into the market and began shipping oligos under our collaboration with Invitrogen.

Our Collaborative Partners

Invitrogen Corporation

In December 2004, we entered into a strategic collaboration with Invitrogen. The goal of the collaboration is to combine our expertise in oligo manufacturing with the sales, marketing and distribution capabilities of Invitrogen. In connection with the collaboration, we have developed the next generation Oligator DNA synthesis technology. This technology includes both plate-and tube-based capabilities. Under the terms of the agreement, Invitrogen paid us an upfront non-refundable collaboration payment of $2.3 million in the first quarter of 2005. Additionally, upon the achievement of a certain milestone, Invitrogen was obligated to make a milestone payment of $1.1 million to us. During 2005, this milestone was achieved and the milestone payment was received. We used these funds to invest in our San Diego facility to enable the development and implementation of fourth-generation Oligator technology and to extend the technology into the larger market for tube-based oligo products. We began manufacturing and shipping the plate-based and certain tube-based oligo products under the collaboration in the third quarter of 2005. In addition, the agreement provides for the transfer of our Oligator technology into two Invitrogen facilities outside North America. Collaboration profit from the sale of collaboration products is divided equally between the two companies.

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deCODE genetics

In May 2006, we executed a Joint Development and Licensing Agreement (the Development Agreement) with deCODE genetics, ehf. (deCODE). Pursuant to the Development Agreement, the parties agreed to collaborate exclusively to develop, validate and commercialize specific diagnostic tests for variants in genes involved in three disease-related pathways: the gene-encoding leukotriene A4 hydrolase, linked to heart attack; the gene-encoding transcription factor 7-like 2 (TCF7L2), linked to type 2 diabetes; and the gene-encoding BARD1, linked to breast cancer. With deCODE, we are developing diagnostic tests based on these variants for use on our BeadXpress system. Under the agreement, we will be responsible for the manufacturing, marketing and selling of the diagnostic products. The companies will share the development costs of these products and split the profits from sales of the diagnostics tests. The Development Agreement may be terminated as to a particular product under development if one party decides to discontinue funding the development of that product, and may be terminated in whole by either party if the other party commits an uncured material breach, files for bankruptcy or becomes insolvent. Under a separate supply agreement, we installed instrumentation at deCODE that will enable deCODE to perform whole genome association studies on up to 100,000 samples using the our Sentrix HumanHap300 BeadChips and associated reagents.

Intellectual Property

We have an extensive patent portfolio, including, as of February 1, 2007, ownership of, or exclusive licenses to, 106 issued U.S. patents and 149 pending U.S. patent applications, including five allowed applications that have not yet issued as patents, some of which derive from a common parent application. This portfolio includes patents acquired as part of the Solexa merger on January 26, 2007. Our issued patents, which are directed at various aspects of our array, assay, oligo synthesis, instrument and chemical detection technologies, expire between 2011 and 2024. We are seeking to extend the patents directed at the full range of our technologies. We have received or filed counterparts for many of these patents and applications in one or more foreign countries.

We also rely upon trade secrets, know-how, copyright and trademark protection, as well as continuing technological innovation and licensing opportunities to develop and maintain our competitive position. Our success will depend in part on our ability to obtain patent protection for our products and processes, to preserve our copyrights and trade secrets, to operate without infringing the proprietary rights of third parties and to acquire licenses related to enabling technology or products.

We are party to various exclusive and non-exclusive license agreements with third parties, which grant us rights to use key aspects of our array and sequencing technologies, assay methods, chemical detection methods, reagent kits and scanning equipment. We have exclusive licenses from Tufts University to patents that are directed at our use of BeadArray technology. These patents were filed by Dr. David Walt, a member of our board of directors, the Chairman of our Scientific Advisory Board and one of our founders. Our exclusive licenses expire with the termination of the underlying patents, which will occur between 2010 and 2020. We also have additional nonexclusive licenses from various third parties for other components of our products. In all cases, the agreements remain in effect over the term of the underlying patents, may be terminated at our request without further obligation and require that we pay customary royalties while the agreement is in effect.

Research and Development

We have made substantial investments in research and development since our inception. We have assembled a team of skilled engineers and scientists who are specialists in biology, chemistry, informatics, instrumentation, optical systems, software, manufacturing and other related areas required to complete the development of our products. Our research and development efforts have focused primarily on the tasks required to optimize our BeadArray and Oligator technologies and to support commercialization of the products and services derived from these technologies. As of December 31, 2006, we had a total of 144 employees engaged in research and development activities.

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Our research and development expenses for 2006, 2005 and 2004 (inclusive of charges relating to stock-based compensation of $3.9 million, $0.1 million, and $0.3 million, respectively) were $33.4 million, $27.8 million and $21.5 million, respectively. Compared to 2006, we expect research and development expense to increase in absolute dollars and as a percentage of overall revenue during 2007 as we continue to expand our research and product development efforts, including research and development projects associated with our acquisition of Solexa.

Marketing and Distribution

Our current products address the genetic analysis portion of the life sciences market, in particular, experiments involving sequencing, SNP genotyping and gene expression profiling. These experiments may be involved in many areas of biologic research, including basic human disease research, pharmaceutical drug discovery and development, pharmacogenomics, toxicogenomics and agricultural research. Our potential customers include pharmaceutical, biotechnology, agrichemical, diagnostics and consumer products companies, as well as academic or private research centers. The genetic analysis market is relatively new and emerging and its size and speed of development will be ultimately driven by, among other items:

- the ability of the research community to extract medically valuable information from genomics and to apply that knowledge to multiple areas of disease-related research and treatment;
- the availability of sufficiently low cost, high-throughput research tools to enable the large amount of experimentation required to study genetic variation and biological function; and
- the availability of government and private industry funding to perform the research required to extract medically relevant information from genomic analysis.

We market and distribute our products directly to customers in North America, major European markets, Japan and Singapore. In each of these areas, we have dedicated sales, service and application support personnel responsible for expanding and managing their respective customer bases. In smaller markets in the Pacific Rim countries and Europe, we sell our products and provide services to customers through distributors that specialize in life science products. We expect to significantly increase our sales and distribution resources during 2007 and beyond as we launch a number of new products and expand the number of customers that can use our products.

Manufacturing

We manufacture our array platforms, reagent kits, scanning equipment and oligos in-house. Our manufacturing capacity for BeadChips has increased approximately fourfold over the level as of January 1, 2006. We intend to continue to increase capacity as needed to manufacture our products in sufficient quantity to meet our business plan for 2007. We are focused on continuing to enhance the quality and manufacturing yield of our Array Matrices and BeadChips and are exploring ways to continue increasing the level of automation in the manufacturing process. In addition, we have implemented information management systems for many of our manufacturing and services operations to manage all aspects of material and sample use. We adhere to access and safety standards required by federal, state and local health ordinances, such as standards for the use, handling and disposal of hazardous substances.

We intend to add capacity to manufacture Array Matrices and BeadChips throughout 2007. We currently depend upon outside suppliers for materials used in the manufacture of our products. We intend to continue, and may extend, the outsourcing of portions of our manufacturing process to subcontractors where we determine it is in our best commercial interests.

Competition

Although we expect that our BeadArray products and services will provide significant advantages over currently available products and services, we expect to encounter intense competition from other companies that offer products and services for the SNP genotyping, gene expression and sequencing markets. These include companies such as Affymetrix, Agilent, Amersham Biosciences (acquired by GE Corp. and now named GE Healthcare), Applera Corporation, Applied Biosystems, Beckman Coulter, Caliper Technologies, Luminex, Monogram Biosciences, NimbleGen, Perlegen Sciences, Roche Diagnostics in partnership with 454 Life Sciences, Sequenom and Third Wave Technologies. Some of these companies have or will have substantially greater financial, technical, research, and other resources and larger, more established marketing, sales, distribution and service organizations than we do. In addition, they may have greater name recognition than we do in the markets we need to address and in some cases a large installed base of systems. Each of these markets is very competitive and we expect new competitors to emerge and the intensity of competition to increase in the future. In order to effectively compete with these companies, we will need to demonstrate that our products have superior throughput, cost and accuracy advantages over the existing products. Rapid technological development may result in our products or technologies becoming obsolete. Products offered by us could be made obsolete either by less expensive or more effective products based on similar or other technologies. Although we believe that our technology and products will offer advantages that will enable us to compete effectively with these companies, we cannot assure you that we will be successful.

Segment and Geographic Information

We operate in one business segment, for the development, manufacture and commercialization of tools for genetic analysis. Our operations are treated as one segment as we only report operating results on an aggregate basis to our chief operating decision maker, our Chief Executive Officer.

During 2006, $81.5 million, or 44%, of our total revenue came from shipments to customers outside the United States, compared to $28.0 million, or 38%, in 2005. Sales to territories outside of the United States are generally denominated in U.S. dollars. We expect that sales to international customers will continue to be an important and growing source of revenue. We have sales support resources in Western Europe and direct sales offices in Japan, Singapore and China. In addition, we have distributor relationships in various countries in the Pacific Rim region and Europe.

Seasonality

Historically, customer purchasing patterns have not shown significant seasonal variation, although demand for our products is usually lowest in the first quarter of the calendar year and highest in the third quarter of the calendar year as academic customers spend unused budget allocations before the end of the government's fiscal year.

Environmental Matters

We are dedicated to the protection of our employees and the environment. Our operations require the use of hazardous materials which subject us to a variety of federal, state and local environmental and safety laws and regulations. We believe we are in material compliance with current applicable laws and regulations; however, we could be held liable for damages and fines should contamination of the environment or individual exposures to hazardous substances occur. In addition, we cannot predict how changes in these laws and regulations, or the development of new laws and regulations, will affect our business operations or the cost of compliance.

Employees

As of December 31, 2006, we had a total of 596 employees, 73 of whom hold Ph.D. degrees. 43 of our employees with Ph.D. degrees are engaged in full-time research and development activities. None of our employees are represented by a labor union. We consider our employee relations to be positive.

Executive Officers

Our executive officers as of February 1, 2007, are as follows:

Name	Age	Position
Jay T. Flatley	54	President, Chief Executive Officer and Director
Christian O. Henry	38	Senior Vice President and Chief Financial Officer
Christian G. Cabou	58	Senior Vice President, General Counsel and Secretary
Arthur L. Holden	54	Senior Vice President of Corporate and Market Development
Tristan B. Orpin	40	Senior Vice President of Commercial Operations
John R. Stuelpnagel, DVM	49	Co-Founder, Senior Vice President and General Manager, Microarray Business, Chief Operating Officer and Director
John West	50	Senior Vice President and General Manager of DNA Sequencing

Jay Flatley is President and Chief Executive Officer of Illumina. Prior to his appointment in 1999, Mr. Flatley was the President and Chief Executive Officer of Molecular Dynamics, later acquired by Amersham Pharmacia Biotech in 1998 and now a part of GE Healthcare. Mr. Flatley, who was a founder and member of the board of directors for Molecular Dynamics, lead the company to its initial public offering (IPO) in 1993, in addition to helping the company develop and launch over 15 major instrumentation systems, including the world's first capillary-based DNA sequencer. Prior to joining Molecular Dynamics, Mr. Flatley was Vice President of Engineering and Strategic Planning for Plexus Computers, a manufacturer of high-performance Unix super-microcomputers. Before his career at Plexus, Mr. Flatley was Executive Vice President for Manning Technologies and held various manufacturing positions while working for the Autolab division of Spectra Physics. Mr. Flatley received a bachelor of arts degree in economics from Claremont McKenna College (Claremont, CA) and a bachelor of science and master of science (summa cum laude) in industrial engineering from Stanford University (Stanford, CA). Currently, he serves as a member of the board of directors of both Illumina and GenVault Corporation.

Christian Henry is Senior Vice President and Chief Financial Officer of Illumina. Mr. Henry joined Illumina in June 2005 and is responsible for worldwide financial operations, controllership functions and facilities management. Mr. Henry served previously as the Chief Financial Officer for Tickets.com, a publicly traded, online ticket provider that was recently acquired by Major League Baseball Advanced Media, LP. Prior to that, Mr. Henry was Vice President, Finance and Corporate Controller of Affymetrix, Inc., a publicly traded life sciences company, where he oversaw accounting, planning, SEC and management reporting, and treasury and risk management. He previously held a similar position at Nektar Therapeutics (formerly Inhale Therapeutic Systems, Inc.). Mr. Henry received a bachelor of administration degree in biochemistry and cell biology from the University of California, San Diego, and a master of business administration degree from the University of California, Irvine. He is a certified public accountant.

Christian Cabou is Senior Vice President, General Counsel and Secretary of Illumina. Mr. Cabou joined Illumina in May 2006 and has worldwide responsibility for all legal and intellectual property matters, in addition to being responsible for the Company's human resources function. Mr. Cabou is also Illumina's Code of Ethics Compliance Officer. Before joining Illumina, Mr. Cabou spent five years as General Counsel for GE Global Research and, before that, was Senior Counsel of Global Intellectual Property for GE Medical Systems. Prior to his position at GE, Mr. Cabou spent seven years with the law firm Foley & Lardner where he was a partner. He had twenty years of experience in engineering design and management prior to his career in law and intellectual property. Mr. Cabou received a J.D. from Northwestern University's School of Law (Chicago, IL.) in addition to a master of engineering management degree from Northwestern University. Mr. Cabou was awarded a MSEE (equivalent) degree from the Conservatoire National des Arts et Métiers (Paris, France) and a bachelor of science (equivalent) degree from the Lycée Technique d'Etat (Armentières, France).

Arthur Holden is the Senior Vice President of Corporate and Business Development for Illumina. Mr. Holden joined Illumina in April 2006 and is responsible for leading business development and the development of relationships and partnerships with pharmaceutical firms, large-scale research consortia, and governmental bodies such as the National Institute of Health (NIH) and the Food and Drug Administration (FDA). Mr. Holden was most recently the principal founder, chairman and chief executive officer for First Genetic Trust. Prior to this he was Chairman and Chief Executive Officer of the SNP Consortium, Ltd. and Chief Executive Officer and Director of Celsis International, PLC. From 1983 to 1994 Mr. Holden held various executive positions at Baxter International. A winner of multiple awards, including the Laura Jackson Achievement Award for outstanding leadership in the healthcare industry, the Illinois Technology Innovation & Entrepreneurship award and the STRIVE Entrepreneurial award, Mr. Holden currently serves on a number of commercial and non-profit boards. He is chairman of the Pharmaceutical Biomedical Research and the Serious Adverse Event Consortia. In addition, he is Chairman of the Advisory Board for the Biotechnology Management Program at the J.L. Kellogg Graduate School of Management. He is a director of iBIO and the Illinois Technology Development Alliance. Mr. Holden earned a master of business administration degree from Northwestern University's Kellogg School of Management (Chicago, IL) and a bachelor of science degree from Union College (Schenectady, NY).

Tristan Orpin joined Illumina in December of 2002 in the role of Vice President of Worldwide Sales, and in January of 2007 was promoted to the position of Senior Vice President of Commercial Operations. Before joining Illumina, Mr. Orpin was Director of Sales and Marketing for Sequenom from September 1999 to August 2001. Later Mr. Orpin was elected Vice President of Sales and Marketing and held this position from August 2001 to November 2002. Prior to 2001, Mr. Orpin served in several senior sales and marketing positions at Bio-Rad Laboratories. Mr. Orpin received a bachelor of science in genetics and biochemistry with first class honors from the University of Melbourne (Melbourne, Australia).

John Stuelpnagel, D.V.M., one of Illumina's co-founders, is General Manager for Illumina's Microarray business and Chief Operating Officer. He has served as the Company's Chief Operating Officer since January 2005 and a Director since April 1998. From April 1998 to October 1999, he served as acting President and Chief Executive Officer and from April 1998 to April 2000 as acting Chief Financial Officer. Between October 1999 and January 2005, Dr. Stuelpnagel was Vice President of Business Development and later as Senior Vice President of Operations. While founding Illumina, Dr. Stuelpnagel was an associate with CW Group, a venture capital firm. Dr. Stuelpnagel received both a bachelor of science degree in biochemistry and a doctorate degree in veterinary medicine from the University of California (Davis, CA), and went on to receive a master of business administration degree from the University of California, Los Angeles.

John West is Senior Vice President and General Manager for Illumina's DNA Sequencing business. Mr. West joined Illumina from Solexa, where he was Chief Executive Officer. Before Solexa, he was Vice President of DNA Platforms for Applied Biosystems, Inc. (AB) and was responsible for the company's instrument and reagent products for DNA sequencing, gene expression, genotyping, PCR, and DNA synthesis. His group developed and launched the instruments that now populate virtually all genome sequencing centers worldwide. He also had business responsibility for AB's first gene expression array system, for its real-time PCR instruments, and for its microfluidic PCR products. Previously, Mr. West held a number of senior positions, including President of Princeton Instruments, Inc., President and Founder of BioAutomation, Inc. and Marketing Director for Microfluidics at Microcosm Technologies, Inc. During Mr. West's term at Princeton Instruments, the company introduced the first low light imaging system for single molecule fluorescence — and Solexa, at that time a startup, bought one of the first units. Mr. West received both bachelor of science and master of science degrees in engineering from MIT, and a master of business administration in finance from the Wharton School of Business at the University of Pennsylvania.

ITEM 1A. *Risk Factors.*

Our business is subject to various risks, including those described below. In addition to the other information included in this Form 10-K, the following issues could adversely affect our operating results or our stock price.

Litigation or other proceedings or third party claims of intellectual property infringement could require us to spend significant time and money and could prevent us from selling our products or services or impact our stock price.

Our commercial success depends in part on our non-infringement of the patents or proprietary rights of third parties and on our ability to protect our own intellectual property. As we have previously disclosed, Affymetrix, Inc. filed a complaint against us in July 2004, alleging infringement of six of its patents.

On June 30, 2006, the court dismissed a patent Affymetrix had sought to withdraw from its suit leaving five patents being asserted against us. On August 16, 2006, the court issued a ruling on the claim construction hearing that it had held on April 20, 2006 as part of this litigation. We believe the court's mixed ruling interpreted certain claim terms in our favor, and did not adversely impact our defenses and counterclaims which are still pending. At the request of both parties, trial has been rescheduled to March 5, 2007 from October 16, 2006. A pre-trial conference was held on February 8, 2007 during which the court established a multi-phase trial structure with the first phase of the trial to begin on March 5, 2007, and addressed related issues. Any adverse ruling or perception of an adverse ruling throughout these proceedings may have an adverse impact on our stock price, and such impact may be disproportionate to the actual import of the ruling itself.

Third parties, including Affymetrix, have asserted or may assert that we are employing their proprietary technology without authorization. As we enter new markets, we expect that competitors will likely assert that our products infringe their intellectual property rights as part of a business strategy to impede our successful entry into those markets. In addition, third parties may have obtained and may in the future obtain patents allowing them to claim that the use of our technologies infringes these patents. We could incur substantial costs and divert the attention of our management and technical personnel in defending ourselves against any of these claims. Furthermore, parties making claims against us may be able to obtain injunctive or other relief, which effectively could block our ability to develop further, commercialize and sell products, and could result in the award of substantial damages against us. In the event of a successful claim of infringement against us, we may be required to pay damages and obtain one or more licenses from third parties, or be prohibited from selling certain products. We may not be able to obtain these licenses at a reasonable cost, if at all. We could therefore incur substantial costs related to royalty payments for licenses obtained from third parties, which could negatively affect our gross margins. In addition, we could encounter delays in product introductions while we attempt to develop alternative methods or products. Defense of any lawsuit or failure to obtain any of these licenses on favorable terms could prevent us from commercializing products, and the prohibition of sale of any of our products could materially affect our ability to grow and maintain profitability.

We expect intense competition in our target markets, which could render our products obsolete, result in significant price reductions or substantially limit the volume of products that we sell. This would limit our ability to compete and maintain profitability. If we cannot continuously develop and commercialize new products, our revenue may not grow as intended.

We compete with life sciences companies that design, manufacture and market instruments for analysis of genetic variation and biological function and other applications using technologies such as two-dimensional electrophoresis, capillary electrophoresis, mass spectrometry, flow cytometry, microfluidics, nanotechnology, next-generation DNA sequencing and mechanically deposited, inkjet and photolithographic arrays. We anticipate that we will face increased competition in the future as existing companies develop new or improved products and as new companies enter the market with new technologies. The markets for our products are characterized by rapidly changing technology, evolving industry standards, changes in customer needs, emerging competition, new product introductions and strong price competition. For example, prices per data point for genotyping have fallen significantly over the last two years and we anticipate that prices will continue to fall. One or more of our competitors may render our technology obsolete or uneconomical. Some of our competitors have greater financial and personnel resources, broader product lines, a more established customer base and more experience in research and development than we do. Furthermore, life sciences and pharmaceutical companies, which are our potential customers and strategic partners, could develop competing products. If we are unable to develop enhancements to our technology and rapidly deploy new product offerings, our business, financial condition and results of operations will suffer.

Any inability to adequately protect our proprietary technologies could harm our competitive position.

Our success will depend in part on our ability to obtain patents and maintain adequate protection of our intellectual property in the United States and other countries. If we do not protect our intellectual property adequately, competitors may be able to use our technologies and thereby erode our competitive advantage. The laws of some foreign countries do not protect proprietary rights to the same extent as the laws of the United States, and many companies have encountered significant challenges in protecting their proprietary rights abroad. These challenges can be caused by the absence of rules and methods for the establishment and enforcement of intellectual property rights abroad.

The patent positions of companies developing tools for the life sciences and pharmaceutical industries, including our patent position, generally are uncertain and involve complex legal and factual questions. We will be able to protect our proprietary rights from unauthorized use by third parties only to the extent that our proprietary technologies are covered by valid and enforceable patents or are effectively maintained as trade secrets. We intend to apply for patents covering our technologies and products, as we deem appropriate. However, our patent applications may be challenged and may not result in issued patents or may be invalidated or narrowed in scope after they are issued. Questions as to inventorship may also arise. For example, in June 2005, a former employee filed a complaint against us, claiming he is entitled to be named as joint inventor of certain of our U.S. patents and pending U.S. and foreign patent applications, and seeking a judgment that the related patents and applications are unenforceable. Any finding that our patents and applications are unenforceable could harm our ability to prevent others from practicing the related technology, and a finding that others have inventorship rights to our patents and applications could require us to obtain certain rights to practice related technologies, which may not be available on favorable terms, if at all.

In addition, our existing patents and any future patents we obtain may not be sufficiently broad to prevent others from practicing our technologies or from developing competing products. There also is risk that others may independently develop similar or alternative technologies or design around our patented technologies. Also, our patents may fail to provide us with any competitive advantage. We may need to initiate additional lawsuits to protect or enforce our patents, or litigate against third party claims, which would be expensive and, if we lose, may cause us to lose some of our intellectual property rights and reduce our ability to compete in the marketplace. Furthermore, these lawsuits may divert the attention of our management and technical personnel.

We also rely upon trade secret protection for our confidential and proprietary information. We have taken security measures to protect our confidential information. These measures, however, may not provide adequate protection for our trade secrets or other confidential information. Among other things, we seek to protect our trade secrets and confidential information by entering into confidentiality agreements with employees, collaborators and consultants. Nevertheless, employees, collaborators or consultants may still disclose our confidential information, and we may not otherwise be able to effectively protect our trade secrets. Accordingly, others may gain access to our confidential information, or may independently develop substantially equivalent information or techniques.

If we are unable to develop and maintain operation of our manufacturing capability, we may not be able to launch or support our products in a timely manner, or at all.

We currently possess limited facilities capable of manufacturing our principle products and services for both sale to our customers and internal use. If a natural disaster were to significantly damage our facility or if other events were to cause our operations to fail, these events could prevent us from developing and manufacturing our products and services. Also, many of our manufacturing processes are automated and are controlled by our custom-designed Laboratory Information Management System (LIMS). Additionally, as part of the decoding step in our array manufacturing process, we record several images of each array to identify what bead is in each location on the array and to validate each bead in the array. This requires significant network and storage infrastructure. If either our LIMS system or our networks or storage infrastructure were to fail for an extended period of time, it would adversely impact our ability to manufacture our products on a timely basis and may prevent us from achieving our expected shipments in any given period.

Our manufacturing capacity may limit our ability to sell our products.

We continue to ramp up our capacity to meet our anticipated demand for our products. Although we have significantly increased our manufacturing capacity and we believe that we have sufficient plans in place to ensure we have adequate capacity to meet our business plan in 2007 and 2008, there are uncertainties inherent in expanding our manufacturing capabilities and we may not be able to increase our capacity in a timely manner. For example, manufacturing and product quality issues may arise as we increase production rates at our manufacturing facility and launch new products. As a result, we may experience difficulties in meeting customer, collaborator and internal demand, in which case we could lose customers or be required to delay new product introductions, and demand for our products could decline. Additionally, in the past, we have experienced variations in manufacturing conditions that have temporarily reduced production yields. Due to the intricate nature of manufacturing products that contain DNA, we may encounter similar or previously unknown manufacturing difficulties in the future that could significantly reduce production yields, impact our ability to launch or sell these products, or to produce them economically, prevent us from achieving expected performance levels or cause us to set prices that hinder wide adoption by customers.

If we are unable to find third-party manufacturers to manufacture components of our products, we may not be able to launch or support our products in a timely manner, or at all.

The nature of our products requires customized components that currently are available from a limited number of sources. For example, we currently obtain the fiber optic bundles and BeadChip slides included in our products from single vendors. If we are unable to secure a sufficient supply of those or other product components, we will be unable to meet demand for our products. We may need to enter into contractual relationships with manufacturers for commercial-scale production of some of our products, or develop these capabilities internally, and we cannot assure you that we will be able to do this on a timely basis, for sufficient quantities or on commercially reasonable terms. Accordingly, we may not be able to establish or maintain reliable, high-volume manufacturing at commercially reasonable costs.

We may encounter difficulties in integrating acquisitions that could adversely affect our business.

We acquired Solexa in January 2007 and CyVera Corporation in April 2005 and we may in the future acquire technology, products or businesses related to our current or future business. We have limited experience in acquisition activities and may have to devote substantial time and resources in order to complete acquisitions. Further, these potential acquisitions entail risks, uncertainties and potential disruptions to our business. For example, we may not be able to successfully integrate a company's operations, technologies, products and services, information systems and personnel into our business. An acquisition may further strain our existing financial and managerial resources, and divert management's attention away from our other business concerns. In connection with these acquisitions, we assumed certain liabilities and hired certain employees, which is expected to continue to result in an increase in our research and development expenses and capital expenditures. There may also be unanticipated costs and liabilities associated with an acquisition that could adversely affect our operating results. To finance any acquisitions, we may choose to issue shares of our common stock as consideration, which would result in dilution to our stockholders. Additionally, an acquisition may have a substantial negative impact on near-term expected financial results.

The success of the Solexa merger will depend, in part, on our ability to realize the anticipated synergies, growth opportunities and cost savings from integrating Solexa's businesses with our businesses. Our success in realizing these benefits and the timing of this realization depend upon the successful integration of the operations of Solexa. The integration of two independent companies is a complex, costly and time-consuming process. The difficulties of combining the operations of the companies include, among other factors:

- lost sales and customers as a result of certain customers of either of the two companies deciding not to do business with the combined company;

- complexities associated with managing the combined businesses;
- integrating personnel from diverse corporate cultures while maintaining focus on providing consistent, high quality products and customer service;
- coordinating geographically separated organizations, systems and facilities;
- potential unknown liabilities and unforeseen increased expenses or delays associated with the merger; and
- performance shortfalls at one or both of the companies as a result of the diversion of management's attention to the merger.

If we are unable to successfully combine the businesses in a manner that permits the combined company to achieve the cost savings and operating synergies anticipated to result from the merger, such anticipated benefits of the merger may not be realized fully or at all or may take longer to realize than expected. In addition, we and Solexa have operated and will continue to operate independently. It is possible that the integration process could result in the loss of key employees, diversion of each company's management's attention, the disruption or interruption of, or the loss of momentum in, each company's ongoing businesses or inconsistencies in standards, controls, procedures and policies, any of which could adversely affect our ability to maintain relationships with customers and employees or our ability to achieve the anticipated benefits of the merger, or could reduce our earnings or otherwise adversely affect the business and financial results of the combined company.

The combined company may fail to realize the anticipated benefits of the merger as a result of our failure to achieve anticipated revenue growth following the merger.

Solexa's business faces significant risks. These risks include the fact that Solexa's technology is at the development stage and, although Solexa has accepted orders for its Genome Analyzer and has shipped and installed those systems, Solexa has not completed performance specifications for those systems and has not invoiced customers for them. There can be no assurance it will be able to do so. These risks also include those described under the caption "Risk Factors" of Solexa's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission for the quarterly period ended September 30, 2006, and may include additional risks of which we are not currently aware or which we currently do not believe are material. If any of the events or circumstances underlying these risks actually occur, Solexa's business, financial condition or results of operations could be harmed and, as a result, Solexa may, among other things, fail to achieve the anticipated revenue growth following the merger.

The merger will cause dilution of Illumina's earnings per share.

The merger and the transactions contemplated by the merger agreement are expected to have a dilutive effect on our earnings per share at least through 2007 due to losses of Solexa, the additional shares of Illumina common stock that were issued in the merger, the transaction and integration-related costs and other factors such as the potential failure to realize any benefit from synergies anticipated in the merger. These factors could adversely affect the market price of our common stock.

Solexa had a material weakness in its internal controls over financial reporting as of December 31, 2005. If additional material weaknesses are identified in the future, current and potential stockholders could lose confidence in our consolidated financial reporting, which could harm our business and the trading of our common stock.

As of December 31, 2005, Solexa did not maintain effective control over the application of GAAP related to the financial reporting process. This control deficiency resulted in numerous adjustments being required to bring Solexa's financial statements into compliance with GAAP. Additionally, this deficiency could have resulted in material misstatement of the annual or interim consolidated financial statements that would not be prevented or detected. Accordingly, Solexa's management determined that this control deficiency constituted a material weakness. Because of this material weakness, Solexa's management concluded that, as of December 31, 2005, it did not maintain effective internal control over financial reporting based on those criteria. Should we, or our independent registered public accounting firm, determine in future fiscal periods that there are material weaknesses in our consolidated internal controls over financial reporting (including Solexa), the reliability of our financial reports may be impacted, and our results of operations or financial condition may be harmed and the price of our common stock may decline.

We expect that our results of operations will fluctuate. This fluctuation could cause our stock price to decline.

Our revenue is subject to fluctuations due to the timing of sales of high-value products and services projects, the impact of seasonal spending patterns, the timing and size of research projects our customers perform, changes in overall spending levels in the life sciences industry, and other unpredictable factors that may affect customer ordering patterns. Given the difficulty in predicting the timing and magnitude of sales for our products and services, we may experience quarter-to-quarter fluctuations in revenue resulting in the potential for a sequential decline in quarterly revenue. A large portion of our expenses are relatively fixed, including expenses for facilities, equipment and personnel. In addition, we expect operating expenses to continue to increase significantly. Accordingly, if revenue does not grow as anticipated, we may not be able to maintain annual profitability. Any significant delays in the commercial launch of our products, unfavorable sales trends in our existing product lines, or impacts from the other factors mentioned above, could adversely affect our future revenue growth or cause a sequential decline in quarterly revenue. Due to the possibility of fluctuations in our revenue and expenses, we believe that quarterly comparisons of our operating results are not a good indication of our future performance. If our operating results fluctuate or do not meet the expectations of stock market analysts and investors, our stock price could decline.

We have a limited history of commercial sales of systems and consumable products, and our success depends on our ability to develop commercially successful products and on market acceptance of our new and relatively unproven technologies.

We may not possess all of the resources, capability and intellectual property necessary to develop and commercialize all the products or services that may result from our technologies. Sales of our genotyping and gene expression systems only began in 2003, and some of our other technologies are in the early stages of commercialization or are still in development. You should evaluate us in light of the uncertainties and complexities affecting similarly situated companies developing tools for the life sciences and pharmaceutical industries. We must conduct a substantial amount of additional research and development before some of our products will be ready for sale, and we currently have fewer resources available for research and development activities than some of our competitors. We may not be able to develop or launch new products in a timely manner, or at all, or they may not meet customer requirements or be of sufficient quality or at a price that enables us to compete effectively in the marketplace. Problems frequently encountered in connection with the development or early commercialization of products and services using new and relatively unproven technologies might limit our ability to develop and successfully commercialize these products and services. In addition, we may need to enter into agreements to obtain intellectual property necessary to commercialize some of our products or services, which may not be available on favorable terms, or at all.

Historically, life sciences and pharmaceutical companies have analyzed genetic variation and biological function using a variety of technologies. In order to be successful, our products must meet the commercial requirements of the life sciences and pharmaceutical industries as tools for the large-scale analysis of genetic variation and biological function.

Market acceptance will depend on many factors, including:

- our ability to demonstrate to potential customers the benefits and cost effectiveness of our products and services relative to others available in the market;
- the extent and effectiveness of our efforts to market, sell and distribute our products;
- our ability to manufacture products in sufficient quantities with acceptable quality and reliability and at an acceptable cost;
- the willingness and ability of customers to adopt new technologies requiring capital investments; and
- the extended time lag and sales expenses involved between the time a potential customer is contacted on a possible sale of our products and services and the time the sale is consummated or rejected by the customer.

Our sales, marketing and technical support organization may limit our ability to sell our products.

We currently have fewer resources available for sales and marketing and technical support services compared to some of our primary competitors. In order to effectively commercialize our sequencing, genotyping and gene expression systems and other products to follow, we will need to expand our sales, marketing and technical support staff both domestically and internationally. We may not be successful in establishing or maintaining either a direct sales force or distribution arrangements to market our products and services. In addition, we compete primarily with much larger companies that have larger sales and distribution staffs and a significant installed base of products in place, and the efforts from a limited sales and marketing force may not be sufficient to build the market acceptance of our products required to support continued growth of our business.

We have only recently achieved annual operating profitability.

Prior to 2006, we had incurred net losses each year since our inception. As of December 31, 2006, our accumulated deficit was $104.6 million. Our ability to sustain annual profitability will depend, in part, on the rate of growth, if any, of our revenue and on the level of our expenses. SFAS No. 123R is also likely to adversely affect our future profitability. We expect to continue incurring significant expenses related to research and development, sales and marketing efforts to commercialize our products and the continued development of our manufacturing capabilities. In addition, we expect that our research and development and selling and marketing expenses will increase at a higher rate in the future as a result of the development and launch of new products. Even if we maintain profitability, we may not be able to increase profitability on a quarterly basis.

We may encounter difficulties in managing our growth. These difficulties could impair our profitability.

We have experienced, and we may expect to continue to experience rapid and substantial growth in order to achieve our operating plans, which will place a strain on our human and capital resources. If we are unable to manage this growth effectively, our profitability could suffer. Our ability to manage our operations and growth effectively requires us to continue to expend funds to enhance our operational, financial and management controls, reporting systems and procedures and to attract and retain sufficient numbers of talented employees. If we are unable to scale up and implement improvements to our manufacturing process and control systems in an efficient or timely manner, or if we encounter deficiencies in existing systems and controls, then we will not be able to make available the products required to successfully commercialize our technology. Failure to attract and retain sufficient numbers of talented employees will further strain our human resources and could impede our growth.

Our effective tax rate may vary significantly.

Our future effective tax rates could be adversely affected by various internal and external factors. These factors, include but are not limited to, earnings being lower than anticipated in countries where we have lower statutory rates and higher than anticipated in countries where we have higher statutory rates; changes in the valuation of our deferred tax assets and liabilities; or changes in tax laws or interpretations thereof; changes in tax rates, future levels of research and development spending, and changes in overall levels of pretax earnings. Any new interpretative guidance relating to accounting for uncertain tax positions could adversely affect our tax provision.

If we lose our key personnel or are unable to attract and retain additional personnel, we may be unable to achieve our goals.

We are highly dependent on our management and scientific personnel, including Jay Flatley, our president and chief executive officer, John Stuelpnagel, our senior vice president and chief operating officer and John West, our senior vice president and general manager of DNA sequencing . The loss of their services could adversely impact our ability to achieve our business objectives. We will need to hire additional qualified personnel with expertise in molecular biology, chemistry, biological information processing, sales, marketing and technical support. We compete for qualified management and scientific personnel with other life science companies, universities and research institutions, particularly those focusing on genomics. Competition for these individuals, particularly in the San Diego area, is intense, and the turnover rate can be high. Failure to attract and retain management and scientific personnel would prevent us from pursuing collaborations or developing our products or technologies.

Our planned activities will require additional expertise in specific industries and areas applicable to the products developed through our technologies, including the life sciences and healthcare industries. Thus, we will need to add new personnel, including management, and develop the expertise of existing management. The failure to do so could impair the growth of our business.

A significant portion of our sales are to international customers.

Approximately 44% and 38% of our revenue for the years ended December 31, 2006 and January 1, 2006, respectively, was derived from shipments to customers outside the United States. We intend to continue to expand our international presence and export sales to international customers and we expect the total amount of non-U.S. sales to continue to grow. Export sales entail a variety of risks, including:

- currency exchange fluctuations;
- unexpected changes in legislative or regulatory requirements of foreign countries into which we import our products;
- difficulties in obtaining export licenses or in overcoming other trade barriers and restrictions resulting in delivery delays; and
- significant taxes or other burdens of complying with a variety of foreign laws.

In addition, sales to international customers typically result in longer payment cycles and greater difficulty in accounts receivable collection. We are also subject to general geopolitical risks, such as political, social and economic instability and changes in diplomatic and trade relations. One or more of these factors could have a material adverse effect on our business, financial condition and operating results.

Our success depends upon the continued emergence and growth of markets for analysis of genetic variation and biological function.

We design our products primarily for applications in the life sciences and pharmaceutical industries. The usefulness of our technology depends in part upon the availability of genetic data and its usefulness in identifying or treating disease. We are initially focusing on markets for analysis of genetic variation and biological function, namely SNP genotyping and gene expression profiling. Both of these markets are new and emerging, and they may not develop as quickly as we anticipate, or reach their full potential. Other methods of analysis of genetic variation and biological function may emerge and displace the methods we are developing. Also, researchers may not seek or be able to convert raw genetic data into medically valuable information through the analysis of genetic variation and biological function. In addition, factors affecting research and development spending generally, such as changes in the regulatory environment affecting life sciences and pharmaceutical companies, and changes in government programs that provide funding to companies and research institutions, could harm our business. If useful genetic data is not available or if our target markets do not develop in a timely manner, demand for our products may grow at a slower rate than we expect, and we may not be able to achieve or sustain annual profitability.

Item 1B. *Unresolved Staff Comments.*

None.

Item 2. *Properties.*

The following chart indicates the facilities that we lease, the location and size of each such facility and their designated use. We anticipate needing to expand our facilities over the next several years as we continue to expand our worldwide commercial operations and our manufacturing capabilities.

Location	Approximate Square Feet	Operation	Lease Expiration
San Diego, CA	116,000 sq. ft.	R&D, Manufacturing, Administrative	2023
	17,300 sq. ft.	Administrative	2009
	9,000 sq. ft.	Storage and Distribution	2011
Wallingford, CT	14,500 sq. ft.	R&D	2008
Netherlands	4,100 sq. ft.	Administrative and Distribution	2011
Tokyo, Japan	3,300 sq. ft.	Administrative	2009
Singapore	1,600 sq. ft.	Administrative	2009
Beijing, China	200 sq. ft.	Administrative	2007

As part of our acquisition of Solexa on January 26, 2007, we assumed a non-cancelable operating lease for facilities space of approximately 147,000 square feet in two buildings in Hayward, California. One of the buildings is utilized for administrative operations, research and development, genomics services production and instrument production. The remaining space may be developed and occupied in phases, depending on growth. The Hayward lease runs through December 2008. We have an option to extend the lease for an additional five-year period, subject to certain conditions. We also lease approximately 23,000 square feet in Little Chesterford, United Kingdom, which is occupied by Solexa Limited, our wholly-owned subsidiary. The Chesterford lease expires in July 2008.

On February 14, 2007, we entered into a lease agreement with BioMed Realty Trust, Inc. (BioMed) to expand into a new office building BioMed will build in San Diego, California. The new building will be used for research and development, manufacturing and administrative purposes. The lease covers approximately 84,000 square feet, which is to be occupied in three phases, the first of which is expected to be occupied by October 1, 2008. The lease expires 15 years from the date the first phase is occupied, subject to our right to extend the term for up to three additional five-year periods.

Item 3. ***Legal Proceedings.***

We have incurred substantial costs in defending ourselves against patent infringement claims, and expect to devote substantial financial and managerial resources to protect our intellectual property and to defend against the claims described below as well as any future claims asserted against us.

Affymetrix Litigation

On July 26, 2004, Affymetrix, Inc. (Affymetrix) filed a complaint in the U.S. District Court for the District of Delaware alleging that the use, manufacture and sale of our BeadArray products and services, including our Array Matrix and BeadChip products, infringe six Affymetrix patents. Affymetrix seeks an injunction against the sale of products, if any, that are determined to infringe these patents, unspecified monetary damages, interest and attorneys' fees. On September 15, 2004, we filed our answer to Affymetrix' complaint, seeking declaratory judgments from the court that we do not infringe the Affymetrix patents and that such patents are invalid. We also filed counterclaims against Affymetrix for unfair competition and interference with actual and prospective economic advantage.

On February 15, 2006, the court allowed us to file our first amended answer and counterclaims, adding allegations of inequitable conduct with respect to all six asserted Affymetrix patents, violation of Section 2 of the Sherman Act, and unclean hands. In March 2006, Affymetrix notified us of its decision to drop one of the six patents from the suit and of its intention to assert infringement of certain additional claims of the remaining five patents. We have filed a motion to preclude Affymetrix from asserting infringement of those additional claims. That motion is still pending at this time. On June 30, 2006, the court dismissed the patent Affymetrix had sought to withdraw from the suit. Both parties filed summary judgment motions by the July 14, 2006 deadline established by the court. On August 16, 2006, the court issued a ruling on the claim construction hearing that it had held on April 20, 2006. We believe the court's opinion construed several key claim terms in our favor, and did not adversely impact our defenses and pending counterclaims in any material respect. Trial has been rescheduled to March 5, 2007 from October 16, 2006 at the request of both parties. A pre-trial conference was held on February 8, 2007 during which the court established a multi-phase trial structure with the first phase of the trial to begin on March 5, 2007, and addressed related issues. We believe we have meritorious defenses against each of the infringement claims alleged by Affymetrix, and intend to defend vigorously against this suit. However, we cannot be sure that we will prevail in this matter. Any unfavorable determination, and in particular, any significant cash amounts required to be paid by us or prohibition of the sale of our products and services, could result in a material adverse effect on our business, financial condition and results of operations.

Dr. Anthony W. Czarnik v. Illumina, Inc.

On June 15, 2005, Dr. Anthony Czarnik, a former employee, filed suit against us in the U.S. District Court for the District of Delaware seeking correction of inventorship of certain of our patents and patent applications and alleging that we committed inequitable conduct and fraud in not naming him as an inventor. Dr. Czarnik seeks an order requiring us and the U.S. Patent and Trademark Office to correct the inventorship of certain of our patents and patent applications by adding Dr. Czarnik as an inventor, a judgment declaring certain of our patents and patent applications unenforceable, unspecified monetary damages and attorney's fees. On August 4, 2005, we filed a motion to dismiss the complaint for lack of standing and failure to state a claim. While this motion was pending, Dr. Czarnik filed an amended complaint on September 23, 2005. On October 7, 2005, we filed a motion to dismiss the amended complaint for lack of standing and failure to state a claim. On July 13, 2006, the court granted our motion to dismiss the counts of Dr. Czarnik's complaint dealing with correction of inventorship in pending applications and inequitable conduct. On July 27, 2006, we filed an answer to the two remaining counts of the amended complaint (correction of inventorship in issued patents and fraud). There has been no trial date set for this case. We believe we have meritorious defenses against these claims.

Applied Biosystems Litigation

On December 26, 2006, the Applied Biosystems Group of Applera Corporation filed suit against Solexa, which we acquired in a stock-for-stock merger on January 26, 2007. Applied Biosystems' action against Solexa, which was filed in California state court in Santa Clara County, seeks ownership of patents covering Sequencing-by-Ligation technologies. We filed our answer to the complaint by the required deadline. The patents at issue were assigned in 1995 to Solexa's predecessor company (Lynx Therapeutics) by a former employee, Dr. Stephen Macevicz, who is named as a co-defendant in the suit. Lynx, which was originally a unit of Applied Biosystems, was spun out of Applied Biosystems in 1992. The patents at issue in the suit relate to methods for sequencing DNA using successive rounds of oligonucleotide probe ligation (Sequencing-by-Ligation). Our new Illumina Genome Analyzer system uses a different technology, DNA Sequencing-by-Synthesis (SBS), which we believe is not covered by any of the patents at issue in the suit. We also believe the MPSS technology used by Lynx did not use the methods covered by these patents, and in any event our subsidiary no longer uses the MPSS technologies. We believe that the suit is not material to our current or future business, and we have no plans to use any of the Sequencing-by-Ligation technologies covered by the patents at issue in the suit. Applied Biosystems does not assert any claim for patent infringement in the suit.

Termination-of-Employment Lawsuit

In March 2001, a complaint seeking damages of an unspecified amount was filed against us by Dr. Czarnik in the Superior Court of the State of California in connection with the employee's termination of employment with Illumina. In June 2002, a California Superior Court judgment was rendered against us and we recorded a $7.7 million charge in our financial results for the second quarter of 2002 to cover total damages and remaining expenses. We appealed the decision, and in December 2004, the Fourth Appellate District Court of Appeal, in San Diego, California, reduced the amount of the award. We recorded interest expense on the $7.7 million during the appeal based on the statutory rate. As a result of the revised judgment, we reduced the $9.2 million liability on our balance sheet to $5.9 million and recorded a gain of $3.3 million as a litigation judgment in the fourth quarter of 2004. In January 2005, we paid the $5.9 million and removed the liability from our balance sheet.

Item 4. ***Submission of Matters to a Vote of Security Holders.***

No matters were submitted to a vote of security holders during the fourth quarter of 2006.

PART II

Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.*

Our common stock has been quoted on the NASDAQ Global Market under the symbol "ILMN" since July 28, 2000. Prior to that time, there was no public market for our common stock. The following table sets forth, for the periods indicated, the quarterly high and low sales prices per share of our common stock as reported on the NASDAQ Global Market. Our present policy is to retain earnings, if any, to finance future growth. We have never paid cash dividends and have no present intention to pay cash dividends in the foreseeable future. In addition, the indenture for our convertible senior notes due 2014, which are convertible into cash and, in certain circumstances, shares of our common stock, requires us to increase the conversion rate applicable to the notes if we pay any cash dividends.

	2006	
	High	Low
First Quarter	$27.98	$16.10
Second Quarter	32.00	21.60
Third Quarter	40.00	27.02
Fourth Quarter	45.87	32.20

	2005	
	High	Low
First Quarter	$11.35	$ 6.72
Second Quarter	12.95	7.90
Third Quarter	14.83	10.82
Fourth Quarter	16.80	12.76

At February 1, 2007, there were approximately 1,500 stockholders of record, and the closing price per share of our common stock, as reported on the NASDAQ Global Market on such date, was $41.56.

Sales of Unregistered Securities

None during fiscal 2006.

Issuer Purchases of Equity Securities

None during fiscal 2006.

Use of Proceeds

We completed our initial public offering of common stock in July 2000, resulting in net proceeds of $101.3 million. Through December 31, 2006, we used approximately $46.0 million to purchase property, plant and equipment, approximately $2.4 million for the acquisition of CyVera, and approximately $52.9 million to fund general operating expenses.

Item 6. *Selected Financial Data.*

The following selected historical consolidated financial data has been derived from our audited consolidated financial statements. The balance sheet data as of December 31, 2006 and January 1, 2006 and statement of operations data for each of the three years in the period ended December 31, 2006 are derived from audited consolidated financial statements included in this Annual Report on Form 10-K. The balance sheet data as of January 2, 2005, December 28, 2003, and December 29, 2002 and statement of operations data for each of the two years in the period ended December 28, 2003 are derived from our audited consolidated financial statements that are not included in this Annual Report on Form 10-K. The Company's fiscal year is 52 or 53 weeks ending the Sunday closest to December 31, with quarters of 13 or 14 weeks ending the Sunday closest to March 31, June 30, and September 30. The years ended December 31, 2006 and January 1, 2006 were both 52 weeks. The year ended January 2, 2005 was 53 weeks. You should read this table in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Item 8, "Financial Statements and Supplementary Data."

Statement of Operations Data

	Year Ended December 31, 2006	Year Ended January 1, 2006	Year Ended January 2, 2005	Year Ended December 28, 2003	Year Ended December 29, 2002
	(In thousands, except per share data)				
Revenue:					
Product revenue	$155,811	$ 57,752	$40,497	$ 18,378	$ 4,103
Service and other revenue	27,486	13,935	8,075	6,496	3,305
Research revenue	1,289	1,814	2,011	3,161	2,632
Total revenue	184,586	73,501	50,583	28,035	10,040
Costs and expenses:					
Cost of product revenue (including non-cash stock compensation expense of $1,289, $0, $0, $0 and $0, respectively)	51,271	19,920	11,572	7,437	1,815
Cost of service and other revenue (including non-cash stock compensation expense of $235, $0, $0, $0 and $0, respectively)	8,073	3,261	1,687	2,600	1,721
Research and development (including non-cash stock compensation expense of $3,891, $84, $348, $1,289 and $2,399, respectively)	33,373	27,809	21,462	23,800	29,247
Selling, general and administrative (including non-cash stock compensation expense of $8,889, $186, $496, $1,165 and $1,961, respectively)	54,057	28,158	25,576	20,064	11,060
Acquired in-process research and development	—	15,800	—	—	—
Litigation judgment (settlement), net	—	—	(4,201)	756	8,052
Total costs and expenses	146,774	94,948	56,096	54,657	51,895
Income (loss) from operations	37,812	(21,447)	(5,513)	(26,622)	(41,855)
Interest income	5,368	1,404	941	1,821	3,805
Interest and other expense, net	(560)	(668)	(1,518)	(2,262)	(2,281)
Income (loss) before income taxes	42,620	(20,711)	(6,090)	(27,063)	(40,331)
Provision for income taxes	2,652	163	135	—	—
Net income (loss)	$ 39,968	$(20,874)	$ (6,225)	$(27,063)	$(40,331)
Net income (loss) per basic share	$ 0.90	$ (0.52)	$ (0.17)	$ (0.85)	$ (1.31)
Net income (loss) per diluted share	$ 0.82	$ (0.52)	$ (0.17)	$ (0.85)	$ (1.31)
Shares used in calculating basic net income (loss) per share	44,501	40,147	35,845	31,925	30,890
Shares used in calculating diluted net income (loss) per share	48,754	40,147	35,845	31,925	30,890

See Note 1 to the consolidated financial statements for an explanation of the determination of the number of shares used to compute basic and diluted net income (loss) per share.

Balance Sheet Data

	December 31, 2006	January 1, 2006	January 2, 2005	December 28, 2003	December 29, 2002
			(In thousands)		
Cash, cash equivalents and short-term investments	$ 130,804	$ 50,822	$ 66,994	$ 33,882	$ 66,294
Working capital	159,950	57,992	64,643	32,229	58,522
Total assets	300,584	100,610	94,907	99,234	121,906
Long-term debt, less current portion	—	54	—	24,999	25,620
Accumulated deficit	(104,618)	(144,586)	(123,712)	(117,487)	(90,424)
Total stockholders' equity	247,342	72,497	72,262	47,388	71,744

Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operation.***

The following discussion and analysis should be read with "Item 6. Selected Financial Data" and our consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K. The discussion and analysis in this Annual Report on Form 10-K contains forward-looking statements that involve risks and uncertainties, such as statements of our plans, objectives, expectations and intentions. Words such as "anticipate," "believe," "continue," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "project" or similar words or phrases, or the negatives of these words, may identify forward-looking statements, but the absence of these words does not necessarily mean that a statement is not forward looking. Examples of forward-looking statements include, among others, statements regarding the integration of Solexa's and CyVera's technology with our existing technology, the commercial launch of new products, including products based on Solexa's and CyVera's technology, and the duration which our existing cash and other resources is expected to fund our operating activities.

Forward-looking statements are subject to known and unknown risks and uncertainties and are based on potentially inaccurate assumptions that could cause actual results to differ materially from those expected or implied by the forward looking statements. Factors that could cause or contribute to these differences include those discussed in "Item 1A. Risk Factors" as well as those discussed elsewhere. The risk factors and other cautionary statements made in this Annual Report on Form 10-K should be read as applying to all related forward-looking statements wherever they appear in this Annual Report on Form 10-K.

Overview

We are a leading developer, manufacturer and marketer of next-generation life science tools and integrated systems for the large scale analysis of genetic variation and biological function. Using our proprietary technologies, we provide a comprehensive line of products and services that currently serve the sequencing, genotyping and gene expression markets, and we expect to enter the market for molecular diagnostics. Our customers include leading genomic research centers, pharmaceutical companies, academic institutions, clinical research organizations and biotechnology companies. Our tools provide researchers around the world with the performance, throughput, cost effectiveness and flexibility necessary to perform the billions of genetic tests needed to extract valuable medical information from advances in genomics and proteomics. We believe this information will enable researchers to correlate genetic variation and biological function, which will enhance drug discovery and clinical research, allow diseases to be detected earlier and permit better choices of drugs for individual patients.

On January 26, 2007, we completed the acquisition of Solexa for approximately 13.1 million shares of our common stock. Solexa develops and commercializes genetic analysis technologies used to perform a range of analyses including whole genome resequencing, gene expressing analysis and small RNA analysis. We believe our combined company is the only company with genome-scale technology for genotyping, gene expression and sequencing, the three cornerstones of modern genetic analysis.

Our revenue is subject to fluctuations due to the timing of sales of high-value products and service projects, the impact of seasonal spending patterns, the timing and size of research projects our customers perform, changes in overall spending levels in the life science industry and other unpredictable factors that may affect our customer ordering patterns. Any significant delays in the commercial launch or any lack or delay of commercial acceptance of new products, unfavorable sales trends in our existing product lines, or impacts from the other factors mentioned above, could adversely affect our revenue growth or cause a sequential decline in quarterly revenue. Due to the possibility of fluctuations in our revenue and net income or loss, we believe quarterly comparisons of our operating results are not a good indication of our future performance.

Prior to 2006, we incurred substantial operating losses. As of December 31, 2006, our accumulated deficit was $104.6 million and total stockholders' equity was $247.3 million. Losses prior to 2006 have principally occurred as a result of the substantial resources required for the research, development and manufacturing scale-up effort required to commercialize our products and services, an acquired in-process research and development charge of $15.8 million related to our acquisition of CyVera in 2005 and a charge of $5.9 million in 2004 related to a termination-of-employment lawsuit. We expect to continue to incur substantial costs for research, development and manufacturing scale-up activities over the next several years. We will also need to increase our selling, general and administrative costs as we build up our sales and marketing infrastructure to expand and support the sale of systems, other products and services.

Critical Accounting Policies and Estimates

General

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of financial statements requires that management make estimates, assumptions and judgments with respect to the application of accounting policies that affect the reported amounts of assets, liabilities, revenue and expenses, and the disclosures of contingent assets and liabilities. Actual results could differ from those estimates.

Our significant accounting policies are described in Note 1 to our consolidated financial statements. Certain accounting policies are deemed critical if 1) they require an accounting estimate to be made based on assumptions that were highly uncertain at the time the estimate was made, and 2) changes in the estimate that are reasonably likely to occur, or different estimates that we reasonably could have used would have a material effect on our consolidated financial statements.

Management has discussed the development and selection of these critical accounting policies with the Audit Committee of our Board of Directors, and the Audit Committee has reviewed the disclosure. In addition, there are other items within our financial statements that require estimation, but are not deemed critical as defined above.

We believe the following critical accounting policies reflect our more significant estimates and assumptions used in the preparation of the consolidated financial statements.

Revenue Recognition

Our revenue is generated primarily from the sale of products and services. Product revenue consists of sales of arrays, reagents, instrumentation and oligos. Service and other revenue consists of revenue received for performing genotyping services, extended warranty sales and revenue earned from milestone payments.

We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the seller's price to the customer is fixed or determinable and collectibility is reasonably assured. In instances where final acceptance of the product or system is required, revenue is deferred until all the acceptance criteria have been met. All revenue is recorded net of any applicable allowances for returns or discounts.

Revenue for product sales is recognized generally upon shipment and transfer of title to the customer, provided no significant obligations remain and collection of the receivables is reasonably assured. Revenue from the sale of instrumentation is recognized when earned, which is generally upon shipment. However, in the case of BeadLabs, revenue is recognized upon the completion of installation, training and customer acceptance. Revenue for genotyping services is recognized when earned, which is generally at the time the genotyping analysis data is delivered to the customer or as specific milestones are achieved.

In order to assess whether the price is fixed and determinable, we ensure there are no refund rights. If payment terms are based on future performance or a right of return exists, we defer revenue recognition until the price becomes fixed and determinable. We assess collectibility based on a number of factors, including past transaction history with the customer and the creditworthiness of the customer. If we determine that collection of a payment is not reasonably assured, revenue recognition is deferred until the time collection becomes reasonably assured, which is generally upon receipt of payment.

Sales of instrumentation generally include a standard one-year warranty. We also sell separately priced maintenance (extended warranty) contracts, which are generally for one or two years, upon the expiration of the initial warranty. Revenue for extended warranty sales is recognized ratably over the term of the extended warranty period. Reserves are provided for estimated product warranty expenses at the time the associated revenue is recognized. If we were to experience an increase in warranty claims or if costs of servicing our warrantied products were greater than our estimates, gross margins could be adversely affected.

While the majority of our sales agreements contain standard terms and conditions, we do enter into agreements that contain multiple elements or non-standard terms and conditions. Emerging Issues Task Force (EITF) No. 00-21, *Revenue Arrangements with Multiple Deliverables,* provides guidance on accounting for arrangements that involve the delivery or performance of multiple products, services, or rights to use assets within contractually binding arrangements. Significant contract interpretation is sometimes required to determine the appropriate accounting, including whether the deliverables specified in a multiple element arrangement should be treated as separate units of accounting for revenue recognition purposes, and if so, how the price should be allocated among the deliverable elements, when to recognize revenue for each element, and the period over which revenue should be recognized. We recognize revenue for delivered elements only when we determine that the fair values of undelivered elements are known and there are no uncertainties regarding customer acceptance.

Some of our agreements contain multiple elements that include milestone payments. Revenue from a milestone achievement is recognized when earned, as evidenced by acknowledgement from our collaborator, provided that (i) the milestone event is substantive and its achievability was not reasonably assured at the inception of the agreement, (ii) the milestone represents the culmination of an earnings process, (iii) the milestone payment is non-refundable and (iv) the performance obligations for both us and our collaborators after the milestone achievement will continue at a level comparable to the level before the milestone achievement. If all of these criteria are not met, the milestone achievement is recognized over the remaining minimum period of our performance obligations under the agreement. We defer non-refundable upfront fees received under our collaborations and recognize them over the period the related services are provided or over the estimated collaboration term using various factors specific to the collaboration. Advance payments received in excess of amounts earned are classified as deferred revenue until earned.

Research revenue consists of amounts earned under research agreements with government grants, which is recognized in the period during which the related costs are incurred.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We evaluate the collectibility of our accounts receivable based on a combination of factors. We regularly analyze customer accounts, review the length of time receivables are outstanding and review historical loss rates. If the financial condition of our customers were to deteriorate, additional allowances could be required.

Inventory Valuation

We record adjustments to inventory for potentially excess, obsolete or impaired goods in order to state inventory at net realizable value. We must make assumptions about future demand, market conditions and the release of new products that will supercede old ones. We regularly review inventory for excess and obsolete products and components, taking into account product life cycle and development plans, product expiration and quality issues, historical experience and our current inventory levels. If actual market conditions are less favorable than anticipated, additional inventory adjustments could be required.

Contingencies

We are subject to legal proceedings primarily related to intellectual property matters. Based on the information available at the balance sheet dates and through consultation with our legal counsel, we assess the likelihood of any adverse judgments or outcomes of these matters, as well as the potential ranges of probable losses. If losses are probable and reasonably estimable, we will record a liability in accordance with Statement of Financial Accounting Standards (SFAS) No. 5, *Accounting for Contingencies.* Currently, we have no such liabilities recorded. This may change in the future depending upon new developments.

Income Taxes

In accordance with SFAS No. 109, *Accounting for Income Taxes*, the provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for the expected future tax benefit to be derived from tax loss and credit carryforwards. Deferred tax assets and liabilities are determined using the enacted tax rates in effect for the years in which those tax assets are expected to be realized. A valuation allowance is established when it is more likely than not the future realization of all or some of the deferred tax assets will not be achieved. The evaluation of the need for a valuation allowance is performed on a jurisdiction by jurisdiction basis, and includes a review of all available positive and negative evidence.

Due to the adoption of SFAS No. 123 (revised 2004), Share-Based Payment, we recognize excess tax benefits associated with share-based compensation to stockholders' equity only when realized. When assessing whether excess tax benefits relating to share-based compensation have been realized, we follow the with-and-without approach excluding any indirect effects of the excess tax deductions. Under this approach, excess tax benefits related to share-based compensation are not deemed to be realized until after the utilization of all other tax benefits available to us.

Goodwill and Intangible Asset Valuation

The purchase method of accounting for acquisitions requires extensive use of accounting estimates and judgments to allocate the purchase price to the fair value of the net tangible and intangible assets acquired, including in-process research and development (IPR&D). Goodwill and intangible assets deemed to have indefinite lives are not amortized, but are subject to at least annual impairment tests. The amounts and useful lives assigned to other acquired intangible assets impact future amortization, and the amount assigned to IPR&D is expensed immediately. Determining the fair values and useful lives of intangible assets especially requires the exercise of judgment. While there are a number of different acceptable generally accepted valuation methods to estimate the value of intangible assets acquired, we primarily use the discounted cash flow method. This method requires significant management judgment to forecast the future operating results used in the analysis. In addition, other significant estimates are required such as residual growth rates and discount factors. The estimates we use to value and amortize intangible assets are consistent with the plans and estimates that we use to manage our business and are based on available historical information and industry estimates and averages. These judgments can significantly affect our net operating results.

SFAS No. 142, *Goodwill and Other Intangible Assets.* SFAS No. 142 requires that goodwill and certain intangible assets be assessed for impairment using fair value measurement techniques. If the carrying amount of a reporting unit exceeds its fair value, then a goodwill impairment test is performed to measure the amount of the impairment loss, if any. The goodwill impairment test compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. The implied fair value of goodwill is determined in the same manner as in a business combination. Determining the fair value of the implied goodwill is judgmental in nature and often involves the use of significant estimates and assumptions. These estimates and assumptions could have a significant impact on whether or not an impairment charge is recognized and also the magnitude of any such charge. Estimates of fair value are primarily determined using discounted cash flows and market comparisons. These approaches use significant estimates and assumptions, including projection and timing of future cash flows, discount rates reflecting the risk inherent in future cash flows, perpetual growth rates, determination of appropriate market comparables, and determination of whether a premium or discount should be applied to comparables. It is reasonably possible that the plans and estimates used to value these assets may be incorrect. If our actual results, or the plans and estimates used in future impairment analyses, are lower than the original estimates used to assess the recoverability of these assets, we could incur additional impairment charges. As of December 31, 2006, we had $2.1 million of goodwill. This goodwill is reported as a separate line item in the balance sheet. We have performed our annual test of goodwill as of May 1, 2006 and have determined there has been no impairment of goodwill as of December 31, 2006.

Stock-Based Compensation

We account for stock-based compensation in accordance with SFAS No. 123R, *Share-Based Payment*. Under the provisions of SFAS No. 123R, stock-based compensation cost is estimated at the grant date based on the award's fair-value as calculated by the Black-Scholes-Merton (BSM) option-pricing model and is recognized as expense over the requisite service period. The BSM model requires various highly judgmental assumptions including volatility, forfeiture rates, and expected option life. If any of these assumptions used in the BSM model change significantly, stock-based compensation expense may differ materially in the future from that recorded in the current period.

Results of Operations

To enhance comparability, the following table sets forth audited consolidated statement of operations data for the years ended December 31, 2006, January 1, 2006, and January 2, 2005 stated as a percentage of total revenue.

	Year Ended December 31, 2006	Year Ended January 1, 2006	Year Ended January 2 2005
Revenue			
Product revenue	84%	79%	80%
Service and other revenue	15	19	16
Research revenue	1	2	4
Total revenue	100	100	100
Costs and expenses:			
Cost of product revenue	28	27	23
Cost of service and other revenue	5	4	3
Research and development	18	38	42
Selling, general and administrative	29	38	51
Acquired in-process research and development	—	22	—
Litigation judgment (settlement), net	—	—	(8)
Total costs and expenses	80	129	111
Income (loss) from operations	20	(29)	(11)
Interest income	3	2	2
Interest and other expense, net	—	(1)	(3)
Income (loss) before income taxes	23	(28)	(12)
Provision for income taxes	1	—	—
Net income (loss)	22%	(28%)	(12%)

Comparison of Years Ended December 31, 2006 and January 1, 2006

Our fiscal year is 52 or 53 weeks ending the Sunday closest to December 31, with quarters of 13 or 14 weeks ending the Sunday closest to March 31, June 30, and September 30. The years ended December 31, 2006 and January 1, 2006 were both 52 weeks.

Revenue

	Year Ended December 31, 2006	Year Ended January 1, 2006	Percentage Change
	(In thousands)		
Product revenue	$155,811	$57,752	170%
Service and other revenue	27,486	13,935	97
Research revenue	1,289	1,814	(29)
Total revenue	$184,586	$73,501	151%

Total revenue for the years ended December 31, 2006 and January 1, 2006 was $184.6 million and $73.5 million, respectively. This represents an increase of $111.1 million for 2006, or 151%, compared to 2005.

Product revenue increased to $155.8 million for the year ended December 31, 2006 from $57.8 million for the year ended January 1, 2006. The increase in 2006 resulted primarily from higher consumable and BeadStation sales. Growth in consumable revenue was primarily attributable to the launch and shipment of our whole genome genotyping products, the HumanHap300 and HumanHap550 BeadChips. In addition, growth in consumable revenue can be attributed to the growth in our installed base of BeadArray Readers, which has nearly doubled since January 1, 2006. Consumable products constituted 66% of product revenue for year ended December 31, 2006, compared to 47% in the year ended January 1, 2006. We expect to see continued growth in product revenue, which can be partially attributed to the launch of several new products, as well as the growth of our installed base of instruments.

Service and other revenue increased to $27.5 million for the year ended December 31, 2006 from $13.9 million for the year ended January 1, 2006. The increase in service and other revenue is primarily due to the completion of several significant Infinium and GoldenGate SNP genotyping service contracts. We introduced our Infinium services in early 2006. We expect sales from SNP genotyping services contracts to fluctuate on a yearly and quarterly basis, depending on the mix and number of contracts that are completed. The timing of completion of a SNP genotyping services contract is highly dependent on the customer's schedule for delivering the SNPs and samples to us.

Government grants and other research funding decreased to $1.3 million for the year ended December 31, 2006 from $1.8 million for the year ended January 1, 2006, due primarily to the completion of several projects funded by grants from the National Institutes of Health. We do not expect research revenue to be a material component of our revenue going forward.

Cost of Product and Service and Other Revenue

	Year Ended December 31, 2006	Year Ended January 1, 2006	Percentage Change
	(In thousands)		
Cost of product revenue	$51,271	$19,920	157%
Cost of service and other revenue	8,073	3,261	148
Total cost of product and service and other revenue	$59,344	$23,181	156%

Cost of product and service and other revenue represents manufacturing costs incurred in the production process, including component materials, assembly labor and overhead, installation, warranty, packaging and delivery costs, as well as costs associated with performing genotyping services on behalf of our customers. Costs related to research revenue are included in research and development expense. Cost of product revenue increased to $51.3 million for the year ended December 31, 2006, compared to $19.9 million for the year ended January 1, 2006, primarily driven by higher consumable and instrument sales. Cost of product revenue for the year ended December 31, 2006 included stock-based compensation expenses resulting from the adoption of SFAS No. 123R totaling $1.3 million. Gross margin on product revenue increased to 67.1% for the year ended December 31, 2006, compared to 65.5% for the year ended January 1, 2006. The increase in gross margin percentage is primarily due to the impact of favorable product mix, as well as decreased manufacturing costs. A higher percentage of our revenue in 2006 was generated from the sale of consumables, which generally have a more favorable gross margin than other products. The decrease in manufacturing costs is primarily due to reduced raw material costs as a result of more favorable negotiated contracts with our vendors and improvements in our manufacturing processes. This increase in gross margin was offset, in part, by the impact of stock-based compensation charges, which decreased our gross margin by 83 basis points in 2006 compared to 2005.

Cost of service and other revenue increased to $8.1 million for the year ended December 31, 2006, compared to $3.3 million for the year ended January 1, 2006, primarily due to higher service revenue. Cost of service and other revenue for the year ended December 31, 2006 included stock-based

compensation expenses resulting from the adoption of SFAS No. 123R totaling $0.2 million. Gross margin on service and other revenue decreased to 70.6% for the year ended December 31, 2006, compared to 76.6% for the year ended January 1, 2006. The decrease is due primarily to a change in the mix of projects, as well as the impact of stock-based compensation charges, the latter having decreased our service and other revenue gross margin by 85 basis points in 2006 compared to 2005.

We expect product mix to continue to affect our future gross margins. However, we expect our market to become increasingly price competitive and our margins may fluctuate from year to year and quarter to quarter.

Research and Development Expenses

	Year Ended December 31, 2006	Year Ended January 1, 2006	Percentage Change
	(In thousands)		
Research and development	$33,373	$27,809	20%

Our research and development expenses consist primarily of salaries and other personnel-related expenses, laboratory supplies and other expenses related to the design, development, testing and enhancement of our products. We expense our research and development expenses as they are incurred.

Research and development expenses increased to $33.4 million for the year ended December 31, 2006, compared to $27.8 million for the year ended January 1, 2006. Research and development expenses for the years ended December 31, 2006 and January 1, 2006 included stock-based compensation expenses primarily resulting from the adoption of SFAS No. 123R totaling $3.9 million and $0.1 million, respectively. Exclusive of these stock-based compensation charges, the increase in research and development expenses for the year ended December 31, 2006 is primarily due to the development of our recently-acquired VeraCode technology purchased in conjunction with our acquisition of CyVera in April 2005. The Company plans to launch its first products resulting from this acquisition during the first quarter of 2007. Research and development expenses related to the VeraCode technology increased $2.7 million for the year ended December 31, 2006, compared to the year ended January 1, 2006. In addition, costs to support our Oligator technology platform and BeadArray research activities decreased $1.0 million for the year ended December 31, 2006, compared to the year ended January 1, 2006.

We believe a substantial investment in research and development is essential to remaining competitive and expanding into additional markets. Accordingly, we expect our research and development expenses to increase in absolute dollars as we expand our product base and integrate the operations of Solexa into our business.

Selling, General and Administrative Expenses

	Year Ended December 31, 2006	Year Ended January 1, 2006	Percentage Change
	(In thousands)		
Selling, general and administrative	$54,057	$28,158	92%

Our selling, general and administrative expenses consist primarily of personnel costs for sales and marketing, finance, human resources, business development, legal and general management, as well as professional fees, such as expenses for legal and accounting services. Selling, general and administrative expenses increased to $54.1 million for the year ended December 31, 2006, compared to $28.2 million for the year ended January 1, 2006. Selling, general and administrative expenses for the years ended December 31, 2006 and January 1, 2006 included stock-based compensation expenses primarily resulting from the adoption of SFAS No. 123R totaling $8.9 million and $0.2 million, respectively.

Sales and marketing expenses increased $10.6 million during the year ended December 31, 2006, compared to the year ended January 1, 2006. The increase is primarily due to increases of $6.5 million attributable to personnel-related expenses, $3.2 million of stock-based compensation expense and

$0.9 million attributable to other non-personnel-related costs, mainly sales and marketing activities for our existing and new products. General and administrative expenses increased $15.3 million during the year ended December 31, 2006, compared to the year ended January 1, 2006, due to increases of $5.5 million of stock-based compensation expense, $5.3 million in outside legal costs related to the Affymetrix litigation, $3.1 million in personnel-related expenses associated with the growth of our business and $1.4 million in outside consulting costs. Outside consulting costs primarily include tax and audit fees and general legal expenses not associated with the Affymetrix litigation.

We expect our selling, general and administrative expenses to increase in absolute dollars as we expand our staff, add sales and marketing infrastructure, incur increased litigation costs and incur additional costs to support the growth in our business.

Interest Income

	Year Ended December 31, 2006	Year Ended January 1, 2006	Percentage Change
	(In thousands)		
Interest income	$5,368	$1,404	282%

Interest income on our cash and cash equivalents and investments was $5.4 million and $1.4 million for the years ended December 31, 2006 and January 1, 2006, respectively. The increase was due to higher average cash balances and higher effective interest rates compared to the prior year.

Interest and Other Expense, Net

	Year Ended December 31, 2006	Year Ended January 1, 2006	Percentage Change
	(In thousands)		
Interest and other expense, net	$(560)	$(668)	(16%)

Interest and other expense, net, consists of interest expense, other income and expenses related to foreign exchange transaction costs and gains and losses on disposals of assets. Interest and other expense, net, decreased to $0.6 million for the year ended January 1, 2006, compared to $0.7 million for the year ended January 2, 2005.

Interest expense was $11,000 for the year ended December 31, 2006, compared to $7,000 for the year ended January 1, 2006. For the years ended December 31, 2006 and January 1, 2006, we recorded approximately $0.4 million in losses due to foreign currency transactions. In addition in 2006, we recorded $0.1 million related to losses on disposal of assets, compared to $0.3 million of losses in 2005.

Provision for Income Taxes

	Year Ended December 31, 2006	Year Ended January 1, 2006	Percentage Change
	(In thousands)		
Provision for income taxes	$2,652	$163	1,527%

The provision for income taxes was approximately $2.7 million in 2006, up from $0.2 million in 2005. In 2006, the provision principally consists of federal and state alternative minimum tax and income tax expense related to foreign operations. In 2005, the provision for income taxes consisted of income tax expense related to foreign operations.

During the year ended December 31, 2006, we utilized approximately $25.9 million and $16.6 million of our federal and state net operating loss carryforwards, respectively, to reduce our federal and state income taxes. As of December 31, 2006, we had net operating loss carryforwards for federal and state tax purposes of approximately $76.4 million and $39.1 million, respectively; which begin to expire in 2022 and 2013, respectively, unless previously utilized. In addition, we also had U.S. federal and state research and development tax credit carryforwards of approximately $6.4 million and $6.3 million respectively; which begin to expire in 2018 and 2019 respectively, unless previously utilized.

Pursuant to Section 382 and 383 of the Internal Revenue Code, utilization of our net operating losses and credits may be subject to annual limitations in the event of any significant future changes in our ownership structure. These annual limitations may result in the expiration of net operating losses and credits prior to utilization. Previous limitations due to Section 382 and 383 have been reflected in the deferred tax assets as of December 31, 2006.

Based upon the available evidence as of December 31, 2006, we are not able to conclude it is more likely than not the remaining deferred tax assets in the U.S. will be realized. Therefore, we have recorded a full valuation allowance against the U.S. deferred tax assets of approximately $36.5 million.

Comparison of Years Ended January 1, 2006 and January 2, 2005

Our fiscal year is 52 or 53 weeks ending the Sunday closest to December 31, with quarters of 13 or 14 weeks ending the Sunday closest to March 31, June 30, and September 30. The years ended January 1, 2006 and January 2, 2005 were 52 and 53 weeks, respectively.

Revenue

	Year Ended January 1, 2006	Year Ended January 2, 2005	Percentage Change
	(In thousands)		
Product revenue	$57,752	$40,497	43%
Service and other revenue	13,935	8,075	73
Research revenue	1,814	2,011	(10)
Total revenue	$73,501	$50,583	45%

Total revenue for the years ended January 1, 2006 and January 2, 2005 was $73.5 million and $50.6 million, respectively. This represents an increase of $22.9 million for 2005, or 45%, compared to 2004.

Product revenue increased to $57.8 million for the year ended January 1, 2006 from $40.5 million for the year ended January 2, 2005. The increase in 2005 was primarily due to higher BeadStation, consumable and, to a lesser extent, oligo sales. Growth in consumable sales was due to the launch of several new products, as well as the growth in our installed base of BeadStations. As of January 1, 2006, we had shipped a total of 126 BeadArray Readers.

Service and other revenue increased to $13.9 million in 2005 from $8.1 million in 2004. The increase in service and other revenue was primarily due to higher demand for third-party SNP genotyping service contracts during the 2005 period. In addition, due to the achievement of a milestone associated with our collaboration agreement with Invitrogen, we recognized revenue of $1.1 million in the fourth quarter of 2005. These increases were partially offset by decreased revenue related to the International HapMap Project. We completed all revenue-generating genotyping services for the International HapMap project early in the first quarter of 2005. We expect sales from third-party SNP genotyping services contracts to fluctuate on a yearly and quarterly basis, depending on the mix and number of contracts that are completed. The timing of completion of a SNP genotyping services contract is highly dependent on the customer's schedule for delivering the SNPs and samples to us.

Government grants and other research funding decreased to $1.8 million for the year ended January 1, 2006 from $2.0 million for the year ended January 2, 2005, due primarily to a decrease in internal research spending for our grants from the National Institutes of Health.

Cost of Product and Service and Other Revenue

	Year Ended January 1, 2006	Year Ended January 2, 2005	Percentage Change
	(In thousands)		
Cost of product revenue	$19,920	$11,572	72%
Cost of service and other revenue	3,261	1,687	93
Total cost of product and service and other revenue	$23,181	$13,259	75%

Cost of product and service and other revenue represents manufacturing costs incurred in the production process, including component materials, assembly labor and overhead, installation, warranty, packaging and delivery costs, as well as costs associated with performing genotyping services on behalf of our customers. Costs related to research revenue are included in research and development expense. Cost of product and service and other revenue increased to $23.2 million for the year ended January 1, 2006, compared to $13.3 million for the year ended January 2, 2005 due primarily to the significant increase in product revenue. Gross margin on product and service and other revenue was 68% for 2005, compared to 73% for 2004.

Cost of product revenue increased to $19.9 million for the year ended January 1, 2006, compared to $11.6 million for the year ended January 2, 2005, due to the significant increase in product revenue. Gross margin on product revenue decreased to 66% for the year ended January 1, 2006, compared to 71% for the year ended January 2, 2005. The decrease in gross margin percentage is primarily due to the impact of product mix. A higher percentage of our revenue in 2005 was generated from the sale of instrumentation, which generally has a lower gross margin than other products. Other factors contributing to the decrease include decreased gross margins related to our consumable and oligo sales. Lower consumable margins can be primarily attributed to lower average selling prices on consumable sales in 2005, compared to 2004, which were partially offset by decreased manufacturing costs. In addition, the gross margin associated with oligo products sold as a part of the Invitrogen collaboration was lower when compared to the prior year. The change in oligo gross margin was due to the fact that, under the Invitrogen collaboration, we no longer sell oligos directly. As a result, the gross margin related to this product line decreased; however, the net margin has increased due to the fact that most of the sales and marketing expenses surrounding the oligo business have shifted to our collaboration partner, Invitrogen.

Cost of service and other revenue increased to $3.3 million for the year ended January 1, 2006, compared to $1.7 million for the year ended January 2, 2005. Gross margin on service and other revenue decreased to 77% for the year ended January 1, 2006 from 79% in the year ended January 2, 2005. The decrease is due primarily to a change in the mix of projects and decreased average selling prices.

We expect product mix to continue to affect our future gross margins. However, we expect our market to become increasingly price competitive and our margins may fluctuate from year to year and quarter to quarter.

Research and Development Expenses

	Year Ended January 1, 2006	Year Ended January 2, 2005	Percentage Change
	(In thousands)		
Research and development	$27,809	$21,462	30%

Our research and development expenses consist primarily of salaries and other personnel-related expenses, laboratory supplies and other expenses related to the design, development, testing and enhancement of our products. We expense our research and development expenses as they are incurred.

Research and development expenses increased to $27.8 million for the year ended January 1, 2006, compared to $21.5 million for the year ended January 2, 2005. Research and development expenses for the years ended January 1, 2006 and January 2, 2005 included stock-based compensation expense of approximately $0.1 million and $0.3 million, respectively. Exclusive of these stock-based compensation charges, the increase in research and development expenses is primarily due to the development expenses incurred to develop our newly-acquired Microbead technology purchased in conjunction with our acquisition of CyVera in April 2005. Research and development expenses related to the VeraCode technology totaled approximately $3.2 million in 2005. Additional factors contributing to the increased research and development expenses during 2005 relate to increased costs of $2.1 million associated with the cost of BeadArray research activities and $1.3 million related to research costs to support our Oligator technology platform. We believe a substantial investment in research and development is essential to remaining competitive and expanding into additional markets. Accordingly, we expect our research and development expenses to increase as we expand our product base and integrate the operations of Solexa into our business.

Selling, General and Administrative Expenses

	Year Ended January 1, 2006	Year Ended January 2, 2005	Percentage Change
	(In thousands)		
Selling, general and administrative	$28,158	$25,576	10%

Our selling, general and administrative expenses consist primarily of personnel costs for sales and marketing, finance, human resources, business development, legal and general management, as well as professional fees, such as expenses for legal and accounting services.

Selling, general and administrative expenses increased to $28.2 million for the year ended January 1, 2006, compared to $25.6 million for the year ended January 2, 2005. Selling, general and administrative expenses for the years ended January 1, 2006 and January 2, 2005 included stock-based compensation expense of approximately $0.2 million and $0.5 million, respectively. Sales and marketing expenses increased $3.6 million, of which $2.7 million was attributable to personnel related expenses for the build-out of our sales force and customer support staff, and $0.9 million is attributable to other non-personnel-related costs, including sales and marketing activities for our existing and new products. General and administrative expenses decreased by $1.0 million in 2005, compared to 2004, due primarily to a $2.5 million decrease in litigation expenses and a $0.3 million decrease in stock-based compensation expense, partially offset by a $1.5 million increase in personnel-related expenses.

We expect our selling, general and administrative expenses to accelerate as we expand our staff, add sales and marketing infrastructure and incur increased litigation costs and additional costs to support the growth in our business.

During 2005, we recorded non-cash compensation expense for accelerated vesting of options for certain employees totaling approximately $0.1 million. This compensation was provided as incentive to continue to work as key members of the sales team associated with the Invitrogen collaboration.

Acquired In-Process Research and Development

	Year Ended January 1, 2006	Year Ended January 2, 2005	Percentage Change
	(In thousands)		
Acquired in-process research and development	$15,800	$—	N/A

During the year ended January 1, 2006, we recorded $15.8 million of acquired in-process research and development (IPR&D) resulting from the CyVera acquisition. These amounts were expensed on the acquisition dates because the acquired technology had not yet reached technological feasibility and had no alternative future uses. At the acquisition date, CyVera's ongoing research and development initiatives were primarily the development of its VeraCode technology and the BeadXpress Reader. The IPR&D charge related to the CyVera acquisition was made up of two projects that were approximately 50% and 25% complete at the date of acquisition. The discount rate applied to calculate the IPR&D charge was 30%. Acquisitions of businesses, products or technologies by us in the future may result in substantial charges for acquired IPR&D that may cause fluctuations in our interim or annual operating results. There were no charges resulting from any acquisitions during the same period in 2006 or 2004.

Litigation Judgment (Settlement), net

	Year Ended January 1, 2006	Year Ended January 2, 2005	Percentage Change
	(In thousands)		
Litigation judgment (settlement), net	$—	$(4,201)	(100%)

We recorded a $7.7 million charge in June 2002 to cover total damages and estimated expenses related to a jury verdict in a termination-of-employment lawsuit. We appealed the decision, and in December 2004, the Fourth Appellate District Court of Appeal, in San Diego, California, reduced the amount of the award. During the appeal process, the court required us to incur interest charges on the judgment amount at statutory rates until the case was resolved. During the years ended January 2, 2005 and December 28, 2003, we recorded $0.6 million and $0.8 million, respectively, of such interest charges as litigation expense. As a result of the revised judgment, we reduced the $9.2 million liability on our balance sheet to $5.9 million and recorded a gain of $3.3 million as a litigation judgment in the fourth quarter of 2004. In addition, in August 2004, we recorded a $1.5 million gain as a result of a settlement with Applera.

Interest Income

	Year Ended January 1, 2006	Year Ended January 2, 2005	Percentage Change
	(In thousands)		
Interest income	$1,404	$941	49%

Interest income on our cash and cash equivalents and investments was $1.4 million and $0.9 million for the years ended January 1, 2006 and January 2, 2005, respectively. The increase was due to higher average cash balances and higher effective interest rates compared to the prior year.

Interest and Other Expense, Net

	Year Ended January 1, 2006	Year Ended January 2, 2005	Percentage Change
	(In thousands)		
Interest and other expense, net	$(668)	$(1,518)	(56%)

Interest and other expense, net consists of interest expense, expenses related to foreign exchange transaction costs and gains and losses on disposals of assets. Interest and other expense, net, decreased to $0.7 million for the year ended January 1, 2006, compared to $1.5 million for the year ended January 2, 2005.

Interest expense was $7,000 for the year ended January 1, 2006, compared to $1.4 million for the year ended January 2, 2005. Interest expense in the 2004 period relates primarily to a $26.0 million fixed rate loan that was paid off in August 2004 in connection with the sale/lease-back of our San Diego facilities.

In the year ended January 1, 2006, we recorded approximately $0.4 million in losses due to foreign currency transactions compared to $0.2 million in foreign currency transaction losses for the year ended January 2, 2005. In addition in 2005, we recorded $0.3 million related to losses on disposal of assets. There were no gains or losses on disposals in 2004.

Provision for Income Taxes

	Year Ended January 1, 2006	Year Ended January 2, 2005	Percentage Change
	(In thousands)		
Provision for income taxes	$163	$135	21%

The Company's provision for income taxes for the years ended January 1, 2006 and January 2, 2005 consisted of $163,000 and $135,000, respectively, for income tax expense related to its foreign operations.

We incurred net operating losses for the years ended January 1, 2006 and January 2, 2005 and, accordingly, we did not pay any U.S. federal or state income taxes. We have recorded a valuation allowance for the full amount of the resulting net deferred tax asset, as the future realization of the tax benefit is uncertain. As of January 1, 2006, we had net operating loss carryforwards for federal and California tax purposes of approximately $103.7 million and $40.1 million, respectively, which begin to expire in 2018 and 2006, respectively, unless previously utilized.

As of January 1, 2006, we also had U.S. federal and California research and development tax credit carryforwards of approximately $4.1 million and $3.8 million, respectively. The federal tax credit carryforwards will begin to expire in 2018 and the California carryforwards have no expiration.

Our utilization of the net operating losses and credits may be subject to substantial annual limitations pursuant to Section 382 and 383 of the Internal Revenue Code, and similar state provisions, as a result of changes in our ownership structure. CyVera Corporation had an ownership change upon our acquisition during 2005 and, accordingly, its net operating loss and tax credit carryforwards are subject to annual limitation. These annual limitations may result in the expiration of net operating losses and credits prior to utilization.

Liquidity and Capital Resources

Cashflow

	Year Ended December 31, 2006	Year Ended January 1, 2006	Year Ended January 2, 2005
		(In thousands)	
Net cash provided (used in) operating activities	$ 39,000	$(9,008)	$(19,574)
Net cash provided by (used in) investing activities	(160,735)	(1,535)	57,022
Net cash provided by financing activities	109,296	5,963	4,875
Effect of foreign currency translation	3	613	1
Net increase (decrease) in cash and cash equivalents	$ (12,436)	$(3,967)	$ 42,324

As of December 31, 2006, we had cash, cash equivalents and short-term investments of approximately $130.8 million. We currently invest our funds in U.S. dollar-based, short-term money market mutual funds, corporate bonds, commercial paper, auction rate certificates and treasury notes.

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Our operating activities generated cash of $39.0 million in the year ended December 31, 2006, compared to using cash of $9.0 million in the year ended January 1, 2006. Net cash provided by operating activities in the year ended December 31, 2006 was primarily the result of the following: net income of $40.0 million; $14.3 million related to non-cash stock compensation expense resulting from the adoption of SFAS No. 123R; an $11.5 million increase in accounts payable and accrued liabilities driven by increases in general business activity associated with our sales growth, as well as expenses associated with the expansion of our corporate infrastructure to accommodate this growth; non-cash charges of $6.1 million for depreciation and amortization; a $5.9 million increase in other long-term liabilities primarily due to deferred revenue associated with the agreement with Genizon Biosciences and the deCODE genetics collaboration; and a $1.8 million increase in income taxes payable. These sources were partially offset by a $21.7 million increase in accounts receivable and a $9.7 million increase in inventory primarily due to our significant sales growth of 151% during the year ended December 31, 2006, compared to the year ended January 1, 2006, which resulted from increased customer demand and introduction of our new products and services into the market; a $5.3 million increase in other assets primarily due to increased long-term cost of sales associated with Genizon and deCODE and capitalized costs associated with the Solexa acquisition; a $1.6 million increase in prepaid expenses and other current assets primarily associated with increased prepaid software licenses and insurance, as well as an increase in interest receivable, $1.4 million for an incremental tax benefit related to stock option exercises and an increase of $0.6 million in deferred income taxes. Net cash used in operating activities in the year ended January 1, 2006 was primarily the result of a net loss from operations of $20.9 million, a $6.0 million payment for a litigation judgment, a $7.0 million increase in accounts receivable and a $6.5 million increase in inventory, reduced by a $7.4 million increase in accounts payable and accrued liabilities, a $3.2 million increase in long-term liabilities primarily related to payments received from Invitrogen recorded as deferred revenue, non-cash charges of $4.1 million for depreciation and amortization and a non-cash acquired IPR&D charge of $15.8 million related to the CyVera acquisition.

Our investing activities used cash of $160.7 million in the year ended December 31, 2006, compared to using cash of $1.5 million in the year ended January 1, 2006. Cash used in investing activities in the year ended December 31, 2006 was primarily due to the purchase of available-for-sale securities totaling $236.3 million, a $50.0 million investment in Solexa, and the purchase of a $3.0 million secured convertible debenture in Genizon. Further, $15.1 million was used for the purchase of property and equipment primarily related to the expansion of our manufacturing capacity. Our manufacturing capacity for BeadChips has increased approximately fourfold over the level as of January 1, 2006. These uses of cash were partially offset by $143.8 million provided by sales and maturities of available-for-sale securities. Cash used by investing activities in the year ended January 1, 2006 was due to $11.4 million used for the purchase of property and equipment and $2.4 million paid for the acquisition of CyVera, reduced by $12.2 million from the sale or maturity of investment securities used to provide operating funds for our business.

Our financing activities provided $109.3 million in the in the year ended December 31, 2006, compared to $6.0 million in the year ended January 1, 2006. Cash provided by financing activities in the year ended December 31, 2006 was primarily due to $96.5 million in net proceeds from a public stock offering completed in May 2006, as well as proceeds from the issuance of common stock from option exercises and employee stock purchase plan purchases totaling $11.4 million. Cash provided from financing activities in the year ended January 1, 2006 was primarily proceeds from the issuance of common stock from option exercises.

In February 2007, we issued $400 million principal amount of 0.625% Convertible Senior Notes due 2014. The net proceeds from the offering, after deducting the initial purchasers' discount and offering expenses, were approximately $390.3 million. We used approximately $202 million of the net proceeds to purchase shares of our common stock in privately negotiated transactions concurrently with the offering. We used $46.6 million of the net proceeds of this offering to pay the cost of convertible note hedge and warrant transactions, which are designed to reduce the potential dilution upon conversion of the notes. We intend to use the balance of the net proceeds for other general corporate purposes, which may include acquisitions and additional purchases of our common stock. The notes mature on February 15, 2014 and bear interest semi-annually at a rate of 0.625% per year, payable on February 15 and August 15 of each year, beginning on August 15, 2007. In addition, we may in certain circumstances be obligated to pay additional interest. If a "designated event," as defined in the indenture for the notes, occurs, holders of the notes may require us to repurchase all or a portion of their notes for cash at a repurchase price equal to the principal amount of the notes to be repurchased, plus accrued and unpaid interest. In addition, upon conversion of the notes, we must pay the principal portion in cash. The notes will become convertible only in certain circumstances based on conditions relating to the trading price of the notes and our common stock or upon the occurrence of specified corporate events. However, the notes will be convertible at any time from, and including, November 15, 2013 through the third scheduled trading day immediately preceding February 15, 2014.

We anticipate that our current cash and cash equivalents and income from operations will be sufficient to fund our operating needs for at least the next twelve months. Operating needs include the planned costs to operate our business, including amounts required to fund working capital and capital expenditures. At the present time, we have no material commitments for capital expenditures. However, our future capital requirements and the adequacy of our available funds will depend on many factors, including the successful resolution of our legal proceedings with Affymetrix, our ability to successfully commercialize our sequencing systems and to expand our SNP genotyping services product lines, scientific progress in our research and development programs, the magnitude of those programs, competing technological and market developments and the need to enter into collaborations with other companies or acquire other companies or technologies to enhance or complement our product and service offerings. Therefore, we may require additional funding in the future.

Off-Balance Sheet Arrangements and Contractual Obligations

We do not participate in any transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities (SPEs), which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of December 31, 2006, we were not involved in any SPE transactions.

In January 2002, we purchased two newly constructed buildings and assumed a $26.0 million, ten-year mortgage on the property at a fixed interest rate of 8.36%. In June 2004, we entered into a conditional agreement to sell our land and buildings for $42.0 million and to lease back such property for an initial term of ten years. The sale was completed in August 2004 at which time the lease was signed. After the repayment of the remaining $25.2 million debt and other related transaction expenses, we received $15.5 million in net cash proceeds. We removed the land and net book value of the buildings of $36.9 million from our balance sheet and are recording the resulting $3.7 million gain on the sale of the property over the lease term in accordance with SFAS No. 13, *Accounting for Leases.* Under the terms of the lease, we made a $1.9 million security deposit, with monthly rental payments of $318,643 for the first year with an annual increase of 3% in each subsequent year through 2014. The current monthly rent under this lease is $338,048. On February 14, 2007, we extended this lease. The terms of the new lease provide for monthly rent increases each year to a maximum of $504,710 per month during the last year of the lease, which is now 2023. We have the option to extend the term of the lease for three additional five-year periods.

As of December 31, 2006, we also leased an office and laboratory facility in Connecticut, additional office, distribution and storage facilities in San Diego, and four foreign facilities located in Japan, Singapore, China and the Netherlands under non-cancelable operating leases that expire at various times through July 2011. These leases contain renewal options ranging from one to five years.

As of December 31, 2006, our contractual obligations were (in thousands):

	Payments Due by Period				
Contractual Obligation	Total	Less Than 1 Year	1 – 3 Years	1 – 5 Years	More Than 5 Years
Operating leases	$37,899	$5,320	$10,410	$9,371	$12,798
Total	$37,899	$5,320	$10,410	$9,371	$12,798

The above table does not include orders for goods and services entered into in the normal course of business that are not enforceable or legally binding.

Item 7A. ***Quantitative and Qualitative Disclosures About Market Risk.***

Interest Rate Sensitivity

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio. The fair market value of fixed rate securities may be adversely impacted by fluctuations in interest rates while income earned on floating rate securities may decline as a result of decreases in interest rates. Under our current policies, we do not use interest rate derivative instruments to manage exposure to interest rate changes. We attempt to ensure the safety and preservation of our invested principal funds by limiting default risk, market risk and reinvestment risk. We mitigate default risk by investing in investment grade securities. We have historically maintained a relatively short average maturity for our investment portfolio, and we believe a hypothetical 100 basis point adverse move in interest rates along the entire interest rate yield curve would not materially affect the fair value of our interest sensitive financial instruments.

Foreign Currency Exchange Risk

Although most of our revenue is realized in U.S. dollars, some portions of our revenue are realized in foreign currencies. As a result, our financial results could be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in foreign markets. The functional currencies of our subsidiaries are their respective local currencies. Accordingly, the accounts of these operations are translated from the local currency to the U.S. dollar using the current exchange rate in effect at the balance sheet date for the balance sheet accounts, and using the average exchange rate during the period for revenue and expense accounts. The effects of translation are recorded in accumulated other comprehensive income as a separate component of stockholders' equity.

Periodically, we hedge significant foreign currency firm sales commitments and accounts receivable with forward contracts. We only use derivative financial instruments to reduce foreign currency exchange rate risks; we do not hold any derivative financial instruments for trading or speculative purposes. We primarily use forward exchange contracts to hedge foreign currency exposures and they generally have terms of one year or less. These contracts have been designated as cash flow hedges and accordingly, to the extent effective, any unrealized gains or losses on these foreign currency forward contracts are reported in other comprehensive income. Realized gains and losses for the effective portion are recognized with the underlying hedge transaction. As of December 31, 2006, we had no foreign currency forward contracts outstanding. The notional settlement amount of the foreign currency forward contracts outstanding at December 31, 2006 and January 1, 2006 were $0 and $0.1 million, respectively. As of January 1, 2006, we had one outstanding contract with an immaterial fair value, representing an unrealized gain, which was included in other current assets at January 1, 2006. We settled foreign exchange contracts of $0.1 million and $5.2 million for the years ended December 31, 2006 and January 1, 2006, respectively. We did not hold any derivative financial instruments prior to fiscal 2004.

Item 8. ***Financial Statements and Supplementary Data.***

The Report of Independent Registered Public Accounting Firm, Financial Statements and Notes to Financial Statements begin on page F-1 immediately following the signature page and are incorporated herein by reference.

Our fiscal year is 52 or 53 weeks ending on the Sunday closest to December 31, with quarters of 13 or 14 weeks ending on the Sunday closest to March 31, June 30 and September 30. The years ended December 31, 2006 and January 1, 2006 were both 52 weeks. The year ended January 2, 2005 was 53 weeks.

Item 9. ***Changes In and Disagreements With Accountants on Accounting and Financial Disclosure.***

None.

Item 9A. ***Controls and Procedures.***

We design our internal controls to provide reasonable assurance that (1) our transactions are properly authorized; (2) our assets are safeguarded against unauthorized or improper use; and (3) our transactions are properly recorded and reported in conformity with U.S. generally accepted accounting principles. We also maintain internal controls and procedures to ensure that we comply with applicable laws and our established financial policies.

We have carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Securities Exchange Act), as of December 31, 2006. Based upon that evaluation, our principal executive officer and principal financial officer concluded that, as of December 31, 2006, our disclosure controls and procedures are effective to ensure that (a) the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (b) such information is accumulated and communicated to our management, including our principal executive officer and principal financial officers, or persons performing similar functons, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management have concluded that the disclosure controls and procedures are effective at the reasonable assurance level. Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected.

An evaluation was also performed under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of any change in our internal control over financial reporting that occurred during the fourth quarter of 2006 and that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. That evaluation did not identify any such change.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

We conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control — Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2006.

Ernst & Young LLP, the independent registered public accounting firm that audited the consolidated financial statements included in this Annual Report on Form 10-K, has issued an attestation report on management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006. This report, which expresses an unqualified opinion on management's assessment of and the effectiveness of our internal controls over financial reporting as of December 31, 2006, is included herein.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To The Board of Directors and Stockholders of
Illumina, Inc.

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Illumina, Inc. maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Illumina, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, management's assessment that Illumina, Inc. maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Illumina, Inc., maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets as of December 31, 2006 and January 1, 2006, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2006 of Illumina, Inc. and our report dated February 23, 2007 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Diego, California
February 23, 2007

Item 9B. ***Other Information.***

None.

PART III

Item 10. ***Directors and Executive Officers of the Registrant.***

(a) Identification of Directors. Information concerning our directors is incorporated by reference from the section entitled "Proposal One: Election of Directors" contained in our definitive Proxy Statement with respect to our 2007 Annual Meeting of Stockholders to be filed with the SEC no later than April 30, 2007.

(b) Identification of Executive Officers. Information concerning our executive officers is set forth under "Executive Officers" in Part I of this Annual Report on Form 10-K and is incorporated herein by reference.

(c) Compliance with Section 16(a) of the Exchange Act. Information concerning compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated by reference from the section entitled "Compliance with Section 16(a) of the Securities Exchange Act" contained in our definitive Proxy Statement with respect to our 2007 Annual Meeting of Stockholders to be filed with the SEC no later than April 30, 2007.

(d) Information concerning the audit committee financial expert as defined by the SEC rules adopted pursuant to the Sarbanes-Oxley Act of 2002 is incorporated by reference from our definitive Proxy Statement with respect to our 2007 Annual Meeting of Stockholders to be filed with the SEC no later than April 30, 2007.

Code of Ethics

We have adopted a code of ethics for our directors, officers and employees, which is available on our website at www.illumina.com in the Investor Information section under "Corporate." The information on our website is not incorporated by reference into this report.

Item 11. ***Executive Compensation.***

Information concerning executive compensation is incorporated by reference from the sections entitled "Executive Compensation and Other Information" contained in our definitive Proxy Statement with respect to our 2007 Annual Meeting of Stockholders to be filed with the SEC no later than April 30, 2007.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.***

Information concerning the security ownership of certain beneficial owners and management is incorporated by reference from the section entitled "Ownership of Securities" contained in our definitive Proxy Statement with respect to our 2007 Annual Meeting of Stockholders to be filed with the SEC no later than April 30, 2007.

Equity Compensation Plan Information

The following table presents information about our common stock that may be issued upon the exercise of options, warrants and rights under all our existing equity compensation plans as of December 31, 2006. We currently have two active equity compensation plans, the 2000 employee stock purchase plan and the 2005 stock incentive plan, which replaced the 2000 stock plan. Prior to our initial public offering, we granted options under our 1998 stock incentive plan. All of these plans have been approved by our stockholders. Options outstanding include options granted under the 1998 stock incentive plan, the 2000 stock plan and the 2005 stock incentive plan.

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options	(b) Weighted-Average Exercise Price of Outstanding Options	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by security holders	8,359,120	$13.94	5,527,502(1)(2)
Equity compensation plans not approved by security holders	—	—	—
Total	8,359,120	$13.94	5,527,502

Please refer to Note 6 to the consolidated financial statements included in this Annual Report on Form 10-K for a description of our equity compensation plans.

(1) Includes 2,764,566 available for grant under our 2005 stock incentive plan. The 2005 stock incentive plan provides for an automatic annual increase in the shares reserved for issuance by the lesser of (1) five percent of outstanding shares of our common stock on the last day of the immediately preceding fiscal year, (2) 1,200,000 shares or (3) a lesser amount as determined by our Board of Directors.

(2) Includes 2,762,936 shares available for grant under our 2000 employee stock purchase plan. The 2000 employee stock purchase plan provides for an automatic annual increase in the shares reserved for issuance by the lesser of (1) three percent of outstanding shares of our common stock on the last day of the immediately preceding fiscal year or (2) 1,500,000 shares.

Item 13. *Certain Relationships and Related Transactions.*

Information concerning certain relationships and related transactions is incorporated by reference from the sections entitled "Proposal One: Election of Directors," "Executive Compensation and Other Information" and "Certain Transactions" contained in our definitive Proxy Statement with respect to our 2007 Annual Meeting of Stockholders to be filed with the SEC no later than April 30, 2007.

Item 14. *Principal Accounting Fees and Services.*

Information concerning principal accounting fees and services is incorporated by reference from the sections entitled "Proposal Two: Ratification of Independent Auditors" contained in our definitive Proxy Statement with respect to our 2007 Annual Meeting of Stockholders to be filed with the SEC no later than April 30, 2007.

PART IV

Item 15. ***Exhibits, Financial Statement Schedules.***

(a) The following documents are filed as a part of this report:

(1) *Consolidated Financial Statements:*

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Consolidated Balance Sheets as of December 31, 2006 and January 1, 2006	F-3
Consolidated Statements of Operations for the years ended December 31, 2006, January 1, 2006, and January 2, 2005	F-4
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(2) *Financial Statement Schedule:*	
Valuation and Qualifying Account and Reserves for the three years ended December 31, 2006	F-37

(3) *Exhibits:*

Exhibit Number	Description of Document
2.1(16)	Agreement and Plan of Merger, dated as of November 12, 2006, among Solexa, Inc., Callisto Acquisition Corp. and the Registrant.
3.1(2)	Corrected Amended and Restated Certificate of Incorporation.
3.2(30)	Amended Bylaws.
3.3(5)	Certificate of Designation for Series A Junior Participating Preferred Stock (included as an exhibit to exhibit 4.3).
4.1(1)	Specimen Common Stock Certificate.
4.2(1)	Second Amended and Restated Stockholders Rights Agreement, dated November 5, 1999, by and among the Registrant and certain stockholders of the Registrant.
4.3(5)	Rights Agreement, dated as of May 3, 2001, between the Registrant and Equiserve Trust Company, N.A.
4.4(35)	Indenture related to the 0.625% Convertible Senior Notes due 2014, dated as of February 16, 2007, between the Registrant and the Bank of New York, as trustee.
4.5(36)	Registration Rights Agreement, dated as of February 16, 2007, between the Registrant and the Purchasers named therein.
+10.1(1)	Form of Indemnification Agreement between the Registrant and each of its directors and officers.
+10.2(1)	1998 Incentive Stock Plan.
+10.3(33)	Amended 2000 Employee Stock Purchase Plan.
10.4(1)	Sublease Agreement dated August 1998 between Registrant and Gensia Sicor Inc. for the Registrant's principal offices.
10.5(1)	License Agreement dated May 1998 between Tufts and Registrant (with certain confidential portions omitted).
10.6(1)	Master Loan and Security Agreement, dated March 6, 2000, by and between Registrant and FINOVA Capital Corporation.
+10.7(1)	2000 Stock Plan.
10.8(1)	Eastgate Pointe Lease, dated July 6, 2000, between Diversified Eastgate Venture and Registrant.

Exhibit Number	Description of Document
10.9(1)	Option Agreement and Joint Escrow Instructions, dated July 6, 2000, between Diversified Eastgate Venture and Registrant.
10.10(4)	First Amendment to Joint Development Agreement dated March 27, 2001 between Registrant and PE Corporation, now known as Applied Biosystems Group (with certain confidential portions omitted).
10.11(6)	First Amendment to Option Agreement and Escrow Instructions dated May 25, 2001 between Diversified Eastgate Venture and Registrant.
10.12(13)	Second Amendment to Option Agreement and Escrow Instructions dated July 18, 2001 between Diversified Eastgate Venture and Registrant.
10.13(14)	Third Amendment to Option Agreement and Escrow Instructions dated September 27, 2001 between Diversified Eastgate Venture and Registrant.
10.14(15)	First Amendment to Eastgate Pointe Lease dated September 27, 2001 between Diversified Eastgate Venture and Registrant.
10.15(8)	Replacement Reserve Agreement, dated as of January 10, 2002, between the Registrant and BNY Western Trust Company as Trustee for Washington Capital Joint Master Trust Mortgage Income Fund.
10.16(17)	Loan Assumption and Modification Agreement, dated as of January 10, 2002, between the Registrant, Diversified Eastgate Venture and BNY Western Trust Company as Trustee for Washington Capital Joint Master Trust Mortgage Income Fund.
10.17(18)	Tenant Improvement and Leasing Commission Reserve Agreement, dated as of January 10, 2002, between the Registrant and BNY Western Trust Company as Trustee for Washington Capital Joint Master Trust Mortgage Income Fund.
+10.18(32)	2000 Employee Stock Purchase Plan as amended and restated through July 20, 2006.
+10.19(20)	2000 Stock Plan as amended and restated through March 21, 2002.
10.20(21)	Non-exclusive License Agreement dated January 2002 between Amersham Biosciences Corp. and Registrant (with certain confidential portions omitted).
10.21(22)	License Agreement dated June 2002 between Dade Behring Marburg GmbH and Registrant (with certain confidential portions omitted).
10.22(23)	Purchase and Sale Agreement and Escrow Instructions dated June 18, 2004 between Bernardo Property Advisors, Inc. and Registrant.
10.23(24)	Single Tenant Lease dated August 18, 2004 between BioMed Realty Trust Inc. and Registrant.
10.24(25)	Settlement and Cross License Agreement dated August 18, 2004 between Applera Corporation and Registrant (with certain confidential portions omitted).
10.28(26)	Collaboration Agreement dated December 17, 2004 between Invitrogen Incorporated and Registrant (with certain confidential portions omitted).
10.29(27)	Offer letter for Christian O. Henry dated April 26, 2005.
10.30(28)	Forms of Stock Option Agreement under 2000 Stock Plan.
10.31(29)	Secured Convertible Debenture Indenture between Genizon BioSciences Inc., Computershare Trust Company of Canada and the Registrant, dated March 24, 2006.
10.32(30)	Joint Development and Licensing Agreement dated May 15, 2006 between deCODE genetics, ehf. and Registrant (with certain confidential portions omitted).
10.33(31)	Form of Change in Control Severance Agreement between the Registrant and Jay T. Flatley.
10.34(31)	Form of Change in Control Severance Agreement between the Registrant and Christian O. Henry.
10.35(31)	Form of Change in Control Severance Agreement between the Registrant and Tristan B. Orpin.
10.36(31)	Form of Change in Control Severance Agreement between the Registrant and John R. Stuelpnagel.
10.37(31)	Form of Change in Control Severance Agreement between the Registrant and Arthur L. Holden.
10.38(31)	Form of Change in Control Severance Agreement between the Registrant and Christian G. Cabou.

Exhibit Number	Description of Document
10.39(34)	Securities Purchase Agreement, dated as of November 12, 2006, between Solexa, Inc. and the Registrant.
10.40	Lease between The Irvine Company LLC and the Registrant, dated September 29, 2006.
14(10)	Code of Ethics.
21.1	Subsidiaries of the Registrant.
23.1	Consent of Independent Registered Public Accounting Firm.
24.1	Power of Attorney (included on the signature page).
31.1	Certification of Jay T. Flatley pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Christian O. Henry pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Jay T. Flatley pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Christian O. Henry pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

+ Management contract or corporate plan or arrangement

(1) Incorporated by reference to the same numbered exhibit filed with our Registration Statement on Form S-1 (333-33922) filed April 3, 2000, as amended.

(2) Incorporated by reference to the same numbered exhibit filed with our Annual Report on Form 10-K (File No. 000-30361) for the year ended December 31, 2000 filed March 29, 2001.

(3) [reserved]

(4) Incorporated by reference to exhibit 10.13 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended March 31, 2001 filed May 8, 2001.

(5) Incorporated by reference to the same numbered exhibit filed with our Registration Statement on Form 8-A (File No. 000-30361) filed May 14, 2001.

(6) Incorporated by reference to exhibit 10.15 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended June 30, 2001 filed August 13, 2001.

(7) Incorporated by reference to the same numbered exhibit filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended September 30, 2001 filed November 14, 2001.

(8) Incorporated by reference to exhibit 10.18 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended March 31, 2002 filed May 13, 2002.

(9) Incorporated by reference to the same numbered exhibit filed with Amendment No. 1 to our Registration Statement on Form S-3 (File No. 333-111496) filed March 2, 2004.

(10) Incorporated by reference to the same numbered exhibit filed with our Annual Report on Form 10-K (File No. 000-30361) for the year ended December 28, 2003 filed March 12, 2004.

(11) Incorporated by reference to the same numbered exhibit filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended June 27, 2004 filed August 6, 2004.

(12) Incorporated by reference to the same numbered exhibit filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended October 3, 2004 filed November 12, 2004.

(13) Incorporated by reference to exhibit 10.16 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended September 30, 2001 filed November 14, 2001.

(14) Incorporated by reference to exhibit 10.17 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended September 30, 2001 filed November 14, 2001.

(15) Incorporated by reference to exhibit 10.18 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended September 30, 2001 filed November 14, 2001.

(16) Incorporated by reference to exhibit 2.1 filed with our Form 8-K (File No. 000-30361) filed November 13, 2006.

(17) Incorporated by reference to exhibit 10.19 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended March 31, 2002 filed May 13, 2002.

(18) Incorporated by reference to the exhibit 10.20 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended March 31, 2002 filed May 13, 2002.

(19) Incorporated by reference to the exhibit 10.21 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended March 31, 2002 filed May 13, 2002.

(20) Incorporated by reference to the exhibit 10.22 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended March 31, 2002 filed May 13, 2002.

(21) Incorporated by reference to exhibit 10.24 filed with Amendment No. 1 to our Registration Statement on Form S-3 (File No. 333-111496) filed March 2, 2004.

(22) Incorporated by reference to exhibit 10.23 filed with our Amendment No. 1 to our Registration Statement on Form S-3 (File No. 333-111496) filed March 2, 2004.

(23) Incorporated by reference to exhibit 10.25 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended June 27, 2004 filed August 6, 2004.

(24) Incorporated by reference to exhibit 10.26 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended October 3, 2004 filed November 12, 2004.

(25) Incorporated by reference to exhibit 10.27 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended October 3, 2004 filed November 12, 2004.

(26) Incorporated by reference to exhibit 10.28 filed with our Form 10-K (File No. 000-30361) for the year ended January 2, 2005 filed March 8, 2005.

(27) Incorporated by reference to exhibit 10.33 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended July 3, 2005 filed August 8, 2005.

(28) Incorporated by reference to exhibit 10.29 filed with our Form 10-K (File No. 000-30361) for the year ended January 2, 2005 filed March 8, 2005.

(29) Incorporated by reference to the same numbered exhibit filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended April 2, 2006 filed May 8, 2006.

(30) Incorporated by reference to the same numbered exhibit filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended July 2, 2006 filed August 2, 2006.

(31) Incorporated by reference to the same numbered exhibit filed with our Form 8-K (File No. 000-30361) filed August 23, 2006.

(32) Incorporated by reference to exhibit 10.13 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended October 1, 2006 filed October 30, 2006.

(33) Incorporated by reference to the same numbered exhibit filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended October 1, 2006, filed October 30, 2006.

(34) Incorporated by reference to exhibit 10.1 filed with our Form 8-K (File No. 000-30361) filed November 13, 2006.

(35) Incorporated by reference to exhibit 4.1 filed with our Form 8-K (File No. 000-30361) filed February 16,2007.

(36) Incorporated by reference to exhibit 4.2 filed with our Form 8-K (File No. 000-30361) filed February 16, 2007.

Supplemental Information

No Annual Report to stockholders or proxy materials has been sent to stockholders as of the date of this report. The Annual Report to stockholders and proxy material will be furnished to our stockholders subsequent to the filing of this Annual Report on Form 10-K and we will furnish such material to the SEC at that time.

SIGNATURES

Pursuant to the requirements of the Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 28, 2007.

ILLUMINA, INC.

By /s/ JAY T. FLATLEY
Jay T. Flatley
President and Chief Executive Officer

February 28, 2007

POWER OF ATTORNEY

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ JAY T. FLATLEY Jay T. Flatley	President, Chief Executive Officer and Director (Principal Executive Officer)	February 28, 2007
/s/ CHRISTIAN O. HENRY Christian O. Henry	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	February 28, 2007
/s/ JOHN R. STUELPNAGEL John R. Stuelpnagel	Senior Vice President, Chief Operating Officer and Director	February 28, 2007
/s/ WILLIAM H. RASTETTER William H. Rastetter	Chairman of the Board of Directors	February 28, 2007
/s/ DANIEL M. BRADBURY Daniel M. Bradbury	Director	February 28, 2007
/s/ KARIN EASTHAM Karin Eastham	Director	February 28, 2007

/s/ Paul Grint Paul Grint	Director	February 28, 2007
/s/ David R. Walt David R. Walt	Director	February 28, 2007
/s/ Jack Goldstein Jack Goldstein	Director	February 28, 2007
/s/ A. Blaine Bowman A. Blaine Bowman	Director	February 28, 2007
 Roy Whitfield	Director	February 28, 2007

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of
Illumina, Inc.

We have audited the accompanying consolidated balance sheets of Illumina, Inc. as of December 31, 2006 and January 1, 2006, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Illumina, Inc., at December 31, 2006 and January 1, 2006, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2006, Illumina, Inc. changed its method of accounting for share-based payments in accordance with Statement of Financial Accounting Standards No. 123R, Share-Based Payment.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Illumina, Inc.'s internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 23, 2007 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Diego, California
February 23, 2007

ILLUMINA, INC.

CONSOLIDATED BALANCE SHEETS

	December 31, 2006	January 1, 2006
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 38,386	$ 50,822
Short-term investments	92,418	—
Accounts receivable, net	39,984	17,620
Inventory, net	20,169	10,309
Prepaid expenses and other current assets	2,769	959
Total current assets	193,726	79,710
Property and equipment, net	25,634	16,131
Investment in Solexa	67,784	—
Goodwill	2,125	2,125
Intangible and other assets, net	11,315	2,644
Total assets	$ 300,584	$ 100,610
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 9,853	$ 7,390
Accrued liabilities	23,860	14,210
Current portion of long-term debt	63	118
Total current liabilities	33,776	21,718
Long-term debt, less current portion	—	54
Deferred gain on sale of land and building	2,468	2,843
Deferred income tax liabilities	6,987	—
Other long-term liabilities	10,011	3,498
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value, 10,000,000 shares authorized, no shares issued and outstanding at December 31, 2006 and January 1, 2006	—	—
Common stock, $0.01 par value, 120,000,000 shares authorized, 46,857,512 shares issued and outstanding at December 31, 2006, 41,294,003 shares issued and outstanding at January 1, 2006	469	413
Additional paid-in capital	340,197	216,766
Deferred compensation	—	(354)
Accumulated other comprehensive income	11,294	258
Accumulated deficit	(104,618)	(144,586)
Total stockholders' equity	247,342	72,497
Total liabilities and stockholders' equity	$ 300,584	$ 100,610

See accompanying notes to the consolidated financial statements

ILLUMINA, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31, 2006	Year Ended January 1, 2006	Year Ended January 2, 2005
	(In thousands, except per share amounts)		
Revenue			
Product revenue	$155,811	$ 57,752	$40,497
Service and other revenue	27,486	13,935	8,075
Research revenue	1,289	1,814	2,011
Total revenue	184,586	73,501	50,583
Costs and expenses:			
Cost of product revenue (including non-cash stock compensation expense of $1,289, $0, and $0, respectively)	51,271	19,920	11,572
Cost of service and other revenue (including non-cash stock compensation expense of $235, $0, and $0, respectively)	8,073	3,261	1,687
Research and development (including non-cash stock compensation expense of $3,891, $84, and $348, respectively)	33,373	27,809	21,462
Selling, general and administrative (including non-cash stock compensation expense of $8,889, $186, and $496, respectively)	54,057	28,158	25,576
Acquired in-process research and development	—	15,800	—
Litigation judgment (settlement), net	—	—	(4,201)
Total costs and expenses	146,774	94,948	56,096
Income (loss) from operations	37,812	(21,447)	(5,513)
Interest income	5,368	1,404	941
Interest and other expense, net	(560)	(668)	(1,518)
Income (loss) before income taxes	42,620	(20,711)	(6,090)
Provision for income taxes	2,652	163	135
Net income (loss)	$ 39,968	$(20,874)	$ (6,225)
Net income (loss) per basic share	$ 0.90	$ (0.52)	$ (0.17)
Net income (loss) per diluted share	$ 0.82	$ (0.52)	$ (0.17)
Shares used in calculating basic net income (loss) per share	44,501	40,147	35,845
Shares used in calculating diluted net income (loss) per share	48,754	40,147	35,845

See accompanying notes to the consolidated financial statements

ILLUMINA, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-In Capital	Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount					
				(In thousands)			
Balance as of December 28, 2003	32,887	$329	$165,314	$(1,103)	$ 335	$(117,487)	$ 47,388
Issuance of common stock for cash	5,278	53	30,454	—	—	—	30,507
Repurchase of restricted common stock	(44)	(1)	(12)	—	—	—	(13)
Amortization of deferred compensation	—	—	—	844	—	—	844
Reversal of deferred compensation related to unvested stock options and restricted stock of terminated employees	—	—	(103)	103	—	—	—
Comprehensive loss:							
Unrealized loss on available-for sale securities	—	—	—	—	(305)	—	(305)
Unrealized loss on hedging contracts	—	—	—	—	(46)	—	(46)
Foreign currency translation adjustment	—	—	—	—	112	—	112
Net loss	—	—	—	—	—	(6,225)	(6,225)
Comprehensive loss							(6,464)
Balance as of January 2, 2005	38,121	381	195,653	(156)	96	(123,712)	72,262
Issuance of common stock for cash	1,592	16	6,030	—	—	—	6,046
Issuance of common stock in conjunction with an acquisition	1,580	16	14,812	—	—	—	14,828
Deferred compensation related to unvested CyVera stock options assumed	—	—	—	(197)	—	—	(197)
Compensation expense related to acceleration of options for terminated employees	—	—	79	—	—	—	79
Deferred compensation related to a restricted stock award	1	—	192	(192)	—	—	—
Amortization of deferred compensation	—	—	—	191	—	—	191
Comprehensive income (loss):							
Unrealized gain on available-for-sale securities	—	—	—	—	29	—	29
Unrealized gain on hedging contracts	—	—	—	—	56	—	56
Foreign currency translation adjustment	—	—	—	—	77	—	77
Net loss	—	—	—	—	—	(20,874)	(20,874)
Comprehensive loss							(20,712)
Balance as of January 1, 2006	41,294	413	216,766	(354)	258	(144,586)	72,497
Issuance of common stock for cash	5,559	56	114,440	—	—	—	114,496
May 2006 offering costs	—	—	(6,530)	—	—	—	(6,530)
Deferred compensation related to a restricted stock award	4	—	—	—	—	—	—
Stock-based compensation expense	—	—	14,082	354	—	—	14,436
Incremental tax benefit related to stock options exercised	—	—	1,439	—	—	—	1,439
Comprehensive income (loss):							
Unrealized gain on available-for-sale securities, net of deferred tax	—	—	—	—	10,693	—	10,693
Unrealized gain on hedging contracts	—	—	—	—	(10)	—	(10)
Foreign currency translation adjustment	—	—	—	—	353	—	353
Net income	—	—	—	—	—	39,968	39,968
Comprehensive income							51,004
Balance as of December 31, 2006	46,857	$469	$340,197	$ —	$11,294	$(104,618)	$247,342

See accompanying notes to the consolidated financial statements

ILLUMINA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2006	Year Ended January 1, 2006	Year Ended January 2, 2005
		(In thousands)	
Cash flows from operating activities:			
Net income (loss)	$ 39,968	$(20,874)	$ (6,225)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Acquired in-process research and development	—	15,800	—
Depreciation and amortization	6,083	4,116	3,956
Loss on disposal of property and equipment	116	293	—
Amortization of premium on investments	—	(14)	354
Non-cash stock-based compensation expense	14,304	270	844
Incremental tax benefit related to stock options exercised	(1,439)	—	—
Amortization of gain on sale of land and building	(375)	(375)	(156)
Changes in operating assets and liabilities:			
Accounts receivable	(21,733)	(7,039)	(7,202)
Inventory	(9,728)	(6,502)	(1,785)
Prepaid expenses and other current assets	(1,591)	290	(29)
Deferred income taxes	(548)	—	—
Other assets	(5,263)	395	(2,041)
Accounts payable	2,438	3,193	697
Accrued income taxes	1,809	144	84
Accrued liabilities	9,066	4,070	1,874
Litigation judgment	—	(5,957)	567
Other long-term liabilities	5,893	3,182	(512)
Advance payment from former collaborator	—	—	(10,000)
Net cash provided by (used in) operating activities	39,000	(9,008)	(19,574)
Cash flows from investing activities:			
Cash paid for acquisition, net of cash acquired	—	(2,388)	—
Investment in secured convertible debentures	(3,036)	—	—
Investment in Solexa	(50,000)	—	—
Purchases of available-for-sale securities	(236,331)	—	(6,603)
Sales and maturities of available-for-sale securities	143,846	12,248	26,348
Proceeds from sale of land and building, net of fees	—	—	40,667
Purchase of property and equipment	(15,114)	(11,395)	(3,355)
Acquisition of intangible assets	(100)	—	(35)
Net cash provided by (used in) investing activities	(160,735)	(1,535)	57,022
Cash flows from financing activities:			
Payments on long-term debt	(109)	(83)	(25,387)
Payments on equipment financing	—	—	(232)
Proceeds from issuance of common stock	107,966	6,046	30,507
Incremental tax benefit related to stock options exercised	1,439	—	—
Repurchase of common stock	—	—	(13)
Net cash provided by financing activities	109,296	5,963	4,875
Effect of foreign currency translation on cash and cash equivalents	3	613	1
Net increase (decrease) in cash and cash equivalents	(12,436)	(3,967)	42,324
Cash and cash equivalents at beginning of the year	50,822	54,789	12,465
Cash and cash equivalents at end of the year	$ 38,386	$ 50,822	$ 54,789
Supplemental disclosures of cash flow information:			
Cash paid during the year for interest	$ 11	$ 15	$ 1,368

See accompanying notes to the consolidated financial statements

1. Organization and Summary of Significant Accounting Policies

Organization and Business

Illumina, Inc. (the Company) was incorporated on April 28, 1998. The Company is a leading developer, manufacturer and marketer of next-generation life-science tools and integrated systems for the large-scale analysis of genetic variation and biological function. Using the Company's proprietary technologies, the Company provides a comprehensive line of products and services that currently serve the sequencing, genotyping and gene expression markets, and the Company expects to enter the market for molecular diagnostics. The Company's tools provide researchers around the world with the performance, throughput, cost effectiveness and flexibility necessary to perform the billions of genetic tests needed to extract valuable medical information from advances in genomics and proteomics. The Company believes this information will enable researchers to correlate genetic variation and biological function, which will enhance drug discovery and clinical research, allow diseases to be detected earlier and permit better choices of drugs for individual patients.

Basis of Presentation

The consolidated financial statements of the Company have been prepared in conformity with U.S. generally accepted accounting principles and include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Fiscal Year

The Company's fiscal year is 52 or 53 weeks ending the Sunday closest to December 31, with quarters of 13 or 14 weeks ending the Sunday closest to March 31, June 30, and September 30. The years ended December 31, 2006 and January 1, 2006 were both 52 weeks.

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation.

Use of Estimates

The preparation of financial statements requires that management make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, goodwill and related disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents are comprised of short-term, highly liquid investments primarily in money market-type funds.

Investments

The Company applies Statement of Financial Accounting Standards (SFAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, to its investments. Under SFAS No. 115, the Company classifies its investments as "available-for-sale" and records such assets at estimated fair value in the balance sheet, with unrealized gains and losses, if any, reported in stockholders' equity. As of December 31, 2006, the Company's excess cash balances were primarily invested in marketable debt securities, including commercial paper, auction rate certificates and corporate bonds and notes, with strong credit ratings or short maturity mutual funds providing similar financial returns. The Company limits the amount of investment exposure as to institutions, maturity and investment type. The cost of securities sold is determined based on the specific identification method. The Company did not record any gross realized gains for the years ended December 31, 2006 or January 1, 2006. For the year ended January 2, 2005, gross realized gains totaled $453,750. Gross realized losses totaled approximately $35,000, $0, and $0 for the years ended December 31, 2006, January 1, 2006 and January 2, 2005, respectively. Further, there were no investments that have been in a continuous unrealized loss position for greater than twelve months as of December 31, 2006.

Restricted Cash

As of December 31, 2006, restricted cash, included in cash and cash equivalents, consisted of bank guarantees totaling approximately $250,000 associated with two sales contracts during 2006. Both guarantees are scheduled to be released during 2007. There was no restricted cash as of January 1, 2006.

Fair Value of Financial Instruments

The carrying amounts of certain of the Company's financial instruments, including cash and cash equivalents, accounts and notes receivable, accounts payable and accrued liabilities, approximate fair value.

Accounts and Notes Receivable

Trade accounts receivable are recorded at net invoice value and notes receivable are recorded at contractual value plus earned interest. Interest income on notes receivable is recognized according to the terms of each related agreement. The Company considers receivables past due based on the contractual payment terms. The Company reviews its exposure to amounts receivable and reserves specific amounts if collectibility is no longer reasonably assured. The Company also reserves a percentage of its trade receivable balance based on collection history. The Company re-evaluates such reserves on a regular basis and adjusts its reserves as needed.

Concentrations of Risk

Cash equivalents, investments and accounts receivable are financial instruments that potentially subject the Company to concentrations of credit risk. Most of the Company's cash and cash equivalents as of December 31, 2006 were deposited with financial institutions in the United States and the Company's investment policy restricts the amount of credit exposure to any one issuer and to any one type of investment, other than securities issued by the U.S. Government. The Company has historically not experienced significant credit losses from accounts receivable. The Company performs a regular review of customer activity and associated credit risks and generally does not require collateral. The Company maintains an allowance for doubtful accounts based upon a percentage of its trade receivable balance based on collection history and re-evaluates such reserves on a regular basis.

The Company's products require customized components that currently are available from a limited number of sources. The Company obtains certain key components included in its products from single vendors. No assurance can be given that these or other product components will be available in sufficient quantities at acceptable costs in the future.

Approximately 44%, 38% and 52% of the Company's revenue for the years ended December 31, 2006, January 1, 2006 and January 2, 2005 was derived from shipments to customers outside the United States. Approximately 39% and 48% of the Company's net accounts receivable balance as of December 31, 2006 and January 1, 2006, respectively, was related to customers outside the United States. Sales to territories outside of the United States are generally denominated in U.S. dollars. International sales entail a variety of risks, including currency exchange fluctuations, longer payment cycles and greater difficulty in accounts receivable collection. The Company is also subject to general geopolitical risks, such as political, social and economic instability and changes in diplomatic and trade relations. The risks of international sales are mitigated in part by the extent to which sales are geographically distributed.

Inventories

Inventories are stated at the lower of standard cost (which approximates actual cost) or market. Inventory includes raw materials and finished goods that may be used in the research and development process and such items are expensed as consumed. Provisions for slow moving, excess and obsolete inventories are provided based on product life cycle and development plans, product expiration and quality issues, historical experience and inventory levels.

Property and Equipment

Property and equipment are stated at cost, subject to review of impairment, and depreciated over the estimated useful lives of the assets (generally three to seven years) using the straight-line method. Amortization of leasehold improvements is computed over the shorter of the lease term or the estimated useful life of the related assets.

Intangible Assets

Intangible assets consist of license agreements and acquired technology. The cost of the Company's license agreements was $944,450 and the Company has amortized $836,450 through December 31, 2006. Amortization expense related to license agreements for the years ending December 31, 2006, January 1, 2006 and January 2, 2005 was $51,083, $292,033 and $300,000, respectively. The licenses will be fully amortized by 2010.

Long-Lived Assets

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* if indicators of impairment exist, the Company assesses the recoverability of the affected long-lived assets by determining whether the carrying value of such assets can be recovered through undiscounted future operating cash flows. If impairment is indicated, the Company measures the future discounted cash flows associated with the use of the asset and adjusts the value of the asset accordingly. While the Company's historical operating and cash flow losses are indicators of impairment, the Company believes the current and future cash flows to be received from the long-lived assets recorded at December 31, 2006 will exceed the assets' carrying value, and accordingly the Company has not recognized any impairment losses through December 31, 2006.

Reserve for Product Warranties

The Company generally provides a one-year warranty on instrumentation. At the time revenue is recognized, the Company establishes an accrual for estimated warranty expenses associated with system sales. This expense is recorded as a component of cost of revenue.

Revenue Recognition

The Company's revenue is generated primarily from the sale of products and services. Product revenue consists of sales of arrays, reagents, instrumentation, and oligos. Service and other revenue consists of revenue received for performing genotyping services, extended warranty sales and revenue earned from milestone payments.

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the seller's price to the buyer is fixed or determinable and collectibility is reasonably assured. In instances where final acceptance of the product or system is required, revenue is deferred until all the acceptance criteria have been met. All revenue is recorded net of any applicable allowances for returns or discounts.

Revenue for product sales is recognized generally upon shipment and transfer of title to the customer, provided no significant obligations remain and collection of the receivables is reasonably assured. Revenue from the sale of instrumentation is recognized when earned, which is generally upon shipment. However, in the case of BeadLabs, revenue is recognized upon the completion of installation, training and the receipt of customer acceptance. Revenue for genotyping services is recognized when earned, which is generally at the time the genotyping analysis data is delivered to the customer or as specific milestones are achieved.

In order to assess whether the price is fixed and determinable, the Company ensures there are no refund rights. If payment terms are based on future performance, the Company defers revenue recognition until the price becomes fixed and determinable. The Company assesses collectibility based on a number of factors, including past transaction history with the customer and the creditworthiness of the customer. If the Company determines that collection of a payment is not reasonably assured, revenue recognition is deferred until the time collection becomes reasonably assured, which is generally upon receipt of payment.

Sales of instrumentation generally include a standard one-year warranty. The Company also sells separately priced maintenance (extended warranty) contracts, which are generally for one or two years, upon the expiration of the initial warranty. Revenue for extended warranty sales is recognized ratably over the term of the extended warranty period. Reserves are provided for estimated product warranty expenses at the time the associated revenue is recognized. If the Company were to experience an increase in warranty claims or if costs of servicing its warrantied products were greater than its estimates, gross margins could be adversely affected.

While the majority of its sales agreements contain standard terms and conditions, the Company does enter into agreements that contain multiple elements or non-standard terms and conditions. Emerging Issues Task Force (EITF) No. 00-21, *Revenue Arrangements with Multiple Deliverables,* provides guidance on accounting for arrangements that involve the delivery or performance of multiple products, services, or rights to use assets within contractually binding arrangements. Significant contract interpretation is sometimes required to determine the appropriate accounting, including whether the deliverables specified in a multiple element arrangement should be treated as separate units of accounting for revenue recognition purposes, and if so, how the price should be allocated among the deliverable elements, when to recognize revenue for each element, and the period over which revenue should be recognized. The Company recognizes revenue for delivered elements only when it determines that the fair values of undelivered elements are known and there are no uncertainties regarding customer acceptance.

Some of the Company's agreements contain multiple elements that include milestone payments. Revenue from a milestone achievement is recognized when earned, as evidenced by acknowledgement from the Company's collaborator, provided that (i) the milestone event is substantive and its achievability was not reasonably assured at the inception of the agreement, (ii) the milestone represents the culmination of an earnings process, (iii) the milestone payment is non-refundable and (iv) the performance obligations for both the Company and its collaborators after the milestone achievement will continue at a level comparable to the level before the milestone achievement. If all of these criteria are not met, the milestone achievement is recognized over the remaining minimum period of the Company's performance obligations under the agreement. The Company defers non-refundable upfront fees received under its collaborations and recognizes them over the period the related services are provided or over the estimated collaboration term using various factors specific to the collaboration. Advance payments received in excess of amounts earned are classified as deferred revenue until earned.

A third source of revenue, research revenue, consists of amounts earned under research agreements with government grants, which is recognized in the period during which the related costs are incurred. All revenue is recorded net of any applicable allowances for returns or discounts.

Shipping and Handling Expenses

Shipping and handling expenses are included in cost of product revenue and totaled $1.8 million, $1.3 million and $0.5 million for the years ended December 31, 2006, January 1, 2006 and January 2, 2005, respectively.

Research and Development

Research and development expenses consist of costs incurred for internal and grant-sponsored research and development. Research and development expenses include salaries, contractor fees, facilities costs, utilities and allocations of benefits. Expenditures relating to research and development are expensed in the period incurred.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising costs were $1.9 million, $1.2 million and $0.8 million for the years ended December 31, 2006, January 1, 2006 and January 2, 2005, respectively.

Income Taxes

In accordance with SFAS No. 109, *Accounting for Income Taxes*, the provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for the expected future tax benefit to be derived from tax loss and credit carryforwards. Deferred tax assets and liabilities are determined using the enacted tax rates in effect for the years in which those tax assets are expected to be realized. A valuation allowance is established when it is more likely than not the future realization of all or some of the deferred tax assets will not be achieved. The evaluation of the need for a valuation allowance is performed on a jurisdiction by jurisdiction basis, and includes a review of all available positive and negative evidence.

Due to the adoption of SFAS No. 123 (revised 2004), Share-Based Payment, the Company recognizes excess tax benefits associated with share-based compensation to stockholders' equity only when realized. When assessing whether excess tax benefits relating to share-based compensation have been realized, the Company follows the with-and-without approach excluding any indirect effects of the excess tax deductions. Under this approach, excess tax benefits related to share-based compensation are not deemed to be realized until after the utilization of all other tax benefits available to the Company.

Foreign Currency Translation

The functional currencies of the Company's wholly-owned subsidiaries are their respective local currencies. Accordingly, all balance sheet accounts of these operations are translated to U.S. dollars using the exchange rates in effect at the balance sheet date, and revenues and expenses are translated using the average exchange rates in effect during the period. The gains and losses from foreign currency translation of these subsidiaries' financial statements are recorded as a separate component of stockholders' equity under the caption "accumulated other comprehensive income (loss)."

Stock-Based Compensation

On January 2, 2006, the Company adopted SFAS No. 123 (revised 2004), *Share-Based Payment*, which addresses the accounting for stock-based payment transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. In January 2005, the SEC issued SAB No. 107, which provides supplemental implementation guidance for SFAS No. 123R. SFAS No. 123R eliminates the ability to account for stock-based compensation transactions using the intrinsic value method under Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and instead generally requires that such transactions be accounted for using a fair-value-based method. The Company uses the Black-Scholes-Merton option-pricing model to determine the fair-value of stock-based awards under SFAS No. 123R, consistent with that used for pro forma disclosures under SFAS No. 123, *Accounting for Stock-Based Compensation*, in prior periods. The Company has elected to use the modified prospective transition method as permitted by SFAS No. 123R and, accordingly, prior periods have not been restated to reflect the impact of SFAS No. 123R. The modified prospective transition method requires that stock-based compensation expense be recorded for all new and unvested stock options, restricted stock and employee stock purchase plan (ESPP) shares that are ultimately expected to vest as the requisite service is rendered. Stock-based compensation expense for awards granted prior to January 2, 2006 is based on the grant date fair-value as determined under APB No. 25. For the year ended December 31, 2006, the Company has recorded an incremental $14.3 million, respectively, of stock-based compensation expense as a result of the adoption of SFAS No. 123R. Net income per diluted share was reduced by $0.29 for the year ended December 31, 2006 as a result of the adoption of SFAS No. 123R. Stock-based compensation expense capitalized as part of inventory as of December 31, 2006 was approximately $0.1 million. As of December 31, 2006, approximately $46.8 million of total unrecognized compensation cost related to stock options, restricted stock and ESPP shares are expected to be recognized over a weighted-average period of approximately two years.

Prior to the adoption of SFAS No. 123R, the Company measured compensation expense for its employee stock-based compensation plans using the intrinsic value method prescribed by APB Opinion No. 25. The Company applied the disclosure provisions of SFAS No. 123, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation — Transition and Disclosure*, as if the fair-value-based method had been applied in measuring stock-based compensation expense. Under APB Opinion No. 25, when the exercise price of the Company's employee stock options was not less than the market price of the underlying stock on the date of the grant, no compensation expense was recognized.

The following table illustrates the effect on net loss and basic and diluted net loss per share as if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based compensation during the specified reporting periods (in thousands, except per share data):

	Year Ended January 1, 2006	Year Ended January 2, 2005
Net loss as reported	$(20,874)	$ (6,225)
Add: Stock-based compensation expense recorded	270	844
Less: Assumed stock-based compensation expense	(8,393)	(10,302)
Pro forma net loss	$(28,997)	$(15,683)
Basic and diluted net loss per share:		
As reported	$ (0.52)	$ (0.17)
Pro forma	$ (0.72)	$ (0.44)

SFAS No. 123R requires the use of a valuation model to calculate the fair-value of stock-based awards. The Company has elected to use the Black-Scholes-Merton option-pricing model, which incorporates various assumptions including volatility, expected life, and interest rates. The expected volatility is based on the historical volatility of the Company's common stock over the most recent period generally commensurate with the estimated expected life of the Company's stock options, adjusted for the impact of unusual fluctuations not reasonably expected to recur and other relevant factors. The expected life of an award is based on historical experience and on the terms and conditions of the stock awards granted to employees.

The assumptions used for the specified reporting periods and the resulting estimates of weighted-average fair value per share of options granted and for stock purchases under the ESPP during those periods are as follows:

	Year Ended December 31, 2006	Year Ended January 1, 2006	Year Ended January 2, 2005
Interest rate — stock options	4.73%	4.08%	3.25%
Interest rate — stock purchases	4.08 - 4.85%	3.25 - 4.08%	3.25 - 3.31%
Volatility — stock options	76%	90%	97%
Volatility — stock purchases	76 - 90%	90 - 103%	97 - 103%
Expected life — stock options	6 years	5 years	5 years
Expected life — stock purchases	6 - 12 months	6 - 24 months	6 - 12 months
Expected dividend yield	0%	0%	0%
Weighted average fair value per share of options granted	$18.88	$7.38	$5.25
Weighted average fair value per share of employee stock purchases	$4.76	$1.81	$1.36

Net Income (Loss) per Share

Basic and diluted net income (loss) per common share is presented in conformity with SFAS No. 128, *Earnings per Share,* for all periods presented. In accordance with SFAS No. 128, basic net income (loss) per share is computed using the weighted-average number of shares of common stock outstanding during the period, less shares subject to repurchase. Diluted net income (loss) per share is typically computed using the weighted average number of common and dilutive common equivalent shares from stock options using the treasury stock method. The following table presents the calculation of weighted-average shares used to calculate basic and diluted net income (loss) per share (in thousands):

	Year Ended December 31, 2006	Year Ended January 1, 2006	Year Ended January 2, 2005
Weighted-average shares outstanding	44,537	40,199	36,165
Less: Weighted-average shares of common stock subject to repurchase	(36)	(52)	(320)
Weighted-average shares used in calculating basic net income (loss) per share	44,501	40,147	35,845
Plus: Effect of dilutive potential common shares	4,253	—	—
Weighted-average shares used in calculating diluted net income (loss) per share	48,754	40,147	35,845

The total number of shares excluded from the calculation of diluted net loss per share, prior to application of the treasury stock method for options and shares of restricted stock, was 7,368,181 and 6,360,023 for the years ended January 1, 2006, and January 2, 2005, respectively, as their effect was antidilutive.

Comprehensive Income

Comprehensive income is comprised of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on the Company's available-for-sale securities that are excluded from net income, changes in the fair value of derivatives designated as effective as cash flow hedges, and foreign currency translation adjustments. The Company has disclosed comprehensive income as a component of stockholders' equity.

The components of accumulated other comprehensive income are as follows (in thousands):

	Year Ended December 31, 2006	Year Ended January 1, 2006
Foreign currency translation adjustments	601	248
Unrealized gain on available-for-sale securities, net of deferred tax	10,693	—
Unrealized gain on cash flow hedges	—	10
Total other comprehensive income	$11,294	$258

Acquisition of CyVera Corporation

On April 8, 2005, the Company completed its acquisition of 100% of the voting equity interests of CyVera Corporation (CyVera). Pursuant to an Agreement and Plan of Merger, dated as of February 22, 2005 (the Merger Agreement), by and among Illumina, Semaphore Acquisition Sub, Inc., a Delaware corporation and wholly owned subsidiary of Illumina (Merger Sub), and CyVera, Merger Sub merged with and into CyVera, with CyVera surviving as a wholly owned subsidiary of Illumina. The results of CyVera's operations have been included in the Company's consolidated financial statements since the acquisition date of April 8, 2005.

CyVera was created in October 2003 to commercialize its technology and optical instrumentation/reader concepts (BeadXpress Reader). The Company believes that the CyVera technology, branded VeraCode, is highly complementary to the Company's own portfolio of products and services and will enhance the Company's capabilities to service its existing customers as well as accelerate the development of additional technologies, products and services. The Company believes that integrating CyVera's capabilities with the Company's technologies will better position the Company to address the emerging biomarker research and development and in-vitro and molecular diagnostic markets. The Company plans to begin shipments of its first products resulting from this acquisition during the first quarter of 2007.

Pursuant to the Merger Agreement, the Company issued 1.6 million shares (the Shares) of Illumina common stock, paid $2.3 million in cash and assumed the net liabilities of CyVera. In addition, the Company assumed the outstanding stock options of CyVera. Approximately 250,000 of the Shares were deposited into an escrow account with a bank to satisfy any claims for indemnification made by the Company or CyVera pursuant to the Merger Agreement. No claims for indemnification were made and the escrow agent released the shares from escrow during the second quarter of 2006.

The results of CyVera's operations have been included in the accompanying consolidated financial statements from the date of the acquisition. The total cost of the acquisition is as follows (in thousands):

Fair market value of securities issued, net	$14,433
Cash paid	2,291
Transaction costs	681
Fair market value of options assumed	394
Total purchase price	$17,799

The fair value of the Shares was determined based on the average closing price of the Company's common stock for five trading days preceding, and following, February 22, 2005 (the date the transaction was announced). The Company believes that this time period gives proper consideration to matters such as price fluctuations and quantities traded and represents a reasonable period before and after the date on which the terms of the acquisition were agreed. Based on these closing prices, the Company estimated the fair value of its common stock to be $9.167 per share, which equates to a total fair value of $14.4 million.

The final purchase price allocation is shown below (in thousands):

Cash	$ 4
Prepaid expenses	12
Fixed assets	349
Deferred compensation on unvested stock options assumed	196
Accounts payable and accrued liabilities	(432)
Debt assumed	(255)
Net book value of net liabilities assumed	(126)
In-process research and development	15,800
Goodwill	2,125
	$17,799

In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets,* the goodwill is not amortized, but will be subject to a periodic assessment for impairment by applying a fair-value-based test. None of this goodwill is expected to be deductible for tax purposes. The Company performs its annual test for impairment of goodwill in May of each year. The Company is required to perform a periodic assessment between annual tests in certain circumstances. The Company has performed its annual test of goodwill as of May 1, 2006 and has determined there was no impairment of goodwill during 2006.

The Company allocated $15.8 million of the purchase price to in-process research and development projects. In-process research and development (IPR&D) represents the valuation of acquired, to-be-completed research projects. At the acquisition date, CyVera's ongoing research and development initiatives were primarily involved with the development of its VeraCode technology and the BeadXpress Reader. These two projects were approximately 50% and 25% complete at the date of acquisition, respectively. As of December 31, 2006, these two projects were approximately 90% and 80% complete, respectively.

The value assigned to purchased IPR&D was determined by estimating the costs to develop the acquired technology into commercially viable products, estimating the resulting net cash flows from the projects, and discounting the net cash flows to their present value. The revenue projections used to value the IPR&D were, in some cases, reduced based on the probability of developing a new technology, and considered the relevant market sizes and growth factors, expected trends in technology, and the nature and expected timing of new product introductions by the Company and its competitors. The resulting net cash flows from such projects are based on the Company's estimates of cost of sales, operating expenses, and income taxes from such projects. The rates utilized to discount the net cash flows to their present value were based on estimated cost of capital calculations. Due to the nature of the forecast and the risks associated with the projected growth and profitability of the developmental projects, discount rates of 30% were considered appropriate for the IPR&D. The Company believes that these discount rates were commensurate with the projects' stage of development and the uncertainties in the economic estimates described above.

If these projects are not successfully developed, the sales and profitability of the combined company may be adversely affected in future periods. The Company believes that the foregoing assumptions used in the IPR&D analysis were reasonable at the time of the acquisition. No assurance can be given, however, that the underlying assumptions used to estimate expected project sales, development costs or profitability, or the events associated with such projects, will transpire as estimated. At the date of acquisition, the development of these projects had not yet reached technological feasibility, and the research and development in progress had no alternative future uses. Accordingly, these costs were charged to expense in the second quarter of 2005.

The following unaudited pro forma information shows the results of the Company's operations for the years ended January 1, 2006 and January 2, 2005 as though the acquisition had occurred as of the beginning of the periods presented (in thousands, except per share data):

	Year Ended January 1, 2006	Year Ended January 2, 2005
Revenue	$73,501	$50,583
Net loss	(6,234)	(9,965)
Net loss per share, basic and diluted	(0.15)	(0.27)

The pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the actual results of operations had the acquisition taken place as of the beginning of the periods presented, or the results that may occur in the future. The pro forma results exclude the non- cash acquired IPR&D charge recorded upon the closing of the acquisition during the second quarter of 2005.

Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109*, which clarifies the accounting for uncertainty in tax positions. FIN No. 48 requires that the Company recognize the impact of a tax position in its financial statements if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN No. 48 are effective as of the beginning of the Company's 2007 fiscal year, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Company does not expect the adoption of FIN No. 48 to have a material impact on its consolidated results of operations and financial position, and the Company is continuing to evaluate the impact, if any, the adoption of FIN No. 48 will have on its disclosure requirements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements.* SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This Statement applies only to fair value measurements that are already required or permitted by other accounting standards. Accordingly, this Statement does not require any new fair value measurements. SFAS No. 157 is effective for fiscal years beginning after December 15, 2007. The Company is currently evaluating the impact, if any, the adoption of SFAS No. 157 will have on its consolidated results of operations and financial position.

2. Balance Sheet Account Details

The following is a summary of short-term investments as of December 31, 2006 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities and obligations of U.S. government agencies	$ 9,498	$ 5	$ (9)	$ 9,494
Debt securities issued by the states of the United States and political subdivisions of the states	17,200	—	—	17,200
Corporate debt securities	65,787	7	(70)	65,724
Total	$92,485	$12	$(79)	$92,418

Gross realized losses on sales of available-for-sale securities totaled approximately $35,000, $0 and $0 for the years ended December 31, 2006, January 1, 2006 and January 2, 2005, respectively. As of December 31, 2006, all of the Company's investments in a gross unrealized loss position had been in such position for less than 12 months.

The Company also recorded an unrealized gain, net of tax, of $10.8 million as of December 31, 2006, related to the investment in common stock of Solexa (see Note 10). The net unrealized gain is classified as a part of accumulated other comprehensive income in the stockholders' equity section of the consolidated balance sheet.

Contractual maturities of short-term investments at December 31, 2006 were as follows (in thousands):

	Estimated Fair Value
Due within one year	$20,250
After one but within five years	72,168
Total	$92,418

Accounts receivable consist of the following (in thousands):

	December 31, 2006	January 1, 2006
Accounts receivable from product and service sales	$39,627	$17,055
Notes receivable from product sales	112	441
Accounts receivable from government grants	167	180
Other receivables	416	257
	40,322	17,933
Allowance for doubtful accounts	(338)	(313)
Total	$39,984	$17,620

Inventory, net, consists of the following (in thousands):

	December 31, 2006	January 1, 2006
Raw materials	$ 8,365	$ 4,575
Work in process	8,907	4,546
Finished goods	2,897	1,188
Total	$20,169	$10,309

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

	December 31, 2006	January 1, 2006
Leasehold improvements	$ 1,760	$ 819
Manufacturing and laboratory equipment	30,523	19,430
Computer equipment and software	10,383	8,121
Furniture and fixtures	3,114	2,139
	45,780	30,509
Accumulated depreciation and amortization	(20,146)	(14,378)
Total	$ 25,634	$ 16,131

Depreciation expense was $6.1 million, $3.8 million and $3.7 million for the years ended December 31, 2006, January 1, 2006 and January 2, 2005, respectively.

Accrued liabilities consist of the following (in thousands):

	December 31, 2006	January 1, 2006
Compensation	$ 8,239	$ 4,922
Legal and other professional fees	3,831	2,311
Taxes	1,804	939
Reserve for product warranties	996	751
Customer deposits	3,703	1,361
Short-term deferred revenue	3,382	1,937
Short-term deferred gain on sale of building	375	375
Other	1,530	1,614
Total	$23,860	$14,210

3. Derivative Financial Instruments

SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* requires that all derivatives be recognized on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. The Company assesses, both at its inception and on an on-going basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting the changes in cash flows of hedged items. The Company also assesses hedge ineffectiveness on a quarterly basis and records the gain or loss related to the ineffective portion to current earnings to the extent significant.

Periodically, the Company hedges significant foreign currency firm sales commitments and accounts receivable with forward contracts. The Company only uses derivative financial instruments to reduce foreign currency exchange rate risks; the Company does not hold any derivative financial instruments for trading or speculative purposes. The Company primarily uses forward exchange contracts to hedge foreign currency exposures and they generally have terms of one year or less. These contracts have been designated as cash flow hedges and accordingly, to the extent effective, any unrealized gains or losses on these foreign currency forward contracts are reported in other comprehensive income. Realized gains and losses for the effective portion are recognized with the underlying hedge transaction. As of December 31, 2006, the Company had no foreign currency forward contracts outstanding. The notional settlement amount of the foreign currency forward contracts outstanding at December 31, 2006 and January 1, 2006 were $0 and $0.1 million, respectively. As of January 1, 2006, the Company had one outstanding contract with an immaterial fair value, representing an unrealized gain, and was included in other current assets at January 1, 2006. The Company settled foreign exchange contracts of $0.1 million and $5.2 million for the years ended December 31, 2006 and January 1, 2006, respectively. The Company did not hold any derivative financial instruments prior to fiscal 2004.

On February 16, 2007, the Company issued $400 million principal amount of 0.625% Convertible Senior Notes due 2014 (the Notes), which included the exercise of the initial purchasers' option to purchase up to an additional $50 million aggregate principal amount of Notes. In connection with the offering of the notes, the Company entered into convertible note hedge transactions with the initial purchasers and/or their affiliates (the counterparties) entitling the Company to purchase shares of the Company's common stock at an initial strike price of $43.66 per share, subject to adjustment. In addition, the Company sold to these counterparties warrants to acquire shares of the Company's common stock at an initial strike price of $62.87 per share, subject to adjustment. See Note 15 for further discussion of these transactions.

4. Warranties and Maintenance Contracts

The Company generally provides a one-year warranty on genotyping and gene expression systems. At the time revenue is recognized, the Company establishes an accrual for estimated warranty expenses associated with system sales. This expense is recorded as a component of cost of product revenue. Estimated warranty expenses associated with extended maintenance contracts are recorded as cost of revenue ratably over the term of the maintenance contract.

Changes in the Company's warranty liability during the three years ended December 31, 2006 are as follows (in thousands):

Balance as of December 28, 2003	$ 230
Additions charged to cost of revenue	603
Repairs and replacements	(446)
Balance as of January 2, 2005	387
Additions charged to cost of revenue	1,094
Repairs and replacements	(730)
Balance as of January 1, 2006	751
Additions charged to cost of revenue	1,379
Repairs and replacements	(1,134)
Balance as of December 31, 2006	$ 996

5. Commitments and Long-term Debt

Building Loan

In July 2000, the Company entered into a 10-year lease to rent space in two newly constructed buildings in San Diego that are now occupied by the Company. That lease contained an option to purchase the buildings together with certain adjacent land that has been approved for construction of an additional building. The Company exercised that option and purchased the properties in January 2002 and assumed a $26.0 million, 10-year mortgage on the property at a fixed interest rate of 8.36%. The Company made monthly payments of $208,974, representing interest and principal, through August 2004. The Company did not record interest expense related to this loan for the years ended December 31, 2006 or January 1, 2006. Interest expense related to this loan was $1.4 million for the year ended January 2, 2005.

In June 2004, the Company entered into a conditional agreement to sell its land and buildings for $42.0 million and to lease back such property for an initial term of ten years. The sale was completed in August 2004 at which time the lease was signed. After the repayment of the remaining $25.2 million debt and other related transaction expenses, the Company received $15.5 million in net cash proceeds. The Company removed the land and net book value of the buildings of $36.9 million from its balance sheet, deferred the resulting $3.7 million gain on the sale of the property, and is amortizing the deferred gain over the lease term in accordance with SFAS No. 13, *Accounting for Leases.*

The Company leased a portion of the space to a tenant under a lease which expired in June 2004. Rental income was recorded as an offset to the Company's facility costs. There was no rental income for the years ended December 31, 2006 and January 1, 2006. For the year ended January 2, 2005, rental income was $409,517.

Capital Leases

In April 2000, the Company entered into a $3,000,000 loan arrangement to be used at its discretion to finance purchases of capital equipment. The loan was secured by the capital equipment financed. As of January 1, 2005, all loan payments were made, the underlying equipment was purchased and the loan arrangement was closed. Depreciation of equipment under capital leases was included in depreciation expense. Interest expense related to capital leases was $10,500 for the year ended January 2, 2005. The Company did not have any capital leases during the years ended December 31, 2006 and January 1, 2006.

Operating Leases

In August 2004, the Company entered into a ten-year lease for its San Diego facility after the land and building were sold (as discussed above). Under the terms of the lease, the Company paid a $1.9 million security deposit and is paying monthly rent of $318,643 for the first year with an annual increase of 3% in each subsequent year through 2014. The current monthly rent under this lease is $338,048. On February 14, 2007, the Company extended this lease. The terms of the new lease provide for monthly rent increases each year to a maximum of $504,710 per month during the last year of the lease, which is now 2023. The Company has the option to extend the term of the lease for three additional five-year periods. In accordance with SFAS No. 13, the Company records rent expense on a straight-line basis and the resulting deferred rent is included in other long-term liabilities in the accompanying consolidated balance sheet.

As of December 31, 2006, the Company also leased an office and laboratory facility in Connecticut, additional office, distribution and storage facilities in San Diego, and four foreign facilities located in Japan, Singapore, China and the Netherlands under non-cancelable operating leases that expire at various times through June 2011. These leases contain renewal options ranging from one to five years.

As of December 31, 2006, annual future minimum payments under these operating leases were as follows (in thousands):

2007	5,320
2008	5,335
2009	5,075
2010	4,659
2011	4,712
2012 and thereafter	12,798
Total	$37,899

Rent expense, net of amortization of the deferred gain on sale of property, was $4,723,041, $4,737,218, and $1,794,234 for the years ended December 31, 2006, January 1, 2006 and January 2, 2005, respectively.

6. Stockholders' Equity

Common Stock

As of December 31, 2006, the Company had 46,857,512 shares of common stock outstanding, of which 4,814,744 shares were sold to employees and consultants subject to restricted stock agreements. The restricted common shares vest in accordance with the provisions of the agreements, generally over five years. All unvested shares are subject to repurchase by the Company at the original purchase price. As of December 31, 2006, 36,000 shares of common stock were subject to repurchase. In addition, the Company also issued 12,000 shares for a restricted stock award to an employee under the Company's new 2005 Stock and Incentive Plan based on service performance. These shares vest monthly over a three-year period.

Stock Options

2005 Stock and Incentive Plan

In June 2005, the stockholders of the Company approved the 2005 Stock and Incentive Plan (the 2005 Stock Plan). Upon adoption of the 2005 Stock Plan, issuance of options under the Company's existing 2000 Stock Plan ceased. The 2005 Stock Plan provides that an aggregate of up to 11,542,358 shares of the Company's common stock be reserved and available to be issued. In addition, the 2005 Stock Plan provides for an automatic annual increase in the shares reserved for issuance by the lesser of 5% of outstanding shares of the Company's common stock on the last day of the immediately preceding fiscal year, 1,200,000 shares or such lesser amount as determined by the Company's board of directors.

The Company's stock option activity under all stock option plans from December 28, 2003 through December 31, 2006 is as follows:

	Options	Weighted-Average Exercise Price
Outstanding at December 28, 2003	5,228,874	$ 6.95
Granted	1,453,400	$ 7.08
Exercised	(139,768)	$ 1.98
Cancelled	(337,486)	$ 8.80
Outstanding at January 2, 2005	6,205,020	$ 6.99
Granted	2,992,300	$10.02
Exercised	(869,925)	$ 4.66
Cancelled	(1,001,964)	$11.00
Outstanding at January 1, 2006	7,325,431	$ 7.96
Granted	2,621,050	$27.24
Exercised	(1,273,119)	$ 7.28
Cancelled	(314,242)	$12.44
Outstanding at December 31, 2006	8,359,120	$13.94

At December 31, 2006, options to purchase approximately 2,901,704 shares were exercisable and 2,764,566 shares remain available for future grant.

Following is a further breakdown of the options outstanding as of December 31, 2006:

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price of Options Exercisable
$0.03 - 5.75	1,475,729	6.22	$ 3.85	964,006	$ 3.65
$5.99 - 8.30	1,455,333	6.04	$ 7.00	686,164	$ 7.32
$8.35 - 9.40	1,465,961	7.75	$ 8.67	451,603	$ 8.78
$9.44 - 20.03	1,408,012	7.55	$12.67	589,545	$12.23
$20.97 - 26.92	1,417,584	9.01	$22.18	175,329	$21.30
$26.94 - 45.69	1,136,501	9.58	$34.00	35,057	$35.18
$ 0.03 - 45.69	8,359,120	7.61	$13.94	2,901,704	$ 8.51

The aggregate intrinsic value of options outstanding and options exercisable as of December 31, 2006 was $212.3 million and $89.4 million, respectively. Aggregate intrinsic value represents the difference between the Company's closing stock price on the last trading day of the fiscal period, which was $39.31 as of December 29, 2006, and the exercise price multiplied by the number of options outstanding. Total intrinsic value of options exercised was $34.0 million for the year ended December 31, 2006.

2000 Employee Stock Purchase Plan

In February 2000, the board of directors and stockholders adopted the 2000 Employee Stock Purchase Plan (the Purchase Plan). A total of 4,827,988 shares of the Company's common stock have been reserved for issuance under the Purchase Plan. The Purchase Plan permits eligible employees to purchase common stock at a discount, but only through payroll deductions, during defined offering periods.

The price at which stock is purchased under the Purchase Plan is equal to 85% of the fair market value of the common stock on the first or last day of the offering period, whichever is lower. The initial offering period commenced in July 2000. In addition, beginning with fiscal 2001, the Purchase Plan provides for annual increases of shares available for issuance by the lesser of 3% of the number of outstanding shares of the Company's common stock on the last day of the immediately preceding fiscal year, 1,500,000 shares or such lesser amount as determined by the Company's board of directors. 266,394, 717,164 and 585,855 shares were issued under the 2000 Employee Stock Purchase Plan during fiscal 2006, 2005 and 2004, respectively. As of December 31, 2006, there were 2,762,936 shares available for issuance under the Purchase Plan.

Stockholder Rights Plan

On May 3, 2001, the Board of Directors of the Company declared a dividend of one preferred share purchase right (a Right) for each outstanding share of common stock of the Company. The dividend was payable on May 14, 2001 (the Record Date) to the stockholders of record on that date. Each Right entitles the registered holder to purchase from the Company one unit consisting of one-thousandth of a share of its Series A Junior Participating Preferred Stock at a price of $100 per unit. The Rights will be exercisable if a person or group hereafter acquires beneficial ownership of 15% or more of the outstanding common stock of the Company or announces an offer for 15% or more of the outstanding common stock. If a person or group acquires 15% or more of the outstanding common stock of the Company, each Right will entitle its holder to purchase, at the exercise price of the right, a number of shares of common stock having a market value of two times the exercise price of the right. If the Company is acquired in a merger or other business combination transaction after a person acquires 15% or more of the Company's common stock, each Right will entitle its holder to purchase, at the Right's then-current exercise price, a number of common shares of the acquiring company which at the time of such transaction have a market value of two times the exercise price of the right. The Board of Directors will be entitled to redeem the Rights at a price of $0.01 per Right at any time before any such person acquires beneficial ownership of 15% or more of the outstanding common stock. The rights expire on May 14, 2011 unless such date is extended or the rights are earlier redeemed or exchanged by the Company.

7. Legal Proceedings

The Company has incurred substantial costs in defending itself against patent infringement claims, and expects to devote substantial financial and managerial resources to protect its intellectual property and to defend against the claims described below as well as any future claims asserted against it.

Affymetrix Litigation

On July 26, 2004, Affymetrix, Inc. (Affymetrix) filed a complaint in the U.S. District Court for the District of Delaware alleging that the use, manufacture and sale of the Company's BeadArray products and services, including the Company's Array Matrix and BeadChip products, infringe six Affymetrix patents. Affymetrix seeks an injunction against the sale of products, if any, that are determined to be infringing these patents, unspecified monetary damages, interest and attorneys' fees. On September 15, 2004, the Company filed its answer to Affymetrix' complaint, seeking declaratory judgments from the court that it does not infringe the Affymetrix patents and that such patents are invalid, and the Company filed counterclaims against Affymetrix for unfair competition and interference with actual and prospective economic advantage.

On February 15, 2006, the court allowed the Company to file its first amended answer and counterclaims, adding allegations of inequitable conduct with respect to all six asserted Affymetrix patents, violation of Section 2 of the Sherman Act, and unclean hands. In March 2006, Affymetrix notified the Company of its decision to drop one of the six patents from the suit, and of its intention to assert infringement of certain additional claims of the remaining five patents. The Company has filed a motion to preclude Affymetrix from asserting infringement of those additional claims. That motion is still pending at this time. On June 30, 2006, the court dismissed the patent Affymetrix had sought to withdraw from the suit. Affymetrix and the Company filed summary judgment motions by the July 14, 2006 court-established deadline. On August 16, 2006, the court issued a ruling on the Markman (claim construction) hearing it had held on April 20, 2006. The Company believes the court's Markman opinion construed several key claim terms in favor of the Company and did not adversely affect the Company's defenses and pending counterclaims in any material respect. At the request of the parties, trial has been rescheduled to March 5, 2007 from October 16, 2006. A pre-trial conference was held on February 8, 2007 during which the court established a multi-phase trial structure with the first phase of the trial to begin on March 5, 2007, and addressed related issues. The Company believes it has meritorious defenses against each of the infringement claims alleged by Affymetrix and intends to defend vigorously against this suit. However, the Company cannot be sure that it will prevail in this matter. Any unfavorable determination, and in particular, any significant cash amounts required to be paid by the Company or prohibition of the sale of its products and services, could result in a material adverse effect on its business, financial condition and results of operations.

Dr. Anthony W. Czarnik v. Illumina, Inc.

On June 15, 2005, Dr. Anthony Czarnik, a former employee, filed suit against the Company in the U.S. District Court for the District of Delaware seeking correction of inventorship of certain of the Company's patents and patent applications, and alleging that the Company committed inequitable conduct and fraud in not naming him as an inventor. Dr. Czarnik seeks an order requiring the Company and the U.S. Patent and Trademark Office to correct the inventorship of certain of the Company's patents and patent applications by adding Dr. Czarnik as an inventor, a judgment declaring certain of the Company's patents and patent applications unenforceable, unspecified monetary damages and attorney's fees. On August 4, 2005, the Company filed a motion to dismiss the complaint for lack of standing and failure to state a claim. While this motion was pending, Dr. Czarnik filed an amended complaint on September 23, 2005. On October 7, 2005, the Company filed a motion to dismiss the amended complaint for lack of standing and failure to state a claim. On July 13, 2006, the court granted the Company's motion to dismiss the counts of Dr. Czarnik's complaint dealing with correction of inventorship in pending applications and inequitable conduct. On July 27, 2006, the Company filed its answer to the two remaining counts of the amended complaint (correction of inventorship in issued patents, and fraud). There has been no trial date set for this case. The Company believes it has meritorious defenses against these claims.

Applied Biosystems Litigation

On December 26, 2006, the Applied Biosystems Group of Applera Corporation filed suit against Solexa, which the Company acquired in a stock-for-stock merger on January 26, 2007. Applied Biosystems' action against Solexa, which was filed in California state court in Santa Clara County, seeks ownership of patents covering Sequencing-by-Ligation technologies. Solexa filed its answer to the complaint by the required deadline. The patents at issue were assigned in 1995 to Solexa's predecessor company (Lynx Therapeutics) by a former employee, Dr. Stephen Macevicz, who is named as a co-defendant in the suit. Lynx, which was originally a unit of Applied Biosystems, was spun out of Applied Biosystems in 1992. The patents at issue in the suit relate to methods for sequencing DNA using successive rounds of oligonucleotide probe ligation (Sequencing-by-Ligation). The Company's new Illumina Genome Analyzer system uses a different technology, DNA Sequencing-by-Synthesis (SBS), which the Company believes is not covered by any of the patents at issue in the suit. The Company also believes that the MPSS technology used by Lynx did not use the methods covered by these patents, and in any event Solexa no longer uses the MPSS technologies. The Company believes the suit is not material to its current or future business, and the Company has no plans to use any of the Sequencing-by-Ligation technologies covered by the patents at issue in the suit. Applied Biosystems does not assert any claim for patent infringement in the suit.

Termination-of-Employment Lawsuit

In March 2001, a complaint seeking damages of an unspecified amount was filed against the Company by Dr. Anthony W. Czarnik, a former employee, in the Superior Court of the State of California in connection with the employee's termination of employment with the Company. In June 2002, a California Superior Court judgment was rendered against the Company and the Company recorded a $7.7 million charge in its financial results for the second quarter of 2002 to cover total damages and remaining expenses. The Company appealed the decision, and in December 2004, the Fourth Appellate District Court of Appeal, in San Diego, California, reduced the amount of the award. The Company recorded interest expense on the $7.7 million during the appeal based on the statutory rate. As a result of the revised judgment, the Company reduced the $9.2 million liability on its balance sheet to $5.9 million and recorded a gain of $3.3 million as a litigation judgment in the fourth quarter of 2004. In January 2005, the Company paid the $5.9 million and removed the liability from its balance sheet.

Litigation with Applera Corporation's Applied Biosystems Group

In 1999, the Company entered into a joint development agreement with Applied Biosystems Group, an operating group of Applera Corporation, under which the companies agreed to jointly develop a SNP genotyping system that would combine the Company's BeadArray technology with Applied Biosystems' assay chemistry and scanner technology. In conjunction with the agreement, Applied Biosystems agreed to provide the Company with non-refundable research and development support of $10.0 million, all of which was paid by December 2001 and recorded as a liability on the Company's balance sheet as of January 2, 2005. In December 2002, Applied Biosystems initiated a patent infringement suit and sought to compel arbitration of an alleged breach of the joint development agreement. The Company initiated a suit in state court seeking to enjoin the arbitration and alleged that Applied Biosystems had breached the joint development agreement. In August 2004, the Company entered into a settlement and cross-license agreement with Applera. As a result of the settlement, the Company removed the $10.0 million liability from its balance sheet, made a payment of $8.5 million to Applera and recorded a gain of $1.5 million as a litigation settlement.

8. Collaborative Agreements

Invitrogen Corporation

In December 2004, the Company entered into a strategic collaboration with Invitrogen Corporation (Invitrogen). The goal of the collaboration is to combine the Company's expertise in oligonucleotide manufacturing with the sales, marketing and distribution capabilities of Invitrogen. In connection with the collaboration, the Company has developed the next generation Oligator DNA synthesis technology. This technology includes both plate- and tube-based capabilities. Under the terms of the agreement, Invitrogen paid the Company an upfront non-refundable collaboration payment of $2.3 million during the first quarter of 2005. Additionally, Invitrogen made a milestone payment of $1.1 million to the Company in November 2005 upon achievement of a milestone event under the terms of the collaboration.

The Company began manufacturing and shipping the plate-based and certain tube-based oligo products under the collaboration in the third quarter of 2005 and, therefore, has begun to amortize the upfront collaboration payment of $2.3 million as product revenue over the life of the agreement on a straight-line basis. The unamortized portion of the collaboration payment has been recorded as short- and long-term deferred revenue. The Company recorded the $1.1 million milestone payment in service and other revenue upon achievement of the milestone during the fourth quarter of 2005. The Company recorded revenue related to this milestone payment upon its achievement, as evidenced by acknowledgment from Invitrogen and due to the fact that (i) the milestone event is substantive and its achievability was not reasonably assured at the inception of the agreement, (ii) the milestone represents the culmination of an earnings process, (iii) the milestone payment is non-refundable and (iv) the performance obligations for both the Company and Invitrogen after the milestone achievement will continue at a level comparable to the level before the milestone achievement. In addition, the agreement provides for the transfer of the Company's Oligator technology into two Invitrogen facilities outside North America. The Company recognizes product revenue upon shipment of collaboration products based on the Company's actual manufacturing cost. Collaboration profit, as defined in the collaboration agreement, from the sale of collaboration products is divided equally between the two companies and is recorded as product revenue.

deCODE genetics

In May 2006, the Company and deCODE genetics, ehf. (deCODE) executed a Joint Development and Licensing Agreement (the Development Agreement). Pursuant to the Development Agreement, the parties agreed to collaborate exclusively to develop, validate and commercialize specific diagnostic tests for variants in genes involved in three disease-related pathways: the gene-encoding leukotriene A4 hydrolase, linked to heart attack; the gene-encoding transcription factor 7-like 2 (TCF7L2), linked to type 2 diabetes; and the gene-encoding BARD1, linked to breast cancer. The Company and deCODE are developing diagnostic tests based on these variants for use on the Company's BeadXpress system.

Under the agreement, the Company will be responsible for the manufacturing, marketing and selling of the diagnostic products. The companies will share the development costs of these products and split the profits from sales of the diagnostics tests. The Development Agreement may be terminated as to a particular product under development if one party decides to discontinue funding the development of that product, and may be terminated in whole by either party if the other party commits an uncured material breach, files for bankruptcy or becomes insolvent. Under a separate supply agreement, the Company installed instrumentation at deCODE that will enable deCODE to perform whole genome association studies on up to 100,000 samples using the Company's Sentrix HumanHap300 BeadChips and associated reagents. The Company has deferred approximately $2.0 million of revenue for instruments installed during the third quarter of 2006 under guidance provided by SFAS No. 48, *Revenue Recognition When Right of Return Exists*. This amount is classified as a long-term liability as of December 31, 2006. The Company has also deferred approximately $1.3 million of costs related to product shipments to deCODE, which are classified as a long-term asset as of December 31, 2006.

International HapMap Project

The Company was the recipient of a grant from the National Institutes of Health covering its participation in the first phase of the International HapMap Project, which is a $100 million, internationally funded successor project to the Human Genome Project that will help identify a map of genetic variations that may be used to perform disease-related research. The Company was awarded a $9.1 million grant from the National Institutes of Health in September 2002 to perform genotyping services in connection with the first phase of the International HapMap Project that covered basic research activities, the development of SNP assays and the genotyping performed on those assays. For the year ending December 31, 2006, the Company did not record any revenue related to this project. For the years ending January 1, 2006 and January 2, 2005, the Company recorded revenue related to this project totaling $0.8 million and $4.6 million, respectively.

9. Investment in Genizon BioSciences Inc.

In January 2006, Genizon BioSciences Inc. (Genizon), a Canadian company focused on gene discovery, purchased from the Company approximately $1.9 million in equipment and committed to purchase an additional $4.3 million in consumables. The Company understands that Genizon is using the Company's HumanHap300 BeadChip along with the Infinium assay to perform whole-genome association studies involving thousands of members of the Quebec Founder Population. The goal of the studies is to provide understanding of the genetic origins and mechanisms of common diseases which may then lead to possible drug targets.

In March 2006, the Company entered into a Subscription Agreement for Secured Convertible Debentures with Genizon. Pursuant to the agreement, the Company purchased a secured convertible debenture (the debenture) of Genizon and certain warrants for CDN$3.5 million (approximately U.S. $3.0 million).

The debenture is convertible, automatically upon the occurrence of a "liquidity event," as defined in the debenture, into Class H Preferred Shares of Genizon. Upon the occurrence of certain events, Illumina may be entitled to receive additional shares of Genizon's Class H Preferred Shares. The debenture matures two years from issuance and bears interest, payable semiannually, at a rate of 5% per annum for the first year and 12.5% per annum for the second year. Unless the debenture is converted before maturity, 112.5% of the principal amount of the debenture is due upon maturity. The Company also received warrants to purchase 226,721 shares of Genizon Class H Preferred Shares at an exercise price of $1.5437 per share.

As of December 31, 2006, the debenture was recorded at face value, which is the fair value, and is classified in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, as an available-for-sale security.

The Company has concluded that the purchase of the debenture and the concurrent purchase by Genizon of the Company's products are "linked" transactions under guidance contained in EITF No. 00-21. Since the transactions are considered "linked," the Company has deferred approximately $3.0 million of revenue (the face value of the Debentures) as of December 31, 2006, related to the Genizon product shipments. The deferred revenue is classified as a long-term liability as of December 31, 2006. This amount is expected to remain in deferred revenue until Genizon settles the Debenture in cash or when a liquidity event occurs that generates cash or a security that is readily convertible into cash. The Company has also deferred approximately $1.1 million of costs related to product shipments to Genizon as a long-term asset as of December 31, 2006. All Genizon shipments that generate revenue over the face value of the debenture will be evaluated under the Company's revenue recognition policy, which is outlined in Note 1.

10. Investment in Solexa

On November 12, 2006, the Company entered into a definitive securities purchase agreement with Solexa in which the Company invested approximately $50 million in Solexa in exchange for 5,154,639 newly issued shares of Solexa common stock in conjunction with the merger of the two companies, completed on January 26, 2007. This investment was valued at $67.8 million as of December 31, 2006, which represented a market value of $13.15 per share of Solexa common stock.

11. Income Taxes

The provision for income taxes consists of the following (in thousands):

	Year Ended December 31, 2006	Year Ended January 1, 2006	Year Ended January 2, 2005
Current:			
Federal	$1,125	$ —	$ —
State	1,177	—	—
Foreign	903	105	135
Total current provision	3,205	105	135
Deferred:			
Federal	—	—	—
State	—	—	—
Foreign	(553)	58	—
Total deferred provision	(553)	58	—
Total tax provision	$2,652	$163	$135

The provision for income taxes reconciles to the amount computed by applying the federal statutory rate to income before taxes as follows (in thousands):

	Year Ended December 31, 2006	Year Ended January 1, 2006	Year Ended January 2, 2005
Tax at federal statutory rate	$ 14,945	$(7,043)	$(2,179)
State, net of federal benefit	767	633	(336)
Alternative minimum tax	1,125	—	—
Research and other credits	(1,900)	(1,239)	34
Acquired in-process research & development	—	5,372	—
Adjustments to deferred tax balances	(3,509)	2,952	—
Change in valuation allowance	(10,038)	(1,138)	2,330
Permanent differences	818	(226)	(264)
Other	444	852	550
Total tax provision	$ 2,652	$ 163	$ 135

Significant components of the Company's deferred tax assets and liabilities are as follows (in thousands):

	December 31, 2006	January 1, 2006
Deferred tax assets:		
Net operating losses	$ 13,728	$ 37,801
Tax credits	10,831	6,634
Deferred revenue	2,859	1,037
Capitalized research and development costs	1,290	1,523
Accruals and reserves	2,491	1,729
Stock compensation	4,736	—
Other	2,592	1,952
Total deferred tax assets	38,527	50,676
Valuation allowance on deferred tax assets	(36,458)	(49,542)
Net deferred tax assets	2,069	1,134
Deferred tax liabilities:		
Property and equipment	(1,516)	(1,134)
Net unrealized gain on investments	(6,987)	—
Total deferred tax liabilities	(8,503)	(1,134)
Net deferred tax liabilities	$ (6,434)	$ —

A valuation allowance is established when it is more likely than not the future realization of all or some of the deferred tax assets will not be achieved. The evaluation of the need for a valuation allowance is performed on a jurisdiction by jurisdiction basis, and includes a review of all available positive and negative evidence. Based upon the available evidence as of December 31, 2006, the Company is not able to conclude it is more likely than not the remaining deferred tax assets in the U.S. will be realized. Therefore, the Company has recorded a full valuation allowance against the U.S. deferred tax assets of approximately $36.5 million.

A deferred tax liability of approximately $7.0 million has been recorded against the unrealized gain on the investment in Solexa, which is included in accumulated other comprehensive income, as of December 31, 2006.

As of December 31, 2006, the Company had net operating loss carryforwards for federal and state tax purposes of approximately $76.4 million and $39.1 million respectively; which begin to expire in 2022 and 2013 respectively, unless previously utilized. In addition, the Company also had U.S. federal and state research and development tax credit carryforwards of approximately $6.4 million and $6.3 million respectively; which begin to expire in 2018 and 2019 respectively, unless previously utilized.

Pursuant to Section 382 and 383 of the Internal Revenue Code, utilization of the Company's net operating losses and credits may be subject to annual limitations in the event of any significant future changes in it's ownership structure. These annual limitations may result in the expiration of net operating losses and credits prior to utilization. Previous limitations due to Section 382 and 383 have been reflected in the deferred tax assets as of December 31, 2006.

Included in the deferred tax assets as of December 31, 2006 are approximately $2.7 million of pre-acquisition deferred tax assets of CyVera Corporation. To the extent these assets are recognized, the adjustment will be applied first to reduce to zero any goodwill related to the acquisition, and then as a reduction to the income tax provision.

Not included in the deferred tax assets as of December 31, 2006 is approximately $14.7 million of tax benefits related to employee stock plans. When realized, the tax benefit of these assets will be accounted for as a credit to additional paid-in capital, rather than a reduction of the income tax provision.

Residual United States income taxes have not been provided on approximately $0.8 million of undistributed earnings of foreign subsidiaries as of December 31, 2006 since the earnings are considered to be permanently invested in the operations of such subsidiaries.

In July 2006, FASB issued FIN No. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109*, which clarifies the accounting for uncertainty in tax positions. FIN No. 48 requires that the Company recognize the impact of a tax position in its financial statements if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN No. 48 are effective as of the beginning of the Company's 2007 fiscal year, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Company does not expect the adoption of FIN No. 48 to have a material impact on its consolidated results of operations and financial position, and the Company is continuing to evaluate the impact, if any, the adoption of FIN No. 48 will have on its disclosure requirements.

12. Retirement Plan

The Company has a 401(k) savings plan covering substantially all of its employees. Company contributions to the plan are discretionary. During the year ended December 31, 2006, the Company made matching contributions of $0.4 million. No contributions were made during the years ended January 1, 2006 and January 2, 2005.

13. Segment Information, Geographic Data and Significant Customers

The Company has determined that, in accordance with SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, it operates in one segment as it only reports operating results on an aggregate basis to the chief operating decision maker of the Company, our chief executive officer. The Company had revenue in the following regions for the years ended December 31, 2006, January 1, 2006 and January 2, 2005 (in thousands):

	Year Ended December 31, 2006	Year Ended January 1, 2006	Year Ended January 2, 2005
United States	$103,043	$45,480	$24,166
Europe	55,440	17,551	12,528
Asia	15,070	6,850	9,703
Other	11,033	3,620	4,186
Total	$184,586	$73,501	$50,583

The Company had no customer that provided more than 10% of total revenue in the years ended December 31, 2006 and January 1, 2006 and one customer that provided approximately 14% of total revenue in the year ended January 2, 2005 (exclusive of revenue recorded from the National Institutes of Health). Revenue from the National Institutes of Health accounted for approximately 1%, 1% and 13% of total revenue for the years ended December 31, 2006, January 1, 2006 and January 2, 2005, respectively.

14. Quarterly Financial Information (unaudited)

The following financial information reflects all normal recurring adjustments, except as noted below, which are, in the opinion of management, necessary for a fair statement of the results of interim periods. Summarized quarterly data for fiscal 2006 and 2005 are as follows (in thousands except per share data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2006:				
Total revenue	$29,102	$ 41,577	$53,472	$60,435
Total cost of revenue	9,293	13,576	16,356	20,119
Net income (loss)	(104)	6,768	16,162	17,142
Historical net income (loss) per share, basic	(0.00)	0.16	0.35	0.37
Historical net income (loss) per share, diluted	(0.00)	0.14	0.32	0.34
2005:				
Total revenue	$15,148	$ 15,824	$19,516	$23,013
Total cost of revenue	4,599	4,734	6,599	7,249
Net income (loss)	(1,235)	(18,539)(1)	(1,426)	326
Historical net income (loss) per share, basic	(0.03)	(0.46)	(0.03)	0.01
Historical net income (loss) per share, diluted	(0.03)	(0.46)	(0.03)	0.01

The sum of the net income (loss) per share for each of the four quarters within each fiscal year presented may not equate to the net income (loss) per share reported for the full fiscal year because different numbers of shares were outstanding during the years presented.

(1) During the second quarter of 2005, the Company recorded a $15.8 million charge related to acquired in-process research and development from the CyVera acquisition.

15. Subsequent Events

Acquisition of Solexa, Inc.

On January 26, 2007, the Company completed a merger with Solexa, Inc. (Solexa), a Delaware corporation, in a stock-for-stock merger transaction. In connection with the merger, Solexa shareholders received 0.344 of a share of the Company's common stock in exchange for each share of Solexa common stock held. The Company issued approximately 13.1 million shares of its common stock as consideration for this merger. As a result of the merger, Solexa became a direct, wholly-owned subsidiary of the Company.

Convertible Senior Notes

On February 16, 2007, the Company issued $400 million principal amount of 0.625% Convertible Senior Notes due 2014 (the Notes), which included the exercise of the initial purchasers' option to purchase up to an additional $50 million aggregate principal amount of Notes. The net proceeds from the offering, after deducting the initial purchasers' discount and offering expenses, were approximately $390.3 million. The Company will pay 0.625% interest per annum on the principal amount of the Notes, payable semi-annually in arrears in cash on February 15 and August 15 of each year, starting on August 15, 2007. The Company used approximately $202 million of the net proceeds to purchase shares of its common stock in privately negotiated transactions concurrently with the offering.

The Notes will be convertible into cash and, if applicable, shares of the Company's common stock, $0.01 par value per share, based on an initial conversion rate, subject to adjustment, of 22.9029 shares per $1,000 principal amount of Notes (which represents an initial conversion price of approximately $43.66 per share), only in the following circumstances and to the following extent: (1) during the five business-day period after any five consecutive trading period (the measurement period) in which the trading price per note for each day of such measurement period was less than 97% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such day; (2) during any calendar quarter after the calendar quarter ending March 31, 2007, if the last reported sale price of the Company's common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 130% of the applicable conversion price in effect on the last trading day of the immediately preceding calendar quarter; (3) upon the occurrence of specified events; and (4) the notes will be convertible at any time on or after November 15, 2013 through the third scheduled trading day immediately preceding the maturity date.

In connection with the offering of the notes, the Company entered into convertible note hedge transactions with the initial purchasers and/or their affiliates (the counterparties) entitling the Company to purchase shares of the Company's common stock at an initial strike price of $43.66 per share, subject to adjustment. In addition, the Company sold to these counterparties warrants to acquire shares of the Company's common stock at an initial strike price of $62.87 per share, subject to adjustment. The note hedge transactions and the warrants each cover a number of shares that is generally equal to the maximum number of shares that are issuable upon conversion of the notes. The cost of the convertible note hedge transactions that was not covered by the proceeds from the sale of the warrants was approximately $46.6 million. These transactions are expected to reduce the potential equity dilution upon conversion of the notes if the daily volume-weighted average price per share of the Company's common stock exceeds the strike price of the convertible note hedge transactions. The warrant transactions could have a dilutive effect on the Company's earnings per share to the extent that the price of the Company's common stock during the measurement period at maturity of the warrants exceeds the strike price of the warrants.

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS AND RESERVES FOR THE THREE YEARS ENDED DECEMBER 31, 2006

	Allowance for Doubtful Accounts	Reserve for Inventory
	(In thousands)	
Balance as of December 28, 2003	$ 178	$ 630
Charged to expense	49	946
Utilizations	(81)	(538)
Balance as of January 2, 2005	146	1,038
Charged to expense	167	304
Utilizations	—	(247)
Balance as of January 1, 2006	313	1,095
Charged to expense	179	127
Utilizations	(154)	(372)
Balance as of December 31, 2006	$ 338	$ 850

corporate information

BOARD OF DIRECTORS

Jay T. Flatley
President and Chief Executive Officer

John R. Stuelpnagel, D.V.M.
Senior Vice President and Chief Operating Officer

William H. Rastetter, Ph.D.
Chairman

Blaine Bowman
Director

Daniel M. Bradbury
Director

Karin Eastham
Director

Jack Goldstein, Ph.D.
Director

Paul Grint, M.D.
Director

David R. Walt, Ph.D.
Director

Roy Whitfield
Director

EXECUTIVE OFFICERS

Jay T. Flatley
President and Chief Executive Officer

John R. Stuelpnagel, D.V.M.
Senior Vice President, General Manager – Microarray Business, and Chief Operating Officer

Christian G. Cabou
Senior Vice President, General Counsel and Secretary

Christian O. Henry
Senior Vice President and Chief Financial Officer

Arthur L. Holden
Senior Vice President of Corporate and Market Development

Tristan Orpin
Senior Vice President of Commercial Operations

John West
Senior Vice President and General Manager – DNA Sequencing

TRANSFER AGENT

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FORM 10-K

Included with this report is a copy of the Company's Form 10-K filed with the Securities and Exchange Commission. Additional copies are available by contacting Illumina's Investor Relations Department:

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INDEPENDENT ACCOUNTANTS

Ernst & Young LLP
San Diego, CA 92122

LEGAL COUNSEL

Dewey Ballantine LLP
New York, NY 10019

ANNUAL MEETING

The Company's Annual Meeting of Stockholders will be held at Illumina's corporate headquarters in San Diego, CA at 10:00am PT on June 7, 2007.

SELECTED COMMON STOCK DATA

The Company's common stock, par value $0.01, has been traded under the symbol ILMN since July 28, 2000 on the NASDAQ Global Market.

As of April 10, 2007, there were approximately 216 record holders of Illumina's common stock. The Company has not paid any cash dividends since its inception and does not anticipate paying any cash dividends in the foreseeable future.

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995:
This report may contain forward-looking statements that involve risks and uncertainties. Among the important factors that could cause actual results to differ materially from those in any forward-looking statements are the costs and outcome of Illumina's litigation with Affymetrix and our ability (i) to integrate effectively our recent acquisition of Solexa, Inc., (ii) to develop and commercialize further our BeadArray™, VeraCode™ and Solexa® technologies and to deploy new gene expression and genotyping products and applications for our technology platforms, (iii) to manufacture robust microarrays and Oligator® oligonucleotides, (iv) to integrate and scale our VeraCode technology, (v) to scale further oligo synthesis output and technology to satisfy market demand derived from our collaboration with Invitrogen, together with other factors detailed in our filings with the Securities and Exchange Commission including our recent filings on Forms 10-K and 10-Q or in information disclosed in public conference calls, the date and time of which are released beforehand. We disclaim any intent or obligation to update these forward-looking statements beyond the date of this report.

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EXHIBIT 2.e

illumina®

unlocking life's code

sequencing · genotyping · gene expression

ILLUMINA 2007 ANNUAL REPORT

dear fellow shareholders:

2007 was another breakthrough year for Illumina. Total revenue grew 99 percent to $367 million. This top-line growth is unmatched in our industry and is best-in-class across the market as a whole. In addition to delivering strong top-line performance in 2007, we invested in Illumina's future. In January, we completed our acquisition of Solexa, Inc. bringing next-generation sequencing technology into the Illumina product portfolio. This acquisition and the subsequent launch of the Genome Analyzer may prove to be one of the most successful acquisitions and new technology introductions in the history of the life sciences industry.

2007 ACHIEVEMENTS

Our revenue growth in 2007 was delivered through a combination of achievements in our microarray business and the impressive trajectory of our new sequencing business. We introduced 14 new array products during the year and exited 2007 with record orders and shipments of our BeadArray™ Reader. Shortly after year end, we announced the launch of our high-density Infinium® HD family of array-based genotyping products. The Infinium HD product line is a new generation of BeadChips and represents the most significant innovation in our genotyping products since the launch of the original Infinium BeadChips. The Infinium HD technology provides us with the core platform to deliver the highest performance products to our customers and maintain our track record of rapid new product introductions.

After completing our acquisition of Solexa, Inc. in February of 2007, we began the full commercial launch of the Genome Analyzer. Early success quickly made it the industry's leading next-generation DNA sequencing platform. The Genome Analyzer generates sequencing data at a cost 100 times lower and throughput 100 times higher than traditional capillary technology. These dramatic breakthroughs in throughput and cost have led to the democratization of sequencing, allowing even the smallest labs to perform sequencing experiments at the genomic-wide scale. We believe that this new model for genetic analysis will accelerate the pace that medically and scientifically relevant discoveries are generated, and catalyze the validation of markers for molecular diagnostic applications.

In March of last year, we launched the BeadXpress™ platform based on our VeraCode® technology. BeadXpress is the third platform in Illumina's portfolio of end-to-end solutions, targeting the mid- to low-multiplex market for genotyping, gene expression, and protein analysis. BeadXpress enables researchers to efficiently target content generated from prior experiments conducted on the Genome Analyzer or the BeadArray Reader and run them cost-effectively over a substantially larger sample size. BeadXpress will also be a key platform for deployment of our molecular diagnostic assays.

INVESTING IN OUR FUTURE GROWTH

In 2007 we implemented a number of programs to expand our infrastructure and lay the foundation for Illumina's future growth. This included the addition of 450 new employees to the Illumina team, including more than 200 people as part of the Solexa acquisition. We also began construction on a new 84,000 square foot facility at our headquarters in San Diego, CA, which will provide much-needed space to support the expansion of our business. We consolidated our VeraCode manufacturing facility from Wallingford, CT into our San Diego headquarters to more closely align the platform with our

illumina®

existing technologies. In November, we signed a lease to establish a facility in Singapore for BeadChip manufacturing. Our expansion into Singapore will help mitigate our single-site manufacturing risk, fortify our presence in the rapidly growing Asian economies, and help to reduce our corporate tax exposure in the future. Recently, we broke ground on a state of the art research facility in Little Chesterford, UK. This facility, when completed, will support our ongoing research and development activities in sequencing; an opportunity that we believe we have only begun to tap.

In addition to these facilities we also modified our organizational structure. At the beginning of 2008, we announced the creation of two independent business units within Illumina, the Life Sciences Business Unit and the Diagnostics Business Unit. We believe that the creation of the Life Sciences Business Unit will capitalize on our vision of the natural connection between genotyping, gene expression, and sequencing. Leading this group will be Joel McComb who joins us from GE Healthcare as our new General Manager of Life Sciences. To manage our emerging business in diagnostics, Gregory F. Heath joins us from Roche Diagnostics as our new General Manager of Diagnostics.

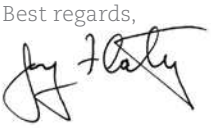
OPPORTUNITIES ON THE HORIZON

Illumina is in an excellent position to take advantage of our rapidly growing market opportunities. In 2007, expansion of the whole-genome genotyping market continued and we saw significant growth in the follow-on market for targeted studies. We anticipate significant market expansion opportunities in clinical trials, agricultural screening, and emerging consumer markets. Our customers continue to be delighted with quality and flexibility of the BeadArray platform, driving our confidence in Illumina's ability to maintain a leadership position in this market.

Next-generation sequencing technologies have generated significant new funding sources and demand for large-scale sequencing projects, including the 1,000 Genomes Project. Our customers rapidly embraced this revolutionary technology in 2007, driving shipments of over 200 units by year end. We see strong demand continuing into 2008 and believe that the recent improvements that we have made to the platform will help us extend our lead in the marketplace and drive the development of novel applications. Illumina's integrated portfolio is perhaps our greatest strength, as customers can seamlessly perform their genetic analysis research across all of our platforms, from the discovery of disease associations with our arrays, to targeted resequencing of the underlying SNP regions with the Genome Analyzer, to focused validation of a few hundred markers on the BeadXpress platform. Illumina's portfolio can meet our customers' needs across the entire complexity of the genome.

Our success is a direct result of the vision, energy, and dedication of our 1,100-strong employee base. We thank our employees for their unwavering dedication to accelerating genetic research and harnessing the translation of that passion to a greater understanding of human health and disease.

Best regards,



JAY T. FLATLEY
President & Chief Executive Officer

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 30, 2007

or

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

For the transition period from to .

Commission file number: 000-30361

Illumina, Inc.

(Exact name of Registrant as Specified in Its Charter)

Delaware	**33-0804655**
(State or other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*
9885 Towne Centre Drive, San Diego, California	**92121**
(Address of Principal Executive Offices)	*(zip code)*

Registrant's telephone number, including area code: (858) 202-4500

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

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

Common Stock, $0.01 par value
(Title of class)

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

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

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

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

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

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

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

As of February 1, 2008, there were 55,545,039 shares (excluding 7,409,545 shares held in treasury) of the Registrant's Common Stock outstanding. The aggregate market value of the Common Stock held by non-affiliates of the Registrant as of June 29, 2007 (the last business day of the Registrant's most recently completed second fiscal quarter), based on the closing price for the Common Stock on The NASDAQ Global Select Market on that date, was $2,112,729,064. This amount excludes an aggregate of 1,874,329 shares of Common Stock held by officers and directors and each person known by the Registrant to own 10% or more of the outstanding Common Stock. Exclusion of shares held by any person should not be construed to indicate that such person possesses the power, directly or indirectly, to direct or cause the direction of the management or policies of the Registrant, or that the Registrant is controlled by or under common control with such person.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement for the annual meeting of stockholders expected to be held on May 16, 2008 are incorporated by reference into Items 10 through 14 of Part III of this Report.

ILLUMINA, INC.

FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 30, 2007

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PART I

ITEM 1. *Business.*

This Annual Report on Form 10-K may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. These statements relate to future events or our future financial performance. We have attempted to identify forward-looking statements by terminology including "anticipates," "believes," "can," "continue," "could," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "should" or "will" or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks outlined under "Item 1A. Risk Factors" in this Annual Report, that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels or activity, performance or achievements expressed or implied by these forward-looking statements. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Accordingly, you should not unduly rely on these forward-looking statements, which speak only as of the date of this Annual Report. We are not under any duty to update any of the forward-looking statements after the date we file this Annual Report on Form 10-K or to conform these statements to actual results, unless required by law. You should, however, review the factors and risks we describe in the reports we file from time to time with the Securities and Exchange Commission.

Illumina®, Array of Arrays™, BeadArray™, BeadXpress™, CSPro®, DASL®, GoldenGate®, Infinium®, IntelliHyb®, iSelect®, Making Sense Out of Life®, Oligator®, Sentrix®, Solexa®, and VeraCode™ are our trademarks. This report also contains brand names, trademarks or service marks of companies other than Illumina, and these brand names, trademarks and service marks are the property of their respective holders.

Available Information

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports are available free of charge on our website, www.illumina.com. The information on our website is not incorporated by reference into this report. Such reports are made available as soon as reasonably practicable after filing with, or furnishing to, the Securities and Exchange Commission. The SEC also maintains an Internet site at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that electronically file with the SEC.

Overview

We are a leading developer, manufacturer and marketer of integrated systems for the large scale analysis of genetic variation and biological function. Using our proprietary technologies, we provide a comprehensive line of products and services that currently serve the sequencing, genotyping and gene expression markets. In the future, we expect to enter the market for molecular diagnostics. Our customers include leading genomic research centers, pharmaceutical companies, academic institutions, clinical research organizations and biotechnology companies. Our tools provide researchers around the world with the performance, throughput, cost effectiveness and flexibility necessary to perform the billions of genetic tests needed to extract valuable medical information from advances in genomics and proteomics. We believe this information will enable researchers to correlate genetic variation and biological function, which will enhance drug discovery and clinical research, allow diseases to be detected earlier and permit better choices of drugs for individual patients.

In April 2005, we completed the acquisition of CyVera Corporation (Cyvera). The aggregate consideration for the transaction was $17.5 million, consisting of approximately 1.5 million shares of our common stock and payment of approximately $2.3 million of CyVera's liabilities at the closing.

On January 26, 2007, we completed the acquisition of Solexa, Inc. (Solexa) for approximately 13.1 million shares of our common stock. Solexa develops and commercializes genetic analysis technologies used to perform a range of analyses, including whole genome resequencing, gene expression analysis and small RNA analysis. We believe our combined company is the only company with genome-scale technology for genotyping, gene expression and sequencing, the three cornerstones of modern genetic analysis.

We were incorporated in California in April 1998. We reincorporated in Delaware in July 2000. Our principal executive offices are located at 9885 Towne Centre Drive, San Diego, California 92121. Our telephone number is (858) 202-4500.

Industry Background

Genetic Variation and Biological Function

Every person inherits two copies of each gene, one from each parent. The two copies of each gene may be identical, or they may be different. These differences are referred to as genetic variation. Examples of the physical consequences of genetic variation include differences in eye and hair color. Genetic variation can also have important medical consequences. Genetic variation affects disease susceptibility, including predisposition to cancer, diabetes, cardiovascular disease and Alzheimer's disease. In addition, genetic variation may cause people to respond differently to the same drug treatment. Some people may respond well, others may not respond at all, and still others may experience adverse side effects. A common form of genetic variation is a single-nucleotide polymorphism, or SNP. A SNP is a variation in a single position in a DNA sequence. It is estimated that the human genome contains over nine million SNPs.

While in some cases a single SNP will be responsible for medically important effects, it is now believed that combinations of SNPs may contribute to the development of most major diseases. Since there are millions of SNPs, it is important to investigate many representative, well-chosen SNPs simultaneously in order to discover medically valuable information.

Another contributor to disease and dysfunction is the over- or under-expression of genes within an organism's cells. A very complex network of genes interacts to maintain health in complex organisms. The challenge for scientists is to delineate the associated genes' expression patterns and their relationship to disease. Until recently, this problem was addressed by investigating effects on a gene-by-gene basis. This is time consuming, and difficulties exist when several pathways cannot be observed or "controlled" at the same time. With the advent of microarray technology, thousands of genes can now be tested at the same time.

SNP Genotyping

SNP genotyping is the process of determining which base (A, C, G or T) is present at a particular site in the genome within an individual or other organism. The use of SNP genotyping to obtain meaningful statistics on the effect of an individual SNP or a collection of SNPs, and to apply that information to clinical trials and diagnostic testing, requires the analysis of millions of SNP genotypes and the testing of large populations for each disease. For example, a single large clinical trial could involve genotyping 1,000,000 SNPs per patient in 1,000 patients, thus requiring 1 billion assays. Using previously available technologies, this scale of SNP genotyping was both impractical and prohibitively expensive.

Large-scale SNP genotyping can be used in a variety of ways, including studies designed to understand the genetic contributions to disease (disease association studies), genomics-based drug development, clinical trial analysis, disease predisposition testing, and disease diagnosis. SNP genotyping can also be used outside of healthcare, for example in the development of plants and animals with desirable commercial characteristics. These markets will require billions of SNP genotyping assays annually.

Gene Expression Profiling

Gene expression profiling is the process of determining which genes are active in a specific cell or group of cells and is accomplished by measuring mRNA, the intermediary messenger between genes (DNA) and proteins. Variation in gene expression can cause disease, or act as an important indicator of disease or predisposition to disease. By comparing gene expression patterns between cells from different environments, such as normal tissue compared to diseased tissue or in the presence or absence of a drug, specific genes or groups of genes that play a role in these processes can be identified. Studies of this type, often used in drug discovery, require monitoring thousands, and preferably tens of thousands, of mRNAs in large numbers of samples. Once a smaller set of genes of interest has been identified, researchers can then examine how these genes are expressed or suppressed across numerous samples, for example, within a clinical trial.

As gene expression patterns are correlated to specific diseases, gene expression profiling is becoming an increasingly important diagnostic tool. Diagnostic use of expression profiling tools is anticipated to grow rapidly with the combination of the sequencing of various genomes and the availability of more cost-effective technologies.

Sequencing

DNA sequencing is the process of determining the order of bases (A, C, G or T) in a DNA sample, which can be further divided into de novo sequencing, re-sequencing, and tag sequencing. In de novo sequencing, the goal is to determine the sequence of a representative sample from a species never before sequenced. Understanding the similarities and differences in DNA sequence between many species can help to improve our understanding of the function of the structures found in the DNA.

In re-sequencing, the sequence of samples from a given species is determined generally comparing each to a standard or reference sequence. This is an extremely comprehensive form of genotyping, in which every single base is characterized for possible mutations. In tag sequencing, short sequences, each representative of a larger molecule or genomic location, are detected and counted. In these applications, the number of times that each tag is seen provides quantification of an underlying biological process. As an example, in digital gene expression, one tag sequence may exist for each gene, and the number of copies of this tag which are detected in an experiment is a measure of how actively that gene is being expressed in the tissue sample being analyzed.

Our Technologies

BeadArray Technology

We have developed a proprietary array technology that enables the large-scale analysis of genetic variation and biological function. Our BeadArray technology combines microscopic beads and a substrate in a simple proprietary manufacturing process to produce arrays that can perform many assays simultaneously. Our BeadArray technology provides a unique combination of high throughput, cost effectiveness, and flexibility. We achieve high throughput with a high density of test sites per array and we are able to format arrays either in a pattern arranged to match the wells of standard microtiter plates or in various configurations in the format of standard microscope slides. We seek to maximize cost effectiveness by reducing consumption of expensive reagents and valuable samples, and through the low manufacturing costs associated with our technologies. Our ability to vary the size, shape and format of the well patterns and to create specific bead pools, or sensors, for different applications provides the flexibility to address multiple markets and market segments. We believe that these features have enabled our BeadArray technology to become a leading platform for the emerging high-growth market of SNP genotyping and expect they will enable us to become a key player in the gene expression market.

Our proprietary BeadArray technology combines microwells etched into a substrate and specially prepared beads that self-assemble into an array. We have deployed our BeadArray technology in two different array formats, the Array Matrix and the BeadChip. Our first bead-based product was the Array Matrix which incorporates fiber optic bundles. The fiber optic bundles, which we cut into lengths of less than one inch, are manufactured to our specifications. Each bundle is comprised of approximately 50,000 individual fibers and 96 of these bundles are placed into an aluminum plate, which forms an Array Matrix. BeadChips are fabricated in microscope slide-shaped sizes with varying numbers of sample sites per slide. Both formats are chemically etched to create tens to hundreds of thousands of wells for each sample site.

In a separate process, we create sensors by affixing a specific type of molecule to each of the billions of microscopic beads in a batch. We make different batches of beads, with the beads in a given batch coated with one particular type of molecule. The particular molecules on a bead define that bead's function as a sensor. For example, we create a batch of SNP sensors by attaching a particular DNA sequence, or oligo, to each bead in the batch. We combine batches of coated beads to form a pool specific to the type of array we intend to create. A bead pool one milliliter in volume contains sufficient beads to produce thousands of arrays.

To form an array, a pool of coated beads is brought into contact with the array surface where they are randomly drawn into the wells, one bead per well. The tens of thousands of beads in the wells comprise our individual arrays. Because the beads assemble randomly into the wells, we perform a final procedure called 'decoding' in order to determine which bead type occupies which well in the array. We employ several proprietary methods for decoding, a process that requires only a few steps to identify all the beads in the array. One beneficial by-product of the decoding process is a validation of each bead in the array. This quality control test characterizes the performance of each bead and can identify and eliminate use of any empty wells. We ensure that each bead type on the array is sufficiently represented by including multiple copies of each bead type. Multiple bead type copies improve the reliability and accuracy of the resulting data by allowing statistical processing of the results of identical beads. We believe we are the only microarray company to provide this level of quality control in the industry.

An experiment is performed by preparing a sample, such as DNA from a patient, and introducing it to the array. The design features of our Array Matrix allow it to be simply dipped into a solution containing the sample, whereas our BeadChip allows processing of samples on a slide-sized platform. The molecules in the sample bind to their matching molecules on the coated bead. These molecules in either the sample or on the bead are labeled with a fluorescent dye either before or after the binding. The BeadArray Reader detects the fluorescent dye by shining a laser on the fiber optic bundle or on the BeadChip. This allows the detection of the molecules resulting in a quantitative analysis of the sample.

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Sequencing Technology

Our DNA sequencing technology, acquired as part of the Solexa merger that was completed on January 26, 2007, is based on the use of our sequencing-by-synthesis (SBS) biochemistry. In SBS, single stranded DNA is extended from a priming site, one base at a time, using reversible terminator nucleotides. These are DNA bases which can be added to a growing second strand, but which initially cannot be further extended. This means that at each cycle of the chemistry, only one base can be added. Each base which is added includes a fluorescent label which is specific to the particular base. Thus following incorporation, the fluorescence can be imaged, its color determined, and the base itself can be inferred. Once this is done, an additional step removes both the fluorescence and the block that had prevented further extension of the second strand. This allows another base to be added, and the cycle can be repeated. We have shown data in which this cycle is repeated up to 50 times, thus determining DNA sequences which are up to 50 bases long. This may well increase in the future as we further develop this technology. The reversible terminator bases which we use are novel synthetic molecules which we manufacture. They are not well incorporated by naturally occurring polymerases, so we have also developed proprietary enzymes for this purpose. Both the nucleotides and enzymes are the subject of significant intellectual property.

In our DNA sequencing systems, we apply the SBS biochemistry on microscopic islands of DNA. These are called DNA clusters. Each cluster starts as a single DNA molecule, typically a few hundred bases long, attached to the inside surface of a flow cell. We then use a proprietary amplification biochemistry to create copies of each starting molecule. As the copies are made, they are covalently linked to the surface, so they cannot diffuse away. After a number of cycles of amplification, each cluster might have 500 to 1,000 copies of the original starting molecule, but still be only about a micron (one-millionth of a meter) in diameter. By making so many copies, the fluorescent signal from each cluster is significantly increased. Because the clusters are so small though, tens of millions of clusters can be independently formed inside a single flow cell. This large number of clusters can then be sequenced simultaneously, by alternate cycles of SBS biochemistry and electronic imaging.

VeraCode Technology

The BeadArray technology is most effective in applications which require mid- to high levels of multiplexing from low to high levels of throughput. Multiplexing refers to the number of individual pieces of information that are simultaneously extracted from one sample. We believe the molecular diagnostics market will require systems which are extremely high throughput and cost effective in the mid- to low-multiplex range. To address this market, we acquired the VeraCode technology through our acquisition of CyVera Corporation in April 2005. Based on digitally encoded microbeads, VeraCode enables low-cost multiplexing from 1 to 384-plex in a single well. We began shipping the BeadXpress System, which uses the VeraCode technology, during the first quarter of 2007, along with several assays for the system. We believe that this system enables lower multiplex genotyping, gene expression and protein based assays. In the research market, we expect our customers to utilize our BeadArray technology for their higher multiplex projects and then move to our BeadXpress system for their lower multiplex projects utilizing the same assays.

Oligator Technology

Genomic applications require many different short pieces of DNA that can be made synthetically, called oligos. We have developed our proprietary Oligator technology for the parallel synthesis of many different oligos to meet the requirements of large-scale genomics applications. We believe that our Oligator technology is substantially more cost effective and provides significantly higher throughput than available commercial alternatives. Our synthesis machines are computer controlled and utilize many robotic processes to minimize the amount of labor used in the manufacturing process. In 2005, we implemented our fourth-generation Oligator technology, which is capable of manufacturing over 13,000 different oligos per run. This was an improvement over prior generations of technology where we could only manufacture approximately 3,000 oligos per run. This increase in scale was necessary to enable us to

support the manufacture of oligos under our collaboration with Invitrogen as well as to support our increased internal need for oligos, a critical component of our BeadArray technology, for product sales and new product development.

Key Advantages of Our Technology

We believe that our technology provides distinct advantages, in a variety of applications, over competing technologies, by creating cost-effective, highly miniaturized arrays with the following characteristics:

High Throughput. The miniaturization of our BeadArray technology provides very high information content per unit area. To increase sample throughput, we have formatted our array matrix in a pattern arranged to match the wells of standard microtiter plates, allowing throughput levels of up to nearly 150,000 unique assays per microtiter plate, and we use laboratory robotics to speed process time. Similarly, we have patterned our whole-genome expression BeadChips to support up to 48,000 gene expression assays for six samples with each BeadChip, and our whole-genome genotyping BeadChips to support over 1,000,000 genotypes with each BeadChip. Our Infinium and GoldenGate assays are supported by full automation and LIMS to address high throughput laboratories. Our Genome Analyzer can analyze the DNA sequences of tens of millions of clusters at one time.

Cost Effectiveness. Our array products substantially reduce the cost of our customers' experiments as a result of our proprietary manufacturing process and our ability to capitalize on cost reductions generated by advances in fiber optics, plasma etching processes, digital imaging and bead chemistry. In addition, our products require smaller reagent volumes than other array technologies, thereby reducing reagent costs for our customers. Our Oligator technology further reduces reagent costs, as well as reducing our cost of coating beads used in our BeadArray and VeraCode technologies. We believe the Genome Analyzer allows DNA sequencing at 1/100th of the cost of conventional capillary instruments.

Flexibility. We are able to offer flexible solutions to our customers based on our ability to attach different kinds of molecules, including DNA, RNA, proteins and other chemicals, to our beads. In addition, we can have BeadChips manufactured in multiple shapes and sizes with wells organized in various arrangements to optimize them for different markets and market segments. In combination, the use of beads and etched wells provides the flexibility and scalability for our BeadArray technology to be tailored to perform many applications in many different market segments, from drug discovery to diagnostics. Our Oligator technology allows us to manufacture a wide diversity of lengths and quantities of oligos. DNA sequences determined with our Genome Analyzer can be used to identify larger DNA or RNA molecules from which the sequences have been derived, and can also be used for a series of applications based on tag sequencing, including digital gene expression analysis and microRNA discovery and quantification.

Quality and Reproducibility. The quality of our products is dependent upon each element in the system — the array, the assay used to perform the experiment and the instrumentation and software used to capture the results. Each array is manufactured with a high density of beads, which enables us to have multiple copies of each individual bead type. We measure the copies simultaneously and combine them into one data point. This allows us to make a comparison of each bead against its own population of identical beads, which permits the statistical calculation of a more reliable and accurate value for each data point. Finally, the manufacture of the array includes a proprietary decoding step that also functions as a quality control test of every bead on every array, improving the overall quality of the data. When we develop the assays used with our products, we focus on performance, cost and ease of use. By developing assays that are easy to use, we can reduce the potential for the introduction of error into the experiment. We believe that this enables researchers to obtain high quality and reproducible data from their experiments. Additionally, we manufacture substantially all of the reagents used in our assays, allowing us to control the quality of the product delivered to the customer.

Our Strategy

Our goal is to make our BeadArray, BeadXpress and Genome Analyzer platforms the industry standard for products and services addressing the genetic analysis markets. We plan to achieve this by:

- focusing on emerging high-growth markets;
- seek out new and complimentary technologies;
- expanding our technologies into multiple product lines, applications and market segments; and
- strengthening our technological leadership.

Products and Services

The first implementation of our BeadArray technology, the Array Matrix, is a disposable matrix with 96 fiber optic bundles arranged in a pattern that matches the standard 96-well microtiter plate. Each fiber optic bundle performs more than 1,500 unique assays. The BeadChip, introduced in 2003, is fabricated in multiple configurations to support multiple applications and scanning technologies.

We have provided genotyping services using our proprietary BeadArray technology since 2001. In addition, we have developed our first genotyping and gene expression products based on this technology. These products include disposable Array Matrices and BeadChips, GoldenGate and Infinium reagent kits for SNP genotyping, BeadArray Reader scanning instruments and an evolving portfolio of custom and standard gene expression products.

SNP Genotyping

In 2001, we introduced the first commercial application of our BeadArray technology by launching our SNP genotyping services product line. Since this launch, we have had peak days in which we operated at 185 million genotypes per day. To our knowledge, no other genotyping platform can achieve comparable levels of throughput while delivering such high accuracy and low cost.

We designed our first consumable BeadArray product, the Array Matrix, for SNP genotyping. The Array Matrix uses a universal format that allows it to analyze any set of SNPs. We have also developed reagent kits based on GoldenGate assay protocols and the BeadArray Reader, a laser scanner, which is used to read our array products.

The BeadStation, a flexible and scalable system for performing genotyping, was initially commercialized in late 2003. The system currently includes our BeadArray Reader and genotyping and/or gene expression analysis software. Depending on throughput and automation requirements, our customers can select the system configuration to best meet their needs. For production-scale throughput, multiple BeadStations combined with LIMS, standard operating procedures, and analytical software and fluid handling robotics can be configured to produce millions of genotypes per day. Scientists and researchers can perform genotyping, gene expression, methylation, and copy number variation (CNV) analysis with these products.

In 2006, we introduced several new SNP genotyping products, including the HumanHap family of BeadChips, for genome-wide disease association studies. This family of BeadChips enables researchers to interrogate more than 1,000,000 SNP markers for associated studies. We believe our BeadChips provide the most comprehensive genomic coverage and highest data quality of any whole-genome genotyping product currently available. Through an application called Copy Number Polymorphisms, the HumanHap family of BeadChips also provides high-resolution information on amplifications, deletions and loss of heterozygosity throughout the genome, abnormalities common in cancers and congenital diseases. In addition, we announced additional standard panels in the first quarter of 2006, including mouse linkage and cancer panels.

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Also, in 2006, we began shipment of the iSelect Infinium genotyping product line used for focused content applications. With this product, customers can create a custom array of up to 60,000 SNP markers per sample with 12 samples per chip.

During the fourth quarter of 2006, we introduced and began shipping the HumanHap300-Duo and the HumanHap300-Duo+ Genotyping BeadChips, as well as the RatRef-12 Expression BeadChip. The HumanHap300-Duo allows researchers to analyze two samples simultaneously, with over 634,000 total tag SNPs on a single BeadChip. The HumanHap300-Duo+ allows for the addition of 60,000 custom SNP loci to the base product, enabling researchers to enrich that product with SNPs of interest in any genomic region. The RatRef-12 Expression BeadChip enables analysis of 12 samples in parallel on a single BeadChip. Content for this BeadChip is derived from the NCBI RefSeq database (Release 16), with over 22,000 rat transcripts represented. By allowing for multiple samples on the same BeadChip, we believe we have minimized chip to chip variability and enhanced data quality.

In 2007, we announced the following key new product developments associated with SNP Genotyping:

- *Human 1M DNA Analysis BeadChip.* This product combines an unprecedented level of content for both whole-genome and CNV analysis, along with additional unique, high-value genomic regions of interest — all on a single microarray chip. Shipments of the Human 1M DNA Analysis BeadChip began during the second quarter of 2007.
- *HumanCNV370-Duo BeadChip.* The HumanCNV370-Duo enables researchers to analyze two samples simultaneously and access novel content for detecting disease-relevant CNV regions. Shipments of the HumanCNV370-Duo BeadChip began during the second quarter of 2007.
- *HumanHap550-Duo BeadChip.* The HumanHap550-Duo provides the same content as our HumanHap550 BeadChip in a dual-format, resulting in significantly greater throughput and lower costs per sample. The HumanHap550-Duo contains more than 550,000 SNPs, selected based on a novel tag SNP approach. Shipments of the HumanHap550-Duo BeadChip began during the third quarter of 2007.

During 2008, we introduced two new products for DNA analysis: the Infinium High-Density (HD) Human1M-Duo (two samples per chip) and the Human610-Quad (four samples per chip), featuring up to 2.3 million SNPs per BeadChip. The new Infinium HD product line doubles sample throughput and reduces DNA input requirements by as much as 70 percent. The Infinium HD products also offer, what we believe is, enhanced signal discrimination and a new SNP calling algorithm. First customer shipments of the Human610-Quad and Human1M-Duo BeadChips are expected in the first and second quarter of 2008, respectively.

Gene Expression Profiling

With the addition of application specific accessory kits, our production-scale BeadStations are capable of performing a growing number of applications, including gene expression profiling.

In 2003, we introduced our focused set gene expression products on both the Array Matrix and BeadChip platforms. Our system includes a BeadArray Reader for imaging Array Matrices and BeadChips, a hybridization chamber and software for data extraction.

In 2005, we began shipment of the Human-6 and HumanRef-8 Expression BeadChip products. Both products allow large-scale expression profiling of multiple samples on a single chip and are imaged using our BeadArray Reader. The Human-6 BeadChip is designed to analyze six discrete whole-human-genome samples on one chip, interrogating in each sample approximately 48,000 transcripts from the estimated 30,000 genes in the human genome. The HumanRef-8 BeadChip product analyzes eight samples in parallel against 24,000 transcripts from the roughly 22,000 genes represented in the consensus RefSeq database, a well-characterized whole-genome subset used broadly in genetic analysis. We believe these gene expression BeadChips have dramatically reduced the cost of whole-genome

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expression analysis, allowing researchers to expand the scale and reproducibility of large-scale biological experimentation.

In 2006, we began shipment of the RatRef-12, which analyzes twelve samples in parallel against 22,226 transcripts from the roughly 21,910 genes represented in the RefSeq database, release 16.

In 2007, we launched the next versions of the Human and Mouse arrays, taking advantage of the updated content of the RefSeq and the UniGene databases could provide. We also expanded our product breadth and released our first microRNA arrays for both human and mouse. To keep up with the ever changing needs of the market, we have invested in the future with new, innovative technologies, acquired from the Solexa acquisition, to provide our customers with what we believe is the broadest portfolio of gene expression technologies available. We believe Digital Gene Expression (DGE) is a revolutionary approach to expression analysis. Driven by sequencing technology, DGE generates genome-wide expression profiles through sequencing, not hybridization. We believe this unique method provides 100 times the amount of data of other methods. It can provide more than one billion bases of data in a single run, at 1% of the cost of traditional Sanger sequencing. Using DGE, researchers can:

- quickly discover novel RNAs in any species;
- accurately quantify low-abundance RNA;
- confidently analyze small and non-coding RNA, as well as transcriptomes; and
- independently validate microarray data.

Instrumentation

The BeadArray Reader, an instrument we developed, is a key component of our BeadStation. This scanning equipment uses a laser to read the results of experiments that are captured on our arrays and was designed to be used in all areas of genetic analysis that use our Array Matrices and BeadChips. In the second quarter of 2006, we began shipment of the AutoLoader, which automates BeadChip loading and scanning and increases lab throughput. The Autoloader is designed to support up to two BeadArray Readers simultaneously for unattended operation.

During the first quarter of 2007, we began shipment of the Genome Analyzer. This product can generate more than one billion bases of data in a single run using a massively parallel sequencing approach. The system leverages Solexa sequencing-by-synthesis technology and novel reversible terminator chemistry, optimized to achieve what we believe are unprecedented levels of cost effectiveness and throughput.

Also, during the first quarter of 2007, we began shipment of the BeadXpress System. This system is a high-throughput, dual-color laser detection system developed using the VeraCode digital microbead technology. It enables scanning of a broad range of multiplexed assays and can take researchers from biomarker validation and focused studies to the development of molecular diagnostics.

High-Throughput Oligo Synthesis

We have put in place a state-of-the-art oligo manufacturing facility. This facility serves both the commercial needs under our collaboration with Invitrogen and our internal needs. In addition to their use to coat beads, these oligos are components of the reagent kits for our BeadArray products and are used for assay development. We manufacture oligos in a wide range of lengths and in several scales, with the ability to add many types of modifications. We offer a range of quality control options and have implemented a laboratory information management system (referred to as LIMS) to control much of the manufacturing process. In 2005, we stopped selling oligos directly into the market and began shipping oligos under our collaboration with Invitrogen.

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Our Collaborative Partners

deCODE genetics

In May 2006, we executed a Joint Development and Licensing Agreement (the Development Agreement) with deCODE genetics, ehf. (deCODE). Pursuant to the Development Agreement, the parties agreed to collaborate exclusively to develop, validate and commercialize specific diagnostic tests for variants in genes involved in three disease-related pathways: the gene-encoding leukotriene A4 hydrolase, linked to heart attack; the gene-encoding transcription factor 7-like 2 (TCF7L2), linked to type 2 diabetes; and the gene-encoding BARD1, linked to breast cancer. With deCODE, we are developing diagnostic tests based on these variants for use on our BeadXpress system.

Under the agreement, we are responsible for the manufacturing, marketing and selling of the diagnostic products. The companies share the development costs of these products and split the profits from sales of the diagnostics tests. The Development Agreement may be terminated as to a particular product under development if one party decides to discontinue funding the development of that product, and may be terminated in whole by either party if the other party commits an uncured material breach, files for bankruptcy or becomes insolvent. Under a separate supply agreement, we installed instrumentation at deCODE that enables deCODE to perform whole genome association studies on up to 100,000 samples using our HumanHap300 BeadChips and associated reagents.

Intellectual Property

We have an extensive patent portfolio, including, as of February 1, 2008, ownership of, or exclusive licenses to, 119 issued U.S. patents and 153 pending U.S. patent applications, including five allowed applications that have not yet issued as patents, some of which derive from a common parent application. This portfolio includes patents acquired as part of our acquisition of Solexa on January 26, 2007. Our issued patents, which are directed at various aspects of our arrays, assays, oligo synthesis, sequencing technology, instruments and chemical detection technologies, expire between 2010 and 2025. We are seeking to extend the patents directed at the full range of our technologies. We have received or filed counterparts for many of these patents and applications in one or more foreign countries.

We also rely upon trade secrets, know-how, copyright and trademark protection, as well as continuing technological innovation and licensing opportunities to develop and maintain our competitive position. Our success will depend in part on our ability to obtain patent protection for our products and processes, to preserve our trade secrets, to enforce our patents, copyrights and trademarks, to operate without infringing the proprietary rights of third parties and to acquire licenses related to enabling technology or products.

We are party to various exclusive and non-exclusive license agreements and other arrangements with third parties, which grant us rights to use key aspects of our array and sequencing technologies, assay methods, chemical detection methods, reagent kits and scanning equipment. We have exclusive licenses from Tufts University to patents that are directed at our use of BeadArray technology. These patents were filed by Dr. David Walt, a member of our board of directors, the Chairman of our Scientific Advisory Board and one of our founders. Our exclusive licenses expire with the termination of the underlying patents, which will occur between 2010 and 2020. We also have additional nonexclusive licenses from various third parties for other components of our products. In most cases, the agreements remain in effect over the term of the underlying patents, may be terminated at our request without further obligation and require that we pay customary royalties while the agreement is in effect.

Research and Development

We have made substantial investments in research and development since our inception. We have assembled a team of skilled engineers and scientists who are specialists in biology, chemistry, informatics, instrumentation, optical systems, software, manufacturing and other related areas required to complete the development of our products. Our research and development efforts have focused primarily on the

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tasks required to optimize our BeadArray, Oligator, VeraCode and sequencing technologies and to support commercialization of the products and services derived from these technologies. As of December 30, 2007, we had a total of 277 employees engaged in research and development activities.

Our research and development expenses for 2007, 2006, and 2005 (inclusive of charges relating to stock-based compensation of $10.0 million, $3.9 million, and $0.1 million, respectively) were $73.9 million, $33.4 million, and $27.8 million, respectively. Compared to 2007, we expect research and development expense to increase during 2008 as we continue to expand our research and product development efforts.

Marketing and Distribution

Our current products address the genetic analysis portion of the life sciences market, in particular, experiments involving sequencing, SNP genotyping and gene expression profiling. These experiments may be involved in many areas of biologic research, including basic human disease research, pharmaceutical drug discovery and development, pharmacogenomics, toxicogenomics and agricultural research. Our potential customers include pharmaceutical, biotechnology, agrichemical, diagnostics and consumer products companies, as well as academic or private research centers. The genetic analysis market is relatively new and emerging and its size and speed of development will be ultimately driven by, among other items:

- the ability of the research community to extract medically valuable information from genomics and to apply that knowledge to multiple areas of disease-related research and treatment;
- the availability of sufficiently low cost, high-throughput research tools to enable the large amount of experimentation required to study genetic variation and biological function; and
- the availability of government and private industry funding to perform the research required to extract medically relevant information from genomic analysis.

We market and distribute our products directly to customers in North America, major European markets, Japan Singapore, and China. In each of these areas, we have dedicated sales, service and application support personnel responsible for expanding and managing their respective customer bases. In smaller markets in the Pacific Rim countries and Europe, we sell our products and provide services to customers through distributors that specialize in life science products. We expect to significantly increase our sales and distribution resources during 2008 and beyond as we launch a number of new products and expand the number of customers that can use our products.

Manufacturing

We manufacture our array and sequencing platforms, reagent kits, scanning equipment and oligos. Our manufacturing capacity for BeadChips has increased 50% over the level as of January 1, 2007, despite the substantial increase in complexity associated with manufacturing these products. We intend to continue to increase capacity both domestically and internationally as needed to manufacture our products in sufficient quantity to meet our business plan for 2008. We expect to continue expanding our manufacturing capacity in Singapore. We have signed a lease agreement and plan to commence manufacturing operations in the latter half of 2008. We are focused on continuing to enhance the quality and manufacturing yield of our Array Matrices and BeadChips and are exploring ways to continue increasing the level of automation in the manufacturing process. In addition, we have implemented information management systems for many of our manufacturing and services operations to manage all aspects of material and sample use. We adhere to access and safety standards required by federal, state and local health ordinances, such as standards for the use, handling and disposal of hazardous substances.

Competition

Although we expect that our products and services will provide significant advantages over products and services currently available from other sources, we expect to encounter intense competition from other companies that offer products and services for the SNP genotyping, gene expression and sequencing markets. These include companies such as Affymetrix, Agilent, Applera Corporation, Applied Biosystems, Beckman Coulter, Complete Genomics, Fluidigm, GE Corp., Luminex, Pacific Biosciences, Perlegen Sciences, Roche Diagnostics, Sequenom and Third Wave Technologies. Some of these companies have or will have substantially greater financial, technical, research, and other resources and larger, more established marketing, sales, distribution and service organizations than we do. In addition, they may have greater name recognition than we do in the markets we need to address and in some cases a larger installed base of systems. Each of these markets is very competitive and we expect new competitors to emerge and the intensity of competition to increase. In order to effectively compete with these companies, we will need to demonstrate that our products have superior through-put, cost and accuracy advantages over the competing products. Rapid technological development may result in our products or technologies becoming obsolete. Products offered by us could be made obsolete either by less expensive or more effective products based on similar or other technologies. Although we believe that our technology and products will offer advantages that will enable us to compete effectively with these companies, we cannot assure you that we will be successful.

Segment and Geographic Information

We operate in one business segment for the development, manufacture and commercialization of tools for genetic analysis. Our operations are treated as one segment as we only report operating results on an aggregate basis to our chief operating decision maker, our Chief Executive Officer.

During 2007, $159.1 million, or 43%, of our total revenue came from shipments to customers outside the United States, compared to $81.5 million, or 44%, and $28.0 million, or 38%, in 2006 and 2005, respectively. Sales to territories outside of the United States are generally denominated in U.S. dollars. We expect that sales to international customers will continue to be an important and growing source of revenue. We have sales support resources in Western Europe and direct sales offices in Japan, Singapore and China. In addition, we have distributor relationships in various countries in the Pacific Rim region and Europe. See Note 13 of Notes to Consolidated Financial Statements for further information concerning our foreign and domestic operations.

Seasonality

Historically, customer purchasing patterns have not shown significant seasonal variation, although demand for our products is usually lowest in the first quarter of the calendar year and highest in the third quarter of the calendar year as academic customers spend unused budget allocations before the end of the government's fiscal year.

Environmental Matters

We are dedicated to the protection of our employees and the environment. Our operations require the use of hazardous materials which subject us to a variety of federal, state and local environmental and safety laws and regulations. We believe we are in material compliance with current applicable laws and regulations; however, we could be held liable for damages and fines should contamination of the environment or individual exposures to hazardous substances occur. In addition, we cannot predict how changes in these laws and regulations, or the development of new laws and regulations, will affect our business operations or the cost of compliance.

During 2007, we entered into a lease agreement with BioMed Realty Trust, Inc. to expand into a new office building in San Diego, California. This new building will be LEED certified.

Employees

As of December 30, 2007, we had a total of 1,041 employees, 195 of whom hold Ph.D. degrees. Ninety-seven of our employees with Ph.D. degrees are engaged in full-time research and development activities. None of our employees are represented by a labor union. We consider our employee relations to be positive.

Executive Officers

Our executive officers as of February 1, 2008, are as follows:

Name	Age	Position
Jay T. Flatley	55	President, Chief Executive Officer and Director
Christian O. Henry	39	Senior Vice President, Chief Financial Officer, Acting General Manager of Sequencing
Christian G. Cabou	59	Senior Vice President, General Counsel and Secretary
Tristan B. Orpin	41	Senior Vice President, Commercial Operations
John R. Stuelpnagel, DVM	50	Co-Founder, Senior Vice President and General Manager, Microarrays, Chief Operating Officer and Director

Jay Flatley is President and Chief Executive Officer of Illumina. Prior to his appointment in 1999, Mr. Flatley was the President and Chief Executive Officer of Molecular Dynamics, later acquired by Amersham Pharmacia Biotech in 1998 and now a part of GE Healthcare. Mr. Flatley, who was a founder and member of the board of directors for Molecular Dynamics, lead the company to its initial public offering (IPO) in 1993, in addition to helping the company develop and launch over 15 major instrumentation systems, including the world's first capillary-based DNA sequencer. Prior to joining Molecular Dynamics, Mr. Flatley was Vice President of Engineering and Strategic Planning for Plexus Computers, a manufacturer of high-performance Unix super-microcomputers. Before his career at Plexus, Mr. Flatley was Executive Vice President for Manning Technologies and held various manufacturing positions while working for the Autolab division of Spectra Physics. Mr. Flatley received a bachelor of arts degree in economics from Claremont McKenna College (Claremont, CA) and a bachelor of science and master of science (summa cum laude) in industrial engineering from Stanford University (Stanford, CA). Currently, he serves as a member of the board of directors of both Illumina and GenVault Corporation.

Christian Henry is Senior Vice President, Chief Financial Officer and Acting General Manager of Sequencing of Illumina. Mr. Henry joined Illumina in June 2005 and is responsible for worldwide financial operations, controllership functions, facilities management and oversight of Illumina's DNA Sequencing business. Mr. Henry served previously as the Chief Financial Officer for Tickets.com, a publicly traded, online ticket provider that was recently acquired by Major League Baseball Advanced Media, LP. Prior to that, Mr. Henry was Vice President, Finance and Corporate Controller of Affymetrix, Inc., a publicly traded life sciences company, where he oversaw accounting, planning, SEC and management reporting, and treasury and risk management. He previously held a similar position at Nektar Therapeutics (formerly Inhale Therapeutic Systems, Inc.). Mr. Henry received a bachelor of administration degree in biochemistry and cell biology from the University of California, San Diego, and a master of business administration degree from the University of California, Irvine. He is a certified public accountant.

Christian Cabou is Senior Vice President, General Counsel and Secretary of Illumina. Mr. Cabou joined Illumina in May 2006 and has worldwide responsibility for all legal and intellectual property matters. Mr. Cabou is also Illumina's Code of Ethics Compliance Officer. Before joining Illumina, Mr. Cabou spent five years as General Counsel for GE Global Research and, before that, was Senior Counsel of Global Intellectual Property for GE Medical Systems. Prior to his position at GE, Mr. Cabou spent seven years with the law firm Foley & Lardner where he was a partner. He had twenty years of experience in engineering design and management prior to his career in law and intellectual property.

Mr. Cabou received a J.D. from Northwestern University's School of Law (Chicago, IL.) in addition to a master of engineering management degree from Northwestern University. Mr. Cabou was awarded a MSEE (equivalent) degree from the Conservatoire National des Arts et Métiers (Paris, France) and a bachelor of science (equivalent) degree from the Lycée Technique d'Etat (Armentières, France).

Tristan Orpin is Senior Vice President, Commercial Operations of Illumina. He joined Illumina in December of 2002 in the role of Vice President of Worldwide Sales, and in January of 2007 was promoted to the position of Senior Vice President of Commercial Operations. Before joining Illumina, Mr. Orpin was Director of Sales and Marketing for Sequenom from September 1999 to August 2001. Later Mr. Orpin was elected Vice President of Sales and Marketing and held this position from August 2001 to November 2002. Prior to 2001, Mr. Orpin served in several senior sales and marketing positions at Bio-Rad Laboratories. Mr. Orpin received a bachelor of science in genetics and biochemistry with first class honors from the University of Melbourne (Melbourne, Australia).

John Stuelpnagel, D.V.M., one of Illumina's co-founders, will serve as General Manager of Microarrays and Chief Operating Officer until April 1, 2008. Subsequent to that date, Dr. Stuelpnagel will have a continuing role with Illumina working on key projects as an Illumina Fellow. Additionally, as of April 1, 2008, he will step down from Illumina's Board of Directors. He has served as the Company's Chief Operating Officer since January 2005 and a Director since April 1998. From April 1998 to October 1999, he served as acting President and Chief Executive Officer and from April 1998 to April 2000 as acting Chief Financial Officer. Between October 1999 and January 2005, Dr. Stuelpnagel was Vice President of Business Development and later as Senior Vice President of Operations. While founding Illumina, Dr. Stuelpnagel was an associate with CW Group, a venture capital firm. Dr. Stuelpnagel received both a bachelor of science degree in biochemistry and a doctorate degree in veterinary medicine from the University of California (Davis, CA), and went on to receive a master of business administration degree from the University of California, Los Angeles.

ITEM 1A. *Risk Factors.*

Our business is subject to various risks, including those described below. In addition to the other information included in this Form 10-K, the following issues could adversely affect our operating results or our stock price.

We expect intense competition in our target markets, which could render our products obsolete, result in significant price reductions or substantially limit the volume of products that we sell. This would limit our ability to compete and maintain profitability. If we cannot continuously develop and commercialize new products, our revenue may not grow as intended.

We compete with life sciences companies that design, manufacture and market instruments for analysis of genetic variation and biological function and other applications using technologies such as two-dimensional electrophoresis, capillary electrophoresis, mass spectrometry, flow cytometry, microfluidics, nanotechnology, next-generation DNA sequencing and mechanically deposited, inkjet and photolithographic arrays. We anticipate that we will face increased competition in the future as existing companies develop new or improved products and as new companies enter the market with new technologies. The markets for our products are characterized by rapidly changing technology, evolving industry standards, changes in customer needs, emerging competition, new product introductions and strong price competition. For example, prices per data point for genotyping have fallen significantly over the last two years and we anticipate that prices will continue to fall. One or more of our competitors may render our technology obsolete or uneconomical. Some of our competitors have greater financial and personnel resources, broader product lines, a more established customer base and more experience in research and development than we do. Furthermore, life sciences and pharmaceutical companies, which are our potential customers and strategic partners, could develop competing products. For example, during the third quarter of fiscal 2007, Applied Biosystems Group, a business segment of Applera Corporation, launched the SOLID™ System**,** its next generation sequencing technology. If we are unable

to develop enhancements to our technology and rapidly deploy new product offerings, our business, financial condition and results of operations will suffer.

Our manufacturing capacity may limit our ability to sell our products.

We continue to ramp up our capacity to meet the anticipated demand for our products. Although we have significantly increased our manufacturing capacity and we believe we have plans in place sufficient to ensure we have adequate capacity to meet our business plan in 2008 and 2009, there are uncertainties inherent in expanding our manufacturing capabilities and we may not be able to increase our capacity in a timely manner. For example, manufacturing and product quality issues may arise as we increase production rates at our manufacturing facilities and launch new products. As a result, we may experience difficulties in meeting customer, collaborator and internal demand, in which case we could lose customers or be required to delay new product introductions, and demand for our products could decline. Additionally, in the past, we have experienced variations in manufacturing conditions that have temporarily reduced production yields. Due to the intricate nature of manufacturing products that contain DNA, we may encounter similar or previously unknown manufacturing difficulties in the future that could significantly reduce production yields, impact our ability to launch or sell these products, or to produce them economically, prevent us from achieving expected performance levels or cause us to set prices that hinder wide adoption by customers.

We may encounter difficulties in managing our growth. These difficulties could impair our profitability.

We have experienced and expect to continue to experience rapid and substantial growth in order to achieve our operating plans, which will place a strain on our human and capital resources. If we are unable to manage this growth effectively, our profitability could suffer. Our ability to manage our operations and growth effectively requires us to continue to expend funds to enhance our operational, financial and management controls, reporting systems and procedures and to attract and retain sufficient numbers of talented employees. If we are unable to scale up and implement improvements to our manufacturing process and control systems in an efficient or timely manner, or if we encounter deficiencies in existing systems and controls, then we will not be able to make available the products required to successfully commercialize our technology. Failure to attract and retain sufficient numbers of talented employees will further strain our human resources and could impede our growth.

If we lose our key personnel or are unable to attract and retain additional personnel, we may be unable to achieve our goals.

We are highly dependent on our management and scientific personnel, including Jay Flatley, our president and chief executive officer. The loss of their services could adversely impact our ability to achieve our business objectives. We will need to hire additional qualified personnel with expertise in molecular biology, chemistry, biological information processing, sales, marketing and technical support. We compete for qualified management and scientific personnel with other life science companies, universities and research institutions, particularly those focusing on genomics. Competition for these individuals, particularly in the San Diego and San Francisco area, is intense, and the turnover rate can be high. Failure to attract and retain management and scientific personnel would prevent us from pursuing collaborations or developing our products or technologies.

Our planned activities will require additional expertise in specific industries and areas applicable to the products developed through our technologies, including the life sciences and healthcare industries. Thus, we will need to add new personnel, including management, and develop the expertise of existing management. The failure to do so could impair the growth of our business.

If we are unable to develop and maintain operation of our manufacturing capability, we may not be able to launch or support our products in a timely manner, or at all.

We currently manufacture in a limited number of locations. Our manufacturing facilities are located in San Diego and Hayward, California and Little Chesterford, United Kingdom. We are in the process of expanding our manufacturing operations into Singapore, a country in which we have no past manufacturing experience. These areas are subject to natural disasters such as earthquakes or floods. If a natural disaster were to significantly damage one of our facilities or if other events were to cause our operations to fail, these events could prevent us from developing and manufacturing our products and services.

Also, many of our manufacturing processes are automated and are controlled by our custom-designed Laboratory Information Management System (LIMS). Additionally, as part of the decoding step in our array manufacturing process, we record several images of each array to identify what bead is in each location on the array and to validate each bead in the array. This requires significant network and storage infrastructure. If either our LIMS system or our networks or storage infrastructure were to fail for an extended period of time, it may adversely impact our ability to manufacture our products on a timely basis and would prevent us from achieving our expected shipments in any given period.

Our sales, marketing and technical support organization may limit our ability to sell our products.

We currently have fewer resources available for sales and marketing and technical support services compared to some of our primary competitors. In order to effectively commercialize our sequencing, genotyping and gene expression systems and other products to follow, we will need to expand our sales, marketing and technical support staff both domestically and internationally. We may not be successful in establishing or maintaining either a direct sales force or distribution arrangements to market our products and services. In addition, we compete primarily with much larger companies that have larger sales and distribution staffs and a significant installed base of products in place, and the efforts from a limited sales and marketing force may not be sufficient to build the market acceptance of our products required to support continued growth of our business.

Negative conditions in the global credit markets may impair the liquidity of a portion of our investment portfolio.

Our investment securities consist of U.S. dollar-based short maturity mutual funds, commercial paper, corporate bonds, treasury notes, auction rate securities and municipal bonds. As of December 30, 2007, our short-term investments included $14.7 million of high-grade (AAA rated) auction rate securities issued primarily by municipalities and universities. The recent negative conditions in the global credit markets have prevented some investors from liquidating their holdings, including their holdings of auction rate securities. In February 2008, we were informed that there was insufficient demand at auction for four of our high-grade auction rate securities, representing approximately $10.7 million. As a result, these affected securities are currently not liquid, and we could be required to hold them until they are redeemed by the issuer or to maturity. We may experience a similar situation with our remaining auction rate securities. In the event we need to access the funds that are in an illiquid state, we will not be able to do so without a loss of principal, until a future auction on these investments is successful, the securities are redeemed by the issuer or they mature. At this time, management has not obtained sufficient evidence to conclude that these investments are impaired or that they will not be settled in the short term, although the market for these investments is presently uncertain. If the credit ratings of the security issuers deteriorate and any decline in market value is determined to be other-than-temporary, we would adjust the carrying value of the investment through an impairment charge.

We may encounter difficulties in integrating acquisitions that could adversely affect our business, specifically the effective launch and customer acceptance of new technology platforms.

We acquired Solexa in January 2007 and CyVera in April 2005 and we may in the future acquire technology, products or businesses related to our current or future business. We have limited experience in acquisition activities and may have to devote substantial time and resources in order to complete acquisitions. Further, these potential acquisitions entail risks, uncertainties and potential disruptions to our business. For example, we may not be able to successfully integrate a company's operations, technologies, products and services, information systems and personnel into our business. An acquisition may further strain our existing financial and managerial resources, and divert management's attention away from our other business concerns.

In connection with these acquisitions, we assumed certain liabilities and hired certain employees, which is expected to continue to result in an increase in our research and development expenses and capital expenditures. There may also be unanticipated costs and liabilities associated with an acquisition that could adversely affect our operating results. To finance any acquisitions, we may choose to issue shares of our common stock as consideration, which could result in dilution to our stockholders. Additionally, an acquisition may have a substantial negative impact on near-term expected financial results.

The success of the Solexa acquisition depends, in part, on our ability to realize the anticipated synergies, growth opportunities and cost savings from integrating Solexa's businesses with our businesses. Our success in realizing these benefits and the timing of this realization depends upon the continued successful integration of the operations of Solexa. The integration of two independent companies is a complex, costly and time-consuming process. In addition, Solexa continues to operate at separate sites. Geographic integration in whole or in part could result in the loss of key employees, diversion of each company's management's attention, the disruption or interruption of, or the loss of momentum in, each company's ongoing businesses or inconsistencies in standards, controls, procedures and policies, any of which could adversely affect our ability to maintain relationships with customers and employees or our ability to achieve the anticipated benefits of the acquisition, or could reduce our earnings or otherwise adversely affect the business and financial results of the combined company.

The combined company may fail to realize the anticipated benefits of the acquisition as a result of our failure to achieve anticipated revenue growth following the acquisition.

For various reasons, including significant competition, low market acceptance or market growth, and lack of technology advantage, revenue recognized from the Solexa acquisition may not grow as anticipated and if so, we may not realize the expected value from this transaction.

If we are unable to find third-party manufacturers to manufacture components of our products, we may not be able to launch or support our products in a timely manner, or at all.

The nature of our products requires customized components that currently are available from a limited number of sources. For example, we currently use multiple components in our products that are single-sourced. If we are unable to secure a sufficient supply of those or other product components, we will be unable to meet demand for our products. We may need to enter into contractual relationships with manufacturers for commercial-scale production of some of our products, or develop these capabilities internally, and we cannot assure you that we will be able to do this on a timely basis, for sufficient quantities or on commercially reasonable terms. Accordingly, we may not be able to establish or maintain reliable, high-volume manufacturing at commercially reasonable costs.

Changes in our effective income tax rate could impact our profitability.

We are subject to income taxes in both the United States and numerous foreign jurisdictions. Significant judgments based on interpretations of existing tax laws or regulations are required in

determining the provision for income taxes. Our effective income tax rate could be adversely affected by various factors including, but not limited to, changes in the mix of earnings in tax jurisdictions with different statutory tax rates, changes in the valuation of deferred tax assets and liabilities, changes in existing tax laws or tax rates, changes in the level of non-deductible expenses including share-based compensation, changes in our future levels of research and development spending, mergers and acquisitions, and the result of examinations by various tax authorities.

Any inability to adequately protect our proprietary technologies could harm our competitive position.

Our success will depend in part on our ability to obtain patents and maintain adequate protection of our intellectual property in the United States and other countries. If we do not protect our intellectual property adequately, competitors may be able to use our technologies and thereby erode our competitive advantage. The laws of some foreign countries do not protect proprietary rights to the same extent as the laws of the United States, and many companies have encountered significant challenges in protecting their proprietary rights abroad. These challenges can be caused by the absence of rules and methods for the establishment and enforcement of intellectual property rights abroad.

The patent positions of companies developing tools for the life sciences and pharmaceutical industries, including our patent position, generally are uncertain and involve complex legal and factual questions. We will be able to protect our proprietary rights from unauthorized use by third parties only to the extent that our proprietary technologies are covered by valid and enforceable patents or are effectively maintained as trade secrets. We intend to apply for patents covering our technologies and products, as we deem appropriate. However, our patent applications may be challenged and may not result in issued patents or may be invalidated or narrowed in scope after they are issued. Questions as to inventorship may also arise. Any finding that our patents and applications are unenforceable could harm our ability to prevent others from practicing the related technology, and a finding that others have inventorship rights to our patents and applications could require us to obtain certain rights to practice related technologies, which may not be available on favorable terms, if at all.

In addition, our existing patents and any future patents we obtain may not be sufficiently broad to prevent others from practicing our technologies or from developing competing products. There also is risk that others may independently develop similar or alternative technologies or design around our patented technologies. Also, our patents may fail to provide us with any competitive advantage. We may need to initiate additional lawsuits to protect or enforce our patents, or litigate against third party claims, which would be expensive and, if we lose, may cause us to lose some of our intellectual property rights and reduce our ability to compete in the marketplace. Furthermore, these lawsuits may divert the attention of our management and technical personnel.

We also rely upon trade secret protection for our confidential and proprietary information. We have taken security measures to protect our confidential information. These measures, however, may not provide adequate protection for our trade secrets or other confidential information. Among other things, we seek to protect our trade secrets and confidential information by entering into confidentiality agreements with employees, collaborators and consultants. Nevertheless, employees, collaborators or consultants may still disclose our confidential information, and we may not otherwise be able to effectively protect our trade secrets. Accordingly, others may gain access to our confidential information, or may independently develop substantially equivalent information or techniques.

Litigation or other proceedings or third party claims of intellectual property infringement could require us to spend significant time and money and could prevent us from selling our products or services or impact our stock price.

Our commercial success depends, in part, on our non-infringement of the patents or proprietary rights of third parties and on our ability to protect our own intellectual property. Third parties have asserted or may assert that we are employing their proprietary technology without authorization. As we

enter new markets, we expect that competitors will likely assert that our products infringe their intellectual property rights as part of a business strategy to impede our successful entry into those markets. In addition, third parties may have obtained and may in the future obtain patents allowing them to claim that the use of our technologies infringes these patents. We could incur substantial costs and divert the attention of our management and technical personnel in defending ourselves against any of these claims. Any adverse ruling or perception of an adverse ruling in defending ourselves against these claims could have a material adverse impact on our stock price, which may be disproportionate to the actual import of the ruling itself. Furthermore, parties making claims against us may be able to obtain injunctive or other relief, which effectively could block our ability to develop further, commercialize and sell products, and could result in the award of substantial damages against us. In the event of a successful claim of infringement against us, we may be required to pay damages and obtain one or more licenses from third parties, or be prohibited from selling certain products. In addition, we may be unable to obtain these licenses at a reasonable cost, if at all. We could therefore incur substantial costs related to royalty payments for licenses obtained from third parties, which could negatively affect our gross margins. In addition, we could encounter delays in product introductions while we attempt to develop alternative methods or products. Defense of any lawsuit or failure to obtain any of these licenses on favorable terms could prevent us from commercializing products, and the prohibition of sale of any of our products could materially affect our ability to grow and maintain profitability.

We have a significant amount of indebtedness. We may not be able to make payments on our indebtedness, and we may incur additional indebtedness in the future, which could adversely affect our operation and profitability.

In February 2007, we issued $400 million of 0.625% Convertible Senior Notes due February 2014. The notes bear interest semi-annually, mature on February 15, 2014 and obligate us to repurchase the notes at the option of the holders if a "designated event" (as defined in the indenture for the notes), such as certain merger transactions involving us, occurs. In addition, upon conversion of the notes, we must pay in cash the principal portion of the notes being converted. Our ability to make payments on the notes will depend on our future operating performance and our ability to generate cash and may also depend on our ability to obtain additional debt or equity financing. We may need to use our cash to pay principal and interest on our debt, which will reduce the funds available to fund our research and development programs, strategic initiatives and working capital requirements. Our ability to generate sufficient operating cash flow to service the notes and fund our operating requirements will depend on our continued ability to commercialize new products and expand our manufacturing capabilities. Our debt service obligations increase our vulnerabilities to competitive pressures, because our competitors may be less leveraged than we are. If we are unable to generate sufficient operating cash flow to service our indebtedness and fund our operating requirements, we may be forced to reduce our development programs or seek additional debt or equity financing, which may not be available to us on satisfactory terms, or at all, or may dilute the interests of our existing stockholders. Our level of indebtedness may make us more vulnerable to economic or industry downturns. If we incur new indebtedness, the risks relating to our business and our ability to service our indebtedness will intensify.

We expect that our results of operations will fluctuate. This fluctuation could cause our stock price to decline.

Our revenue is subject to fluctuations due to the timing of sales of high-value products and services projects, the impact of seasonal spending patterns, the timing and size of research projects our customers perform, changes in overall spending levels in the life sciences industry, and other unpredictable factors that may affect customer ordering patterns. Given the difficulty in predicting the timing and magnitude of sales for our products and services, we may experience quarter-to-quarter fluctuations in revenue resulting in the potential for a sequential decline in quarterly revenue. A large portion of our expenses are relatively fixed, including expenses for facilities, equipment and personnel. In addition, we expect operating expenses to continue to increase significantly in absolute dollars. Accordingly, if revenue does not grow as anticipated, we may not be able to maintain annual profitability. Any significant

delays in the commercial launch of our products, unfavorable sales trends in our existing product lines, or impacts from the other factors mentioned above, could adversely affect our future revenue growth or cause a sequential decline in quarterly revenue. Due to the possibility of fluctuations in our revenue and expenses, we believe that quarterly comparisons of our operating results are not a good indication of our future performance. If our operating results fluctuate or do not meet the expectations of stock market analysts and investors, our stock price could decline.

We have only recently achieved annual operating profitability.

Prior to 2006, we had incurred net losses each year since our inception, and in 2007 we reported a net loss of $278.4 million, reflecting significant charges associated with our acquisition of Solexa in January 2007 and the settlement of our litigation with Affymetrix. As of December 30, 2007, our accumulated deficit was $383.0 million. Our ability to regain and sustain annual profitability will depend, in part, on the rate of growth, if any, of our revenue and on the level of our expenses. Non-cash stock-based compensation expense and expenses related to our acquisition of Solexa are also likely to continue to adversely affect our future profitability. We expect to continue incurring significant expenses related to research and development, sales and marketing efforts to commercialize our products and the continued development of our manufacturing capabilities. In addition, we expect that our research and development and selling and marketing expenses will increase at a higher rate in the future as a result of the development and launch of new products. Even if we regain profitability, we may not be able to increase profitability on a quarterly basis.

A significant portion of our sales are to international customers.

Approximately 43%, 44% and 38% of our revenue for the years ended December 30, 2007, December 31, 2006 and January 1, 2006, respectively, was derived from shipments to customers outside the United States. We intend to continue to expand our international presence and export sales to international customers and we expect the total amount of non-U.S. sales to continue to grow. Export sales entail a variety of risks, including:

- currency exchange fluctuations;
- unexpected changes in legislative or regulatory requirements of foreign countries into which we import our products;
- difficulties in obtaining export licenses or in overcoming other trade barriers and restrictions resulting in delivery delays; and
- significant taxes or other burdens of complying with a variety of foreign laws.

In addition, sales to international customers typically result in longer payment cycles and greater difficulty in accounts receivable collection. We are also subject to general geopolitical risks, such as political, social and economic instability and changes in diplomatic and trade relations. One or more of these factors could have a material adverse effect on our business, financial condition and operating results.

Our success depends upon the continued emergence and growth of markets for analysis of genetic variation and biological function.

We design our products primarily for applications in the life sciences and pharmaceutical industries. The usefulness of our technology depends in part upon the availability of genetic data and its usefulness in identifying or treating disease. We are focusing on markets for analysis of genetic variation and biological function, namely sequencing, SNP genotyping and gene expression profiling. These markets are new and emerging, and they may not develop as quickly as we anticipate, or reach their full potential. Other methods of analysis of genetic variation and biological function may emerge and displace the methods we are developing. Also, researchers may not seek or be able to convert raw genetic data into medically valuable information through the analysis of genetic variation and biological function. In

addition, factors affecting research and development spending generally, such as changes in the regulatory environment affecting life sciences and pharmaceutical companies, and changes in government programs that provide funding to companies and research institutions, could harm our business. If useful genetic data is not available or if our target markets do not develop in a timely manner, demand for our products may grow at a slower rate than we expect, and we may not be able to sustain annual profitability.

The accounting method for our convertible debt securities may be subject to change.

A convertible debt security providing for share and/or cash settlement of the conversion value and meeting specified requirements under Emerging Issues Task Force (EITF) Issue No. 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock*, including our outstanding convertible debt securities, is currently classified in its entirety as debt under U.S. generally accepted accounting principles. No portion of the carrying value of such a security related to the conversion option indexed to the issuer's stock is classified as equity. In addition, interest expense is recognized at the stated coupon rate. The coupon rate of interest for convertible debt securities, including our convertible debt securities, is typically lower than an issuer would be required to pay for nonconvertible debt with otherwise similar terms.

The EITF recently considered whether the accounting for cash settled convertible debt securities, which are convertible debt securities that require or permit settlement in cash either in whole or in part upon conversion should be changed, but was unable to reach a consensus and discontinued deliberations on this issue. Subsequently, in July 2007, the Financial Accounting Standards Board (FASB) voted unanimously to reconsider the current accounting for cash settled convertible debt securities, which includes our convertible debt securities. In August 2007, the FASB exposed for public comment a proposed FASB Staff Position (FSP) that would change the method of accounting for such securities and would require the proposed method to be retrospectively applied. The FASB began its redeliberations of the guidance in that proposed FSP in January 2008. The FSP, if issued as proposed, would likely become effective for companies like us in the first quarter of 2009. Under this proposed method of accounting, the debt and equity components of our convertible debt securities would be bifurcated and accounted for separately in a manner that would result in recognizing interest on these securities at effective rates more comparable to what we would have incurred had we issued nonconvertible debt with otherwise similar terms. The equity component of our convertible debt securities would be included in the paid-in-capital section of stockholders' equity on our balance sheet and, accordingly, the initial carrying values of these debt securities would be reduced. Our net income for financial reporting purposes would be reduced by recognizing the accretion of the reduced carrying values of our convertible debt securities to their face amounts as additional non-cash interest expense. Therefore, if the proposed method of accounting for cash settled convertible debt securities is adopted by the FASB as described above, it would have an adverse impact on our past and future reported financial results. As the final guidance has not been issued, we cannot predict its ultimate outcome.

We also cannot predict any other changes in GAAP that may be made affecting accounting for convertible debt securities, some of which could have an adverse impact on our past or future reported financial results.

Item 1B. ***Unresolved Staff Comments.***

None.

Item 2. ***Properties.***

The following chart indicates the facilities we lease as of December 30, 2007, the location and size of each such facility and their designated use. During 2007, we expanded our facilities and leased additional space to accommodate growth in our business. We anticipate continuing to expand our facilities over the next several years as we continue to expand our worldwide commercial operations and our manufacturing capabilities.

Location	Approximate Square Feet	Operation	Lease Expiration
San Diego, CA	116,000 sq. ft.	R&D, Manufacturing, Administrative	2023
	17,300 sq. ft.	Administrative	2008
	9,200 sq. ft.	Administrative	2008
	9,000 sq. ft.	Storage and Distribution	2011
Hayward, CA	148,000 sq. ft.	R&D, Manufacturing, Administrative	2008
Wallingford, CT	14,500 sq. ft.	R&D	2008
Little Chesterford, United Kingdom	23,000 sq. ft.	R&D, Manufacturing, Administrative	2011
	5,500 sq. ft.	Administrative	2009
Netherlands	6,800 sq. ft.	Administrative and Distribution	2011
Tokyo, Japan	3,300 sq. ft.	Administrative	2009
Singapore	3,200 sq. ft.	Administrative	2009

Additionally, on February 14, 2007, we entered into a lease agreement with BioMed Realty Trust, Inc. (BioMed) to expand into a new office building BioMed intends to build in San Diego, California. The new building will be used for research and development, manufacturing and administrative purposes. The lease covers approximately 84,000 square feet, which is to be occupied in three phases, the first of which is expected to be occupied by October 1, 2008. The lease expires 15 years from the date the first phase is occupied, subject to our right to extend the term for up to three additional five-year periods.

On October 3, 2007, we entered into a lease agreement with The Irvine Company, LLC (Irvine) to expand our manufacturing operations into an additional San Diego facility. The lease commences on March 1, 2008 and covers approximately 51,900 square feet. The lease expires in March 2015, subject to our right to extend the term for an additional five-year period.

On October 24, 2007, we also leased a manufacturing facility in Singapore that covers approximately 32,800 square feet. The lease commences on March 15, 2008 and is for a term of five years with the option to renew for an additional five-year period.

In February 2008, we agreed to lease an additional facility in Little Chesterford, United Kingdom that is in the process of being constructed for research and development, manufacturing and administrative purposes. This facility covers approximately 41,500 square feet. We expect to occupy this new building by the end of 2009.

Item 3. ***Legal Proceedings.***

In the recent past, we incurred substantial costs in defending ourselves against patent infringement claims and expect, going forward, to devote substantial financial and managerial resources to protect our intellectual property and to defend against any future claims asserted against us.

Affymetrix Litigation

On January 9, 2008, we resolved all our outstanding litigations with Affymetrix, Inc. (Affymetrix) by entering into a settlement agreement in which we agreed, without admitting liability, to make a one-time payment to Affymetrix of $90.0 million. In return, Affymetrix agreed to dismiss with prejudice all lawsuits it had brought against us, and we agreed to dismiss with prejudice our counterclaims in the relevant lawsuits. In exchange for the payment, Affymetrix agreed not to sue us or our affiliates or customers for making, using or selling any of our current products, evolutions of those products or services related to

those products. In addition, Affymetrix agreed that, for four years, it will not sue us for making, using or selling our products or services that are based on future technology developments. The covenant not to sue covers all fields other than photolithography, the process by which Affymetrix manufactures its arrays and a field in which we do not operate.

The January 2008 settlement resolved complaints Affymetrix had previously filed in the U.S. and abroad. Specifically, on July 26, 2004, Affymetrix had filed a complaint in the U.S. District Court for the District of Delaware alleging that the use, manufacture and sale of our BeadArray products and services, including our Array Matrix and BeadChip products, infringe six Affymetrix patents. At that time Affymetrix was also seeking an injunction against the sale of any products that would ultimately be determined to infringe these patents, unspecified monetary damages, interest and attorneys' fees. Subsequently, on October 24, 2007, Affymetrix had filed complaints in the U.S. District Court for the District of Delaware, in Regional Court in Düsseldorf (Germany), and in the High Court of Justice, Chancery Division — Patents Court in London (United Kingdom) alleging that the use, manufacture and sale of certain of our BeadArray products and services, including our Array Matrix and BeadChip products, infringe three U.S. patents and three European patents of Affymetrix. In its U.S. complaint filed in 2007, Affymetrix had also alleged that our sequencing technology, including the Genome Analyzer, infringes two Affymetrix U.S. patents. Affymetrix also sought an injunction against the sale of any products that would ultimately be determined to infringe these patents, unspecified monetary damages, interest and attorneys' fees.

Former Employee Claim

On June 15, 2005, a former employee, filed suit against us in the U.S. District Court for the District of Delaware seeking an order requiring us and the U.S. Patent and Trademark Office to correct the inventorship of certain of our patents and patent applications by adding the former employee as an inventor, alleging that we committed inequitable conduct and fraud in not naming him as an inventor, and seeking a judgment declaring certain of our patents and patent applications unenforceable, unspecified monetary damages and attorney's fees. On January 30, 2008, this dispute was resolved to the mutual satisfaction of the parties by entering into a release and settlement agreement pursuant to which all claims pending in that litigation were dismissed with prejudice.

Applied Biosystems Litigation

On December 26, 2006, the Applied Biosystems Group of Applera Corporation (Applied Biosystems) filed suit in California Superior Court, Santa Clara County against Solexa (which we acquired on January 26, 2007). This State Court action is about the ownership of several patents assigned in 1995 to Solexa's predecessor company (Lynx Therapeutics) by a former employee (Dr. Stephen Macevicz) who is the inventor of these patents and is named as a co-defendant in the suit. Lynx was originally a unit of Applied Biosystems but was spun out in 1992. On May 31, 2007, Applied Biosystems filed a second suit, this time against us, in the U.S. District Court for the Northern District of California. This second suit seeks a declaratory judgment of non-infringement of the Macevicz patents that are the subject of the State Court action mentioned above. Both suits were later consolidated in the U.S. District Court for the Northern District of California, San Francisco Division.

The Macevicz patents relate to methods for sequencing DNA using successive rounds of oligonucleotide probe ligation (Sequencing-by-Ligation). Our Genome Analyzer system uses a different technology called DNA Sequencing-by-Synthesis (SBS), which is not covered by any of these patents. In addition, the sequencing technology originally used by Lynx Therapeutics (called "MPSS™") is not based on the methods covered by the Macevicz patents. In any event, we have never used MPSS™ in our sequencing platform. Furthermore, we have no plans to use any of the Sequencing-by-Ligation technologies covered by these patents. By these consolidated actions Applied Biosytems is seeking ownership of the Macevicz patents, unspecified costs and damages, and a declaration of non-infringement of these patents. Applied Biosystems is not asserting any claim for patent infringement against us.

Item 4. ***Submission of Matters to a Vote of Security Holders.***

No matters were submitted to a vote of security holders during the fourth quarter of fiscal 2007.

PART II

Item 5. ***Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.***

Our common stock has been quoted on The NASDAQ Global Select Market under the symbol "ILMN" since July 28, 2000. Prior to that time, there was no public market for our common stock. The following table sets forth, for the periods indicated, the quarterly high and low sales prices per share of our common stock as reported on The NASDAQ Global Select Market. Our present policy is to retain earnings, if any, to finance future growth. We have never paid cash dividends and have no present intention to pay cash dividends in the foreseeable future. In addition, the indenture for our convertible senior notes due 2014, which are convertible into cash and, in certain circumstances, shares of our common stock, requires us to increase the conversion rate applicable to the notes if we pay any cash dividends.

	2007	
	High	Low
First Quarter	$42.19	$28.11
Second Quarter	42.08	28.94
Third Quarter	53.88	40.04
Fourth Quarter	63.38	50.34

	2006	
	High	Low
First Quarter	$27.98	$13.75
Second Quarter	32.00	21.60
Third Quarter	40.00	27.02
Fourth Quarter	45.87	32.20

At February 1, 2008, there were approximately 604 stockholders of record, and the closing price per share of our common stock, as reported on The NASDAQ Global Select Market on such date, was $67.59.

Sales of Unregistered Securities and Issuer Purchases of Equity Securities

None during the fourth quarter of fiscal 2007.

Item 6. *Selected Financial Data.*

The following table sets forth selected historical consolidated financial data for each of our last five fiscal years during the period ended December 30, 2007.

Statement of Operations Data

	Year Ended December 30, 2007 (52 weeks)	Year Ended December 31 2006 (52 weeks)	Year Ended January 1, 2006 (52 weeks)	Year Ended January 2, 2005 (53 weeks)	Year Ended December 28, 2003 (52 weeks)
	(In thousands, except per share data)				
Revenue:					
Product revenue	$ 326,699	$155,811	$ 57,752	$40,497	$ 18,378
Service and other revenue	40,100	28,775	15,749	10,086	9,657
Total revenue	366,799	184,586	73,501	50,583	28,035
Costs and expenses:					
Cost of product revenue (including non-cash stock compensation expense of $4,045, $1,289, $0, $0 and $0, respectively)	119,991	51,271	19,920	11,572	7,437
Cost of service and other revenue (including non-cash stock compensation expense of $279, $235, $0, $0 and $0, respectively)	12,445	8,073	3,261	1,687	2,600
Research and development (including non-cash stock compensation expense of $10,016, $3,891, $84, $348 and $1,289, respectively)	73,943	33,373	27,809	21,462	23,800
Selling, general and administrative (including non-cash stock compensation expense of $19,406, $8,889, $186, $496 and $1,165, respectively)	101,256	54,057	28,158	25,576	20,064
Amortization of acquired intangible assets	2,429	—	—	—	—
Acquired in-process research and development(1)	303,400	—	15,800	—	—
Litigation settlements (judgment), net(2)	54,536	—	—	(4,201)	756
Total costs and expenses	668,000	146,774	94,948	56,096	54,657
Income (loss) from operations(1),(2)	(301,201)	37,812	(21,447)	(5,513)	(26,622)
Interest income	16,026	5,368	1,404	941	1,821
Interest and other expense, net	(3,610)	(560)	(668)	(1,518)	(2,262)
Income (loss) before income taxes	(288,785)	42,620	(20,711)	(6,090)	(27,063)
Provision (benefit) for income taxes(5)	(10,426)	2,652	163	135	—
Net income (loss)	$(278,359)	$ 39,968	$(20,874)	$ (6,225)	$(27,063)
Net income (loss) per basic share	$ (5.14)	$ 0.90	$ (0.52)	$ (0.17)	$ (0.85)
Net income (loss) per diluted share	$ (5.14)	$ 0.82	$ (0.52)	$ (0.17)	$ (0.85)
Shares used in calculating basic net income (loss) per share(3)	54,154	44,501	40,147	35,845	31,925
Shares used in calculating diluted net income (loss) per share(3)	54,154	48,754	40,147	35,845	31,925

Balance Sheet Data

	December 30, 2007	December 31, 2006	January 1, 2006	January 2, 2005	December 28, 2003
			(In thousands)		
Cash, cash equivalents and short-term investments(2)	$ 386,082	$ 130,804	$ 50,822	$ 66,994	$ 33,882
Working capital	397,040	159,950	57,992	64,643	32,229
Total assets	987,732	300,584	100,610	94,907	99,234
Long-term debt, less current portion(4)	400,000	—	54	—	24,999
Accumulated deficit	(382,977)	(104,618)	(144,586)	(123,712)	(117,487)
Total stockholders' equity(1),(2),(4)	411,678	247,342	72,497	72,262	47,388

In addition to the following notes, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 8, "Financial Statements and Supplementary Data" for further information regarding our consolidated results of operations and financial position for periods reported therein and for known factors that will impact comparability of future results.

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(1) The consolidated financial statements include results of operations of acquired companies commencing on their respective acquisition dates. In January 2007, we completed our acquisition of Solexa in a stock for stock merger transaction for a total purchase price of $618.7 million. In April 2005, we completed our acquisition of Cyvera Corporation for a total purchase price of $17.8 million. As part of the accounting for the acquisitions of Solexa in 2007 and Cyvera in 2005, we recorded charges to write-off acquired in-process research and development, or IPR&D of $303.4 million and $15.8 million, respectively. The IPR&D charge represents an estimate of the fair value of the in-process research and development for projects and technologies that, as of the acquisition date, had not reached technological feasibility and had no alternative future use. See Note 2 of Notes to Consolidated Financial Statements for further information regarding our Solexa acquisition.

(2) The litigation settlements of $54.5 million for the year ended December 30, 2007 are associated with two settlement agreements entered in January 2008. $54.0 million relates to the settlement with Affymetrix. In January 2008, we paid Affymetrix $90.0 million related to the Affymetrix settlement. See Note 8 of Notes to Consolidated Financial Statements for further information regarding these settlements. The $4.2 million judgment, representing a gain recorded for the reversal of a prior accrual, and the $0.8 million settlement for the years ended January 2, 2005 and December 28, 2003, respectively, are associated with a litigation judgment for a jury verdict in a termination-of-employment lawsuit.

(3) For an explanation of the determination of the number of shares used to compute basic and diluted net income (loss) per share, see Note 1 of Notes to Consolidated Financial Statements.

(4) In February 2007, we issued $400.0 million principal amount of 0.625% Convertible Senior Notes (the "Notes") due 2014, which included the full exercise of the initial purchasers' option to purchase up to an additional $50.0 million aggregate principal amount of Notes. In connection with the offering of the Notes, we entered into convertible note hedge transactions entitling us to purchase up to 11,451,480 shares of our common stock (subject to adjustment) at an initial strike price (subject to adjustment) of $43.66 per share. Additionally, we sold warrants to the initial purchasers and/or their affiliates to acquire up to 18,322,320 shares of our common stock (subject to adjustment) at an initial strike price (subject to adjustment) of $62.87 per share. See Note 5 of Notes to Consolidated Financial Statements for further information regarding the Notes.

(5) For an explanation of the determination of the tax provision (benefit) recorded see Note 11 of Notes to Consolidated Financial Statements.

Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operation.***

The following discussion and analysis should be read with "Item 6. Selected Financial Data" and our consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K. The discussion and analysis in this Annual Report on Form 10-K contains forward-looking statements that involve risks and uncertainties, such as statements of our plans, objectives, expectations and intentions. Words such as "anticipate," "believe," "continue," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "project" or similar words or phrases, or the negatives of these words, may identify forward-looking statements, but the absence of these words does not necessarily mean that a statement is not forward looking. Examples of forward-looking statements include, among others, statements regarding the integration of Solexa's and CyVera's technology with our existing technology, the commercial launch of new products, including products based on Solexa's and CyVera's technology, and the duration which our existing cash and other resources is expected to fund our operating activities.

Forward-looking statements are subject to known and unknown risks and uncertainties and are based on potentially inaccurate assumptions that could cause actual results to differ materially from those expected or implied by the forward looking statements. Factors that could cause or contribute to these differences include those discussed in "Item 1A. Risk Factors" as well as those discussed elsewhere. The risk factors and other cautionary statements made in this Annual Report on Form 10-K should be read as applying to all related forward-looking statements wherever they appear in this Annual Report on Form 10-K.

Overview

We are a leading developer, manufacturer and marketer of integrated systems for the large scale analysis of genetic variation and biological function. Using our proprietary technologies, we provide a comprehensive line of products and services that currently serve the sequencing, genotyping and gene expression markets. In the future, we expect to enter the market for molecular diagnostics. Our customers include leading genomic research centers, pharmaceutical companies, academic institutions, clinical research organizations and biotechnology companies. Our tools provide researchers around the world with the performance, throughput, cost effectiveness and flexibility necessary to perform the billions of genetic tests needed to extract valuable medical information from advances in genomics and proteomics. We believe this information will enable researchers to correlate genetic variation and biological function, which will enhance drug discovery and clinical research, allow diseases to be detected earlier and permit better choices of drugs for individual patients.

In April 2005, we completed the acquisition of CyVera. The aggregate consideration for the transaction was $14.5 million, consisting of approximately 1.5 million shares of our common stock and payment of approximately $2.3 million of CyVera's liabilities at the closing.

On January 26, 2007, we completed the acquisition of Solexa for approximately 13.1 million shares of our common stock. Solexa develops and commercializes genetic analysis technologies used to perform a range of analyses including whole genome resequencing, gene expressing analysis and small RNA analysis. We believe our combined company is the only company with genome-scale technology for genotyping, gene expression and sequencing, the three cornerstones of modern genetic analysis.

Our revenue is subject to fluctuations due to the timing of sales of high-value products and service projects, the impact of seasonal spending patterns, the timing and size of research projects our customers perform, changes in overall spending levels in the life science industry and other unpredictable factors that may affect our customer ordering patterns. Any significant delays in the commercial launch or any lack or delay of commercial acceptance of new products, unfavorable sales trends in our existing product lines, or impacts from the other factors mentioned above, could adversely affect our revenue growth or cause a sequential decline in quarterly revenue. Due to the possibility of fluctuations in our revenue and net income or loss, we believe quarterly comparisons of our operating results are not a good indication of our future performance.

As of December 30, 2007, our accumulated deficit was $383.0 million and total stockholders' equity was $411.7 million. Our losses have principally occurred as a result of acquired in-process research and development charges of $303.4 million related to our acquisition of Solexa in 2007, the substantial resources required for the research, development and manufacturing scale-up effort required to commercialize our products and services, a charge of $54.5 million in 2007 primarily related to settlement of our litigation with Affymetrix and $15.8 million related to our acquisition of CyVera in 2005. We expect to continue to incur substantial costs for research, development and manufacturing scale-up activities over the next several years. We will also need to increase our selling, general and administrative costs as we build up our sales and marketing infrastructure to expand and support the sale of systems, other products and services.

Critical Accounting Policies and Estimates

General

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of financial statements requires that management make estimates, assumptions and judgments with respect to the application of accounting policies that affect the reported amounts of assets, liabilities, revenue and expenses, and the disclosures of contingent assets and liabilities. Actual results could differ from those estimates.

Our significant accounting policies are described in Note 1 to our consolidated financial statements. Certain accounting policies are deemed critical if 1) they require an accounting estimate to be made based on assumptions that were highly uncertain at the time the estimate was made, and 2) changes in the estimate that are reasonably likely to occur, or different estimates that we reasonably could have used would have a material effect on our consolidated financial statements.

Management has discussed the development and selection of these critical accounting policies with the Audit Committee of our Board of Directors, and the Audit Committee has reviewed the disclosure. In addition, there are other items within our financial statements that require estimation, but are not deemed critical as defined above.

We believe the following critical accounting policies reflect our more significant estimates and assumptions used in the preparation of the consolidated financial statements.

Revenue Recognition

Our revenue is generated primarily from the sale of products and services. Product revenue consists of sales of arrays, reagents, flow cells, instrumentation and oligos. Service and other revenue consists of revenue received for performing genotyping and sequencing services, extended warranty sales and amounts earned under research agreements with government grants, which is recognized in the period during which the related costs are incurred.

We recognize revenue in accordance with the guidelines established by SEC Staff Accounting Bulletin (SAB) No. 104. Under SAB No. 104, revenue cannot be recorded until all of the following criteria have been met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; the seller's price to the buyer is fixed or determinable; and collectibility is reasonably assured. All revenue is recorded net of any applicable allowances for returns or discounts.

Revenue for product sales is recognized generally upon shipment and transfer of title to the customer, provided no significant obligations remain and collection of the receivables is reasonably assured. Revenue from the sale of instrumentation is recognized when earned, which is generally upon shipment. Revenue for genotyping and sequencing services is recognized when earned, which is generally at the time the genotyping and sequencing analysis data is delivered to the customer.

In order to assess whether the price is fixed and determinable, we ensure there are no refund rights. If payment terms are based on future performance or a right of return exists, we defer revenue recognition until the price becomes fixed and determinable. We assess collectibility based on a number of factors, including past transaction history with the customer and the creditworthiness of the customer. If we determine that collection of a payment is not reasonably assured, revenue recognition is deferred until the time collection becomes reasonably assured, which is generally upon receipt of payment. Changes in judgments and estimates regarding application of SAB No. 104 might result in a change in the timing or amount of revenue recognized.

Sales of instrumentation generally include a standard one-year warranty. We also sell separately priced maintenance (extended warranty) contracts, which are generally for one or two years, upon the expiration of the initial warranty. Revenue for extended warranty sales is recognized ratably over the term of the extended warranty period. Reserves are provided for estimated product warranty expenses at the time the associated revenue is recognized. If we were to experience an increase in warranty claims or if costs of servicing our warrantied products were greater than our estimates, gross margins could be adversely affected.

While the majority of our sales agreements contain standard terms and conditions, we do enter into agreements that contain multiple elements or non-standard terms and conditions. Emerging Issues Task Force (EITF) No. 00-21, *Revenue Arrangements with Multiple Deliverables,* provides guidance on accounting for arrangements that involve the delivery or performance of multiple products, services, or rights to use assets within contractually binding arrangements. Significant contract interpretation is sometimes required to determine the appropriate accounting, including whether the deliverables specified in a multiple element arrangement should be treated as separate units of accounting for revenue recognition purposes, and if so, how the price should be allocated among the deliverable elements, when to recognize revenue for each element, and the period over which revenue should be recognized. We recognize revenue for delivered elements only when we determine that the fair values of undelivered elements are known and there are no uncertainties regarding customer acceptance.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We evaluate the collectibility of our accounts receivable based on a combination of factors. We regularly analyze customer accounts, review the length of time receivables are outstanding and review historical loss rates. If the financial condition of our customers were to deteriorate, additional allowances could be required.

Inventory Valuation

We record adjustments to inventory for potentially excess, obsolete or impaired goods in order to state inventory at net realizable value. We must make assumptions about future demand, market conditions and the release of new products that will supercede old ones. We regularly review inventory for excess and obsolete products and components, taking into account product life cycle and development plans, product expiration and quality issues, historical experience and our current inventory levels. If actual market conditions are less favorable than anticipated, additional inventory adjustments could be required.

Contingencies

We are subject to legal proceedings primarily related to intellectual property matters. Based on the information available at the balance sheet dates and through consultation with our legal counsel, we assess the likelihood of any adverse judgments or outcomes of these matters, as well as the potential ranges of probable losses. If losses are probable and reasonably estimable, we will record a liability in accordance with Statement of Financial Accounting Standards (SFAS) No. 5, *Accounting for Contingencies.*

Goodwill and Intangible Asset Valuation

Our goodwill represents the excess of the cost over the fair value of net assets acquired from our Solexa and Cyvera acquisitions. Our intangible assets are comprised primarily of acquired technology and customer relationships from the acquisition of Solexa and licensed technology from the Affymetrix settlement. We make significant judgments in relation to the valuation of goodwill and intangible assets resulting from (i) acquisitions; and (ii) litigation settlements.

In determining the carrying amount of our goodwill and intangible assets arising from acquisitions, we used the purchase method of accounting. The purchase method of accounting requires extensive use of accounting estimates and judgments to allocate the purchase price to the fair value of the net tangible and intangible assets acquired, including in-process research and development (IPR&D). Goodwill and intangible assets deemed to have indefinite lives are not amortized, but are subject to at least annual impairment tests. The amounts and useful lives assigned to other acquired intangible assets impact future amortization, and the amount assigned to IPR&D is expensed immediately.

Determining the fair values and useful lives of intangible assets acquired as part of litigation settlements also requires the exercise of judgment. While there are a number of different generally accepted valuation methods to estimate the value of intangible assets, we used the discounted cash flow method in determining the value of licensed technology associated with the settlement of our Affymetrix litigation. This method required significant management judgment to forecast the future operating results used in the analysis. In addition, other significant estimates were required such as residual growth rates and discount factors. The estimates we used to value and amortize intangible assets were consistent with the plans and estimates that we use to manage our business and based on available historical information and industry estimates and averages. These judgments can significantly affect our net operating results. In addition, we performed a sensitivity analysis to determine the effect a change in revenue projections of 10% would have on our intangible asset, noting the impact would be a reduction or increase in the value of the intangible asset of $2.0 million.

SFAS No. 142, *Goodwill and Other Intangible Assets,* requires that goodwill and certain intangible assets be assessed for impairment using fair value measurement techniques. If the carrying amount of a reporting unit exceeds its fair value, then a goodwill impairment test is performed to measure the amount of the impairment loss, if any. The goodwill impairment test compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. The implied fair value of goodwill is determined in the same manner as in a business combination. Determining the fair value of the implied goodwill is judgmental in nature and often involves the use of significant estimates and assumptions. These estimates and assumptions could have a significant impact on whether or not an impairment charge is recognized and also the magnitude of any such charge. Estimates of fair value are primarily determined using discounted cash flows and market comparisons. These approaches use significant estimates and assumptions, including projection and timing of future cash flows, discount rates reflecting the risk inherent in future cash flows, perpetual growth rates, determination of appropriate market comparables, and determination of whether a premium or discount should be applied to comparables. It is reasonably possible that the plans and estimates used to value these assets may be incorrect. If our actual results, or the plans and estimates used in future impairment analyses, are lower than the original estimates used to assess the recoverability of these assets, we could incur additional impairment charges. We have performed our annual test of goodwill as of May 1, 2007, noting no impairment, and have determined there has been no impairment of goodwill through December 30, 2007.

Stock-Based Compensation

We account for stock-based compensation in accordance with SFAS No. 123R, *Share-Based Payment.* Under the provisions of SFAS No. 123R, stock-based compensation cost is estimated at the grant date based on the award's fair-value as calculated by the Black-Scholes-Merton (BSM) option-pricing model and is recognized as expense over the requisite service period. The BSM model requires various highly judgmental assumptions including volatility, forfeiture rates, and expected option life. If any of

these assumptions used in the BSM model change significantly, stock-based compensation expense may differ materially in the future from that recorded in the current period.

Income Taxes

In accordance with SFAS No. 109, *Accounting for Income Taxes*, the provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for the expected future tax benefit to be derived from tax loss and credit carryforwards. Deferred tax assets and liabilities are determined using the enacted tax rates in effect for the years in which those tax assets are expected to be realized. A valuation allowance is established when it is more likely than not the future realization of all or some of the deferred tax assets will not be achieved. The evaluation of the need for a valuation allowance is performed on a jurisdiction by jurisdiction basis, and includes a review of all available positive and negative evidence. As of December 30, 2007, we have maintained a valuation allowance only against certain U.S. and foreign deferred tax assets that we concluded have not met the "more likely than not" threshold required under SFAS No. 109.

Due to the adoption of SFAS No. 123R, we recognize excess tax benefits associated with share-based compensation to stockholders' equity only when realized. When assessing whether excess tax benefits relating to share-based compensation have been realized, we follow the with-and-without approach, excluding any indirect effects of the excess tax deductions. Under this approach, excess tax benefits related to share-based compensation are not deemed to be realized until after the utilization of all other tax benefits available to us.

Effective January 1, 2007, we adopted FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109*, which clarifies the accounting for uncertainty in tax positions. FIN No. 48 requires that we recognize the impact of a tax position in our financial statements only if that position is more likely than not of being sustained upon examination by taxing authorities, based on the technical merits of the position. Any interest and penalties related to uncertain tax positions will be reflected in income tax expense.

Results of Operations

To enhance comparability, the following table sets forth audited consolidated statement of operations data for the years ended December 30, 2007, December 31, 2006, and January 1, 2006 stated as a percentage of total revenue.

	Year Ended December 30, 2007	Year Ended December 31, 2006	Year Ended January 1, 2006
Revenue			
Product revenue	89%	84%	79%
Service and other revenue	11	16	21
Total revenue	100	100	100
Costs and expenses:			
Cost of product revenue	33	28	27
Cost of service and other revenue	3	5	4
Research and development	20	18	38
Selling, general and administrative	27	29	38
Amortization of acquired intangible assets	1	—	—
Acquired in-process research and development	83	—	22
Litigation settlements	15	—	—
Total costs and expenses	182	80	129
Income (loss) from operations	(82)	20	(29)
Interest income	4	3	2
Interest and other expense, net	(1)	—	(1)
Income (loss) before income taxes	(79)	23	(28)
Provision (benefit) for income taxes	(3)	1	—
Net income (loss)	(76)%	22%	(28)%

Comparison of Years Ended December 30, 2007 and December 31, 2006

Our fiscal year is 52 or 53 weeks ending the Sunday closest to December 31, with quarters of 13 or 14 weeks ending the Sunday closest to March 31, June 30, and September 30. The years ended December 30, 2007 and December 31, 2006 were both 52 weeks.

Revenue

	Year Ended December 30, 2007	Year Ended December 31, 2006	Percentage Change
	(In thousands)		
Product revenue	$326,699	$155,811	110%
Service and other revenue	40,100	28,775	39
Total revenue	$366,799	$184,586	99%

Total revenue for the years ended December 30, 2007 and December 31, 2006 was $366.8 million and $184.6 million, respectively. This represents an increase of $182.2 million for 2007, or 99%, compared to 2006.

Product revenue increased to $326.7 million for the year ended December 30, 2007 from $155.8 million for the year ended December 31, 2006. Consumable products and instruments

constituted 59% and 37% of product revenue for the year ended December 30, 2007, respectively, compared to 64% and 28% for the year ended December 31, 2006, respectively. The change in sales associated with our product mix is due to increased sales in instruments primarily attributable to the Genome Analyzer, which was introduced during the first quarter of 2007. Growth in consumable revenue was primarily attributable to strong demand for our Infinium products. We expect to see continued growth in product revenue, which can be mainly attributed to the launch of several new products, sales of existing products and the growth of our installed base of instruments.

Service and other revenue increased to $40.1 million for the year ended December 30, 2007 from $28.8 million for the year ended December 31, 2006. Service and other revenue includes revenue generated from genotyping and sequencing service contracts and extended warranty contracts. In 2007, service and other revenue also includes research revenue. Historically, research revenue was included in a separate line item on the Consolidated Statements of Operations. The increase in service and other revenue is primarily due to the completion of several significant Infinium and iSelect custom SNP genotyping service contracts and sequencing services contracts. We expect sales from SNP genotyping and sequencing services contracts to fluctuate on a yearly and quarterly basis, depending on the mix and number of contracts that are completed. The timing of completion of SNP genotyping and sequencing services contracts are highly dependent on the customers' schedules for delivering the SNPs and samples to us.

Cost of Product and Service and Other Revenue

	Year Ended December 30, 2007	Year Ended December 30, 2006	Percentage Change
	(In thousands)		
Cost of product revenue	$119,991	$51,271	134%
Cost of service and other revenue	12,445	8,073	54
Total cost of product and service and other revenue	$132,436	$59,344	123%

Cost of product and service and other revenue represents manufacturing costs incurred in the production process, including component materials, assembly labor and overhead, installation, warranty, packaging and delivery costs, as well as costs associated with performing genotyping and sequencing services on behalf of our customers. Cost of product revenue increased to $120.0 million for the year ended December 30, 2007, compared to $51.3 million for the year ended December 31, 2006, primarily driven by higher consumable and instrument sales. Cost of product revenue for the years ended December 30, 2007 and December 31, 2006 included non-cash stock-based compensation expense of $4.0 million and $1.3 million, respectively. Gross margin on product revenue decreased to 63.3% for the year ended December 30, 2007, compared to 67.1% for the year ended December 31, 2006. The decrease in the gross margin percentage is primarily due to the shift in product mix towards instruments. In addition, the gross margin percentage was adversely impacted by the increase in non-cash stock-based compensation expense as well as $0.7 million associated with the amortization of inventory revaluation costs related to our acquisition of Solexa in January 2007. The impact of non-cash stock-based compensation charges decreased our gross margin by 41 basis points for the year ended December 30, 2007 compared to the year ended December 31, 2006. The inventory revaluation costs decreased our gross margin by 24 basis points for the year ended December 30, 2007, compared to the year ended December 31, 2006.

Cost of service and other revenue increased to $12.4 million for the year ended December 30, 2007, compared to $8.1 million for the year ended December 31, 2006, primarily due to higher service revenue. Gross margin on service and other revenue decreased to 69.0% for the year ended December 30, 2007, compared to 71.9% for the year ended December 31, 2006. The decrease in the gross margin percentage is primarily driven by unfavorable product mix.

We expect product mix to continue to affect our future gross margins. We expect price competition to continue in our market, and our margins may fluctuate from year to year and quarter to quarter as a result.

Research and Development Expenses

	Year Ended December 30, 2007	Year Ended December 31, 2006	Percentage Change
	(In thousands)		
Research and development	$73,943	$33,373	122%

Our research and development expenses consist primarily of salaries and other personnel-related expenses, laboratory supplies and other expenses related to the design, development, testing and enhancement of our products. We expense our research and development expenses as they are incurred.

Research and development expenses increased to $73.9 million for the year ended December 30, 2007, compared to $33.4 million for the year ended December 31, 2006. Research and development expenses as a percentage of total revenue were 20.2% for the year ended December 30, 2007, compared to 18.1% for the year ended December 31, 2006. Approximately $27.0 million of the increase for the year ended December 30, 2007 was due to higher research and development expenses associated with our acquisition of Solexa in January 2007. Costs to support our BeadArray technology research activities increased approximately $8.5 million for the year ended December 30, 2007, compared to the year ended December 31, 2006, primarily due to an overall increase in personnel-related expenses and increased lab and material expenses. Several new Infinium chip products, including the Human 1M DNA Analysis BeadChip, HumanCNV370-Duo BeadChip and HumanHap550-Duo BeadChip, have been introduced to the market in 2007. In addition, non-cash stock-based compensation expense increased approximately $6.1 million compared to the year ended December 31, 2006. These increases were partially offset by a $1.0 million decrease in research and development expenses related to the VeraCode technology, compared to the year ended December 31, 2006. We began shipping our BeadXpress System, which is based on our VeraCode technology, during the first quarter of 2007. As a result of completing the development of this product, the related research and development expenses have decreased.

We believe a substantial investment in research and development is essential to remaining competitive and expanding into additional markets. Accordingly, we expect our research and development expenses to increase in absolute dollars as we expand our product base.

Selling, General and Administrative Expenses

	Year Ended December 30, 2007	Year Ended December 31, 2006	Percentage Change
	(In thousands)		
Selling, general and administrative	$101,256	$54,057	87%

Our selling, general and administrative expenses consist primarily of personnel costs for sales and marketing, finance, human resources, business development, legal and general management, as well as professional fees, such as expenses for legal and accounting services. Selling, general and administrative expenses increased to $101.3 million for the year ended December 30, 2007, compared to $54.1 million for the year December 31, 2006.

Sales and marketing expenses increased $24.5 million during the year ended December 30, 2007, compared to the year ended December 31, 2006. The increase is primarily due to increases of $18.6 million attributable to personnel-related expenses to support the growth of our business, $3.3 million of non-cash stock-based compensation expense and $2.6 million attributable to other non-personnel-related expenses consisting mainly of sales and marketing activities for our existing and new products. General and administrative expense increased $22.7 million during the year ended

December 30, 2007, compared to the year ended December 30, 2006, due to increases of $8.7 million in personnel-related expenses associated with the growth of our business, $7.2 million of non-cash stock-based compensation expense, $3.4 million in outside legal fees, $3.3 million in other outside service expenses, primarily due to increases in consulting fees and increased tax, audit, and other public company costs.

We expect our selling, general and administrative expenses to increase in absolute dollars as we expand our staff, add sales and marketing infrastructure and incur additional costs to support the growth in our business.

Amortization of Acquired Intangible Assets

	Year Ended December 30, 2007	Year Ended December 31, 2006	Percentage Change
	(In thousands)		
Amortization of acquired intangible assets	$2,429	$—	N/A

Amortization of acquired intangible assets totaled $2.4 million for the year ended December 30, 2007. There was no amortization of acquired intangibles for the year ended December 31, 2006. The amount amortized in 2007 represents the amortization of our intangible assets acquired from Solexa in January 2007.

Acquired In-Process Research and Development

	Year Ended December 30, 2007	Year Ended December 30, 2006	Percentage Change
	(In thousands)		
Acquired in-process research and development . .	$303,400	$—	N/A

During the year ended December 30, 2007, we recorded $303.4 million of acquired IPR&D resulting from the Solexa acquisition. At the acquisition date, Solexa's ongoing research and development initiatives were primarily involved with the development of its genetic analysis platform for sequencing and expression profiling. These in-process research and development projects are comprised of Solexa's reversible terminating nucleotide biochemistry platform, referred to as sequencing-by-synthesis (SBS) biochemistry, as well as Solexa's reagent, analyzer and sequencing services related technologies, which were valued at $237.2 million, $44.2 million, $19.1 million and $2.9 million, respectively, at the acquisition date. Although these projects were approximately 95% complete at the acquisition date, they had not reached technological feasibility and had no alternative future use. Accordingly, the amounts allocated to those projects were written off in the first quarter of 2007, the period the acquisition was consummated. Acquisitions of businesses, products or technologies by us in the future may result in substantial charges for acquired IPR&D that may cause fluctuations in our interim or annual operating results. There were no charges resulting from any acquisitions during the same period in fiscal 2006.

Litigation Settlements

	Year Ended December 30, 2007	Year Ended December 31, 2006	Percentage Change
	(In thousands)		
Litigation settlements	$54,536	$—	N/A

During the year ended December 30, 2007, we recorded a charge of $54.5 million associated with two settlement agreements entered into subsequent to year-end. The total charge is comprised primarily of $54.0 million related to a $90.0 million settlement with Affymetrix entered into on January 9, 2008 for certain patent litigation between the parties. See Note 8 of Notes to Consolidated Financial Statements for further information regarding this settlement.

Interest Income

	Year Ended December 30, 2007	Year Ended December 31, 2006	Percentage Change
	(In thousands)		
Interest income	$16,026	$5,368	199%

Interest income on our cash and cash equivalents and investments was $16.0 million and $5.4 million for the years ended December 30, 2007 and December 31, 2006, respectively. The increase in interest income over the prior year was primarily driven by higher cash balances from the proceeds of our February 2007 convertible debt offering, cash acquired as part of the Solexa acquisition, and improved operating cash flow. In addition, we experienced higher effective interest rates on our cash equivalents and short-term investments.

Interest and Other Expense, Net

	Year Ended December 30, 2007	Year Ended December 31, 2006	Percentage Change
	(In thousands)		
Interest and other expense, net	$(3,610)	$(560)	545%

Interest and other expense, net, consists of interest expense and other income and expenses related to net foreign currency exchange transaction gains and losses. Interest and other expense, net, increased to $3.6 million for the year ended December 30, 2007, compared to $0.6 million for the year ended December 31, 2006.

Interest expense was $3.6 million for the year ended December 30, 2007, compared to $11,000 for the year ended December 31, 2006. The increase is primarily related to our convertible debt offering in February 2007. For the years ended December 30, 2007 and December 31, 2006, we recorded approximately $0.5 million and $0.4 million, respectively, in net foreign currency transaction losses, respectively. In 2007, these foreign currency exchange losses were offset by $0.5 million of foreign currency exchange gains associated with the sale of our secured convertible debentures with Genizon BioSciences, Inc. (Genizon) in the fourth quarter of 2007. See Note 10 of Notes to Consolidated Financial Statements for further information regarding the sale of our debentures with Genizon.

Provision (benefit) for Income Taxes

	Year Ended December 30, 2007	Year Ended December 31, 2006	Percentage Change
	(In thousands)		
Provision (benefit) for income taxes	$(10,426)	$2,652	(493%)

The provision (benefit) for income taxes was approximately ($10.4) million and $2.7 million for the years ended December 30, 2007 and December 31, 2006, respectively. The provision consists of federal, state, and foreign income tax expense, offset in 2007 by the release of the valuation allowance against a significant portion of our U.S. deferred tax assets.

During the year ended December 30, 2007, we utilized approximately $72.9 million and $10.8 million of our federal and state net operating loss carryforwards, respectively, to reduce our federal and state income taxes. As of December 30, 2007, we had net operating loss carryforwards for federal and state tax purposes of approximately $28.7 million and $99.1 million, respectively, which begin to expire in 2025 and 2015, respectively, unless previously utilized. In addition, we also had U.S. federal and state research and development tax credit carryforwards of approximately $9.2 million and $9.3 million respectively, which begin to expire in 2018 and 2019 respectively, unless previously utilized.

Pursuant to Section 382 and 383 of the Internal Revenue Code, utilization of our net operating losses and credits may be subject to annual limitations in the event of any significant future changes in our

ownership structure. These annual limitations may result in the expiration of net operating losses and credits prior to utilization. Previous limitations due to Section 382 and 383 have been reflected in the deferred tax assets as of December 30, 2007.

As of December 30, 2007, we concluded that it is more likely than not that a significant portion of our deferred tax assets will be realized and, accordingly we released a portion of our valuation allowance, approximately $17.1 million of which was recorded as a reduction to the tax provision. In addition, we established current and long term deferred tax assets on the Consolidated Balance Sheets of approximately $26.8 million and $80.1 million, respectively, and decreased the goodwill balances recorded in conjunction with the CyVera and Solexa acquisitions by approximately $2.1 million and $18.4 million, respectively. Based upon the available evidence as of December 30, 2007, we are not able to conclude it is more likely than not certain U.S. and foreign deferred tax assets will be realized. Therefore, we have recorded a valuation allowance of approximately $2.9 million and $25.4 million against certain U.S. and foreign deferred tax assets, respectively.

Comparison of Years Ended December 31, 2006 and January 1, 2006

Our fiscal year is 52 or 53 weeks ending the Sunday closest to December 31, with quarters of 13 or 14 weeks ending the Sunday closest to March 31, June 30, and September 30. The years ended December 31, 2006 and January 1, 2006 were both 52 weeks.

Revenue

	Year Ended December 31, 2006	Year Ended January 1, 2006	Percentage Change
	(In thousands)		
Product revenue	$155,811	$57,752	170%
Service and other revenue	28,775	15,749	83
Total revenue	$184,586	$73,501	151%

Total revenue for the years ended December 31, 2006 and January 1, 2006 was $184.6 million and $73.5 million, respectively. This represents an increase of $111.1 million for 2006, or 151%, compared to 2005.

Product revenue increased to $155.8 million for the year ended December 31, 2006 from $57.8 million for the year ended January 1, 2006. The increase in 2006 resulted primarily from higher consumable and BeadStation sales. Growth in consumable revenue was primarily attributable to the launch and shipment of our whole genome genotyping products, the HumanHap300 and HumanHap550 BeadChips. In addition, growth in consumable revenue can be attributed to the growth in our installed base of BeadArray Readers, which has nearly doubled since January 1, 2006. Consumable products constituted 66% of product revenue for year ended December 31, 2006, compared to 47% in the year ended January 1, 2006. We expect to see continued growth in product revenue, which can be partially attributed to the launch of several new products, as well as the growth of our installed base of instruments.

Service and other revenue increased to $28.8 million for the year ended December 31, 2006 from $15.7 million for the year ended January 1, 2006. The increase in service and other revenue is primarily due to the completion of several significant Infinium and GoldenGate SNP genotyping service contracts. We introduced our Infinium services in early 2006. We expect sales from SNP genotyping services contracts to fluctuate on a yearly and quarterly basis, depending on the mix and number of contracts that are completed. The timing of completion of a SNP genotyping services contract is highly dependent on the customer's schedule for delivering the SNPs and samples to us. This increase in service revenue was partially offset by a decrease in government grants and other research funding of $0.5 million over the prior year due primarily to the completion of several projects funded by grants from the National

Institutes of Health. We do not expect research revenue to be a material component of our revenue going forward.

Cost of Product and Service and Other Revenue

	Year Ended December 31, 2006	Year Ended January 1, 2006	Percentage Change
	(In thousands)		
Cost of product revenue	$51,271	$19,920	157%
Cost of service and other revenue	8,073	3,261	148
Total cost of product and service and other revenue	$59,344	$23,181	156%

Cost of product and service and other revenue represents manufacturing costs incurred in the production process, including component materials, assembly labor and overhead, installation, warranty, packaging and delivery costs, as well as costs associated with performing genotyping services on behalf of our customers. Costs related to research revenue are included in research and development expense. Cost of product revenue increased to $51.3 million for the year ended December 31, 2006, compared to $19.9 million for the year ended January 1, 2006, primarily driven by higher consumable and instrument sales. Cost of product revenue for the year ended December 31, 2006 included stock-based compensation expenses resulting from the adoption of SFAS No. 123R totaling $1.3 million. Gross margin on product revenue increased to 67.1% for the year ended December 31, 2006, compared to 65.5% for the year ended January 1, 2006. The increase in gross margin percentage is primarily due to the impact of favorable product mix, as well as decreased manufacturing costs. A higher percentage of our revenue in 2006 was generated from the sale of consumables, which generally have a more favorable gross margin than other products. The decrease in manufacturing costs is primarily due to reduced raw material costs as a result of more favorable negotiated contracts with our vendors and improvements in our manufacturing processes. This increase in gross margin was offset, in part, by the impact of stock-based compensation charges, which decreased our gross margin by 83 basis points in 2006 compared to 2005.

Cost of service and other revenue increased to $8.1 million for the year ended December 31, 2006, compared to $3.3 million for the year ended January 1, 2006, primarily due to higher service revenue. Cost of service and other revenue for the year ended December 31, 2006 included stock-based compensation expenses resulting from the adoption of SFAS No. 123R totaling $0.2 million. Gross margin on service and other revenue decreased to 71.9% for the year ended December 31, 2006, compared to 79.3% for the year ended January 1, 2006. The decrease is due primarily to a change in the mix of projects, as well as the impact of stock-based compensation charges, the latter having decreased our service and other revenue gross margin by 85 basis points in 2006 compared to 2005.

We expect product mix to continue to affect our future gross margins. However, we expect our market to become increasingly price competitive and our margins may fluctuate from year to year and quarter to quarter.

Research and Development Expenses

	Year Ended December 31, 2006	Year Ended January 1, 2006	Percentage Change
	(In thousands)		
Research and development	$33,373	$27,809	20%

Our research and development expenses consist primarily of salaries and other personnel-related expenses, laboratory supplies and other expenses related to the design, development, testing and enhancement of our products. We expense our research and development expenses as they are incurred.

Research and development expenses increased to $33.4 million for the year ended December 31, 2006, compared to $27.8 million for the year ended January 1, 2006. Research and development expenses for the years ended December 31, 2006 and January 1, 2006 included stock-based compensation expenses primarily resulting from the adoption of SFAS No. 123R totaling $3.9 million and $0.1 million, respectively. Exclusive of these stock-based compensation charges, the increase in research and development expenses for the year ended December 31, 2006 is primarily due to the development of our recently-acquired VeraCode technology purchased in conjunction with our acquisition of CyVera in April 2005. We launched the first products resulting from this acquisition during the first quarter of 2007. Research and development expenses related to the VeraCode technology increased $2.7 million for the year ended December 31, 2006, compared to the year ended January 1, 2006. In addition, costs to support our Oligator technology platform and BeadArray research activities decreased $1.0 million for the year ended December 31, 2006, compared to the year ended January 1, 2006.

We believe a substantial investment in research and development is essential to remaining competitive and expanding into additional markets. Accordingly, we expect our research and development expenses to increase in absolute dollars as we expand our product base and integrate the operations of Solexa into our business.

Selling, General and Administrative Expenses

	Year Ended December 31, 2006	Year Ended January 1, 2006	Percentage Change
	(In thousands)		
Selling, general and administrative	$54,057	$28,158	92%

Our selling, general and administrative expenses consist primarily of personnel costs for sales and marketing, finance, human resources, business development, legal and general management, as well as professional fees, such as expenses for legal and accounting services. Selling, general and administrative expenses increased to $54.1 million for the year ended December 31, 2006, compared to $28.2 million for the year ended January 1, 2006. Selling, general and administrative expenses for the years ended December 31, 2006 and January 1, 2006 included stock-based compensation expenses primarily resulting from the adoption of SFAS No. 123R totaling $8.9 million and $0.2 million, respectively.

Sales and marketing expenses increased $10.6 million during the year ended December 31, 2006, compared to the year ended January 1, 2006. The increase is primarily due to increases of $6.5 million attributable to personnel-related expenses, $3.2 million of stock-based compensation expense and $0.9 million attributable to other non-personnel-related costs, mainly sales and marketing activities for our existing and new products. General and administrative expenses increased $15.3 million during the year ended December 31, 2006, compared to the year ended January 1, 2006, due to increases of $5.5 million of stock-based compensation expense, $5.3 million in outside legal costs related to the Affymetrix litigation, $3.1 million in personnel-related expenses associated with the growth of our business and $1.4 million in outside consulting costs. Outside consulting costs primarily include tax and audit fees and general legal expenses not associated with the Affymetrix litigation.

We expect our selling, general and administrative expenses to increase in absolute dollars as we expand our staff, add sales and marketing infrastructure, incur increased litigation costs and incur additional costs to support the growth in our business.

Interest Income

	Year Ended December 31, 2006	Year Ended January 1, 2006	Percentage Change
	(In thousands)		
Interest income	$5,368	$1,404	282%

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Interest income on our cash and cash equivalents and investments was $5.4 million and $1.4 million for the years ended December 31, 2006 and January 1, 2006, respectively. The increase was due to higher average cash balances and higher effective interest rates compared to the prior year.

Interest and Other Expense, Net

	Year Ended December 31, 2006	Year Ended January 1, 2006	Percentage Change
	(In thousands)		
Interest and other expense, net	$(560)	$(668)	(16%)

Interest and other expense, net, consists of interest expense, other income and expenses related to foreign exchange transaction costs and gains and losses on disposals of assets. Interest and other expense, net, decreased to $0.6 million for the year ended January 1, 2006, compared to $0.7 million for the year ended January 2, 2005.

Interest expense was $11,000 for the year ended December 31, 2006, compared to $7,000 for the year ended January 1, 2006. For the years ended December 31, 2006 and January 1, 2006, we recorded approximately $0.4 million in losses due to foreign currency transactions. In addition in 2006, we recorded $0.1 million related to losses on disposal of assets, compared to $0.3 million of losses in 2005.

Provision for Income Taxes

	Year Ended December 31, 2006	Year Ended January 1, 2006	Percentage Change
	(In thousands)		
Provision for income taxes	$2,652	$163	1,527%

The provision for income taxes was approximately $2.7 million in 2006, up from $0.2 million in 2005. In 2006, the provision principally consists of federal and state alternative minimum tax and income tax expense related to foreign operations. In 2005, the provision for income taxes consisted of income tax expense related to foreign operations.

During the year ended December 31, 2006, we utilized approximately $25.9 million and $16.6 million of our federal and state net operating loss carryforwards, respectively, to reduce our federal and state income taxes. As of December 31, 2006, we had net operating loss carryforwards for federal and state tax purposes of approximately $76.4 million and $39.1 million, respectively, which begin to expire in 2022 and 2013, respectively, unless previously utilized. In addition, we also had U.S. federal and state research and development tax credit carryforwards of approximately $6.4 million and $6.3 million respectively, which begin to expire in 2018 and 2019 respectively, unless previously utilized.

Pursuant to Section 382 and 383 of the Internal Revenue Code, utilization of our net operating losses and credits may be subject to annual limitations in the event of any significant future changes in our ownership structure. These annual limitations may result in the expiration of net operating losses and credits prior to utilization. Previous limitations due to Section 382 and 383 have been reflected in the deferred tax assets as of December 31, 2006.

Based upon the available evidence as of December 31, 2006, we are not able to conclude it is more likely than not the remaining deferred tax assets in the U.S. will be realized. Therefore, we have recorded a full valuation allowance against the U.S. deferred tax assets of approximately $36.5 million.

Liquidity and Capital Resources

Cashflow

	Year Ended December 30, 2007	Year Ended December 31, 2006	Year Ended January 1, 2006
		(In thousands)	
Net cash provided by (used in) operating activities	$ 56,294	$ 39,000	$(9,008)
Net cash used in investing activities	(67,686)	(160,735)	(1,535)
Net cash provided by financing activities	148,292	109,296	5,963
Effect of foreign currency translation	(345)	3	613
Net increase (decrease) in cash and cash equivalents	$136,555	$ (12,436)	$(3,967)

Historically, our sources of cash have included:

- issuance of equity and debt securities, including cash generated from the exercise of stock options and participation in our Employee Stock Purchase Plan (ESPP);
- cash generated from operations, primarily from the collection of accounts receivable resulting from product sales; and
- interest income.

Our historical cash outflows have primarily been associated with:

- cash used for operating activities such as the purchase and growth of inventory, expansion of our sales and marketing and research and development infrastructure and other working capital needs;
- cash used for our stock repurchases;
- expenditures related to increasing our manufacturing capacity and improving our manufacturing efficiency; and
- interest payments on our debt obligations.

Other factors that impact our cash inflow and outflow include:

- significant increases in our product and services revenue, leading to gross margins greater than 63% in each of the last three fiscal years. As our product sales have increased significantly since 2001, our gross profit and operating income have increased significantly as well, providing us with an increased source of cash to finance the expansion of our operations; and
- fluctuations in our working capital.

As of December 30, 2007, we had cash, cash equivalents and short-term investments of $386.1 million, compared to $130.8 million as of December 31, 2006. We currently invest our funds in U.S. dollar-based short maturity mutual funds, commercial paper, corporate bonds, treasury notes, auction rate securities and municipal bonds. We do not hold securities backed by mortgages. As of December 30, 2007, our short-term investments included $14.7 million of high-grade (AAA rated) auction rate securities issued primarily by municipalities and universities. See Part I Item 1A: "Risk Factors — Negative conditions in the global credit markets may impair the liquidity of a portion of our investment portfolio."

The primary inflows of cash during the year ended December 30, 2007 were approximately $390.3 million from the net proceeds of our convertible debt offering in February 2007, $479.4 million from the sale and maturity of our investments in available-for-sale securities, and $92.4 million generated from the sale of warrants in February 2007. In addition, on January 26, 2007, we completed the merger

with Solexa, which resulted in net cash acquired of $72.1 million. The primary cash outflows during the year ended December 30, 2007 were attributable to the purchase of available-for-sale securities for approximately $598.4 million, the repurchase of an aggregate of 7.4 million shares of our common stock for approximately $251.6 million, as well as approximately $139.0 million for the purchase of a convertible note hedge. These convertible note transactions and our stock repurchase program are discussed in detail below.

On February 16, 2007, we issued $400.0 million principal amount of 0.625% Convertible Senior Notes due 2014 (the Notes). The net proceeds from the offering, after deducting the initial purchasers' discount and offering expenses, were approximately $390.3 million. We used approximately $201.6 million of the net proceeds to purchase approximately 5.8 million shares of our common stock in privately negotiated transactions concurrently with the offering. We used $46.6 million of the net proceeds of this offering to pay the net cost of convertible note hedge and warrant transactions, which are designed to reduce the potential dilution upon conversion of the notes. We are using the balance of the net proceeds for other general corporate purposes, which may include acquisitions and additional repurchases of our common stock. The notes mature on February 15, 2014 and bear interest semi-annually at a rate of 0.625% per year, payable on February 15 and August 15 of each year, beginning on August 15, 2007. In addition, we may in certain circumstances be obligated to pay additional interest. If a "designated event," as defined in the indenture for the notes, occurs, holders of the notes may require us to repurchase all or a portion of their notes for cash at a repurchase price equal to the principal amount of the notes to be repurchased, plus accrued and unpaid interest. In addition, upon conversion of the notes, we must pay the principal portion in cash. The notes will become convertible only in certain circumstances based on conditions relating to the trading price of the notes and our common stock or upon the occurrence of specified corporate events, and we expect the notes to become convertible beginning in the second quarter of 2008 if the trading price of our common stock does not decline from current levels. The notes also will, by their terms, become convertible at any time from, and including, November 15, 2013 through the third scheduled trading day immediately preceding February 15, 2014.

On February 20, 2007, we executed a Rule 10b5-1 trading plan to repurchase up to $75.0 million of our outstanding common stock over a period of six months. We repurchased approximately 1.6 million shares of our common stock under this plan for approximately $50.0 million in cash. As of December 30, 2007, this plan had expired.

Our primary short-term needs for capital, which are subject to change, include expenditures related to:

- the $90.0 million liability recorded at December 30, 2007 for the one-time payment made to Affymetrix on January 25, 2008, in accordance with the settlement agreement entered on January 9, 2008;
- our facilities expansion needs, including costs of leasing additional facilities;
- the acquisition of equipment and other fixed assets for use in our current and future manufacturing and research and development facilities;
- support of our commercialization efforts related to our current and future products, including expansion of our direct sales force and field support resources both in the United States and abroad;
- the continued advancement of research and development efforts; and
- improvements in our manufacturing capacity and efficiency.

Approximately $24.3 million of our net cash generated from operations for the year ended December 30, 2007 was used on capital expenditures, primarily for manufacturing and research and development equipment, furniture, fixtures and computer equipment. We expect that our product revenue and the resulting operating income, as well as the status of each of our new product development programs, will significantly impact our cash management decisions.

We anticipate that our current cash and cash equivalents and income from operations will be sufficient to fund our operating needs for at least the next 12 months. Operating needs include the planned costs to operate our business, including amounts required to fund working capital and capital expenditures. At the present time, we have no material commitments for capital expenditures. Due to expansion of our facilities and manufacturing operations, we anticipate spending approximately $25.0 million in capital expenditures during 2008. Our future capital requirements and the adequacy of our available funds will depend on many factors, including:

- our ability to successfully commercialize our sequencing and VeraCode technologies and to expand our SNP genotyping and sequencing services product lines;
- scientific progress in our research and development programs and the magnitude of those programs;
- competing technological and market developments; and
- the need to enter into collaborations with other companies or acquire other companies or technologies to enhance or complement our product and service offerings.

As a result of the factors listed above, we may require additional funding in the future. Our failure to raise capital on acceptable terms, when needed, could have a material adverse effect on our business.

Off-Balance Sheet Arrangements

We do not participate in any transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities (SPEs), which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. During the fiscal year ended December 30, 2007, we were not involved in any "off balance sheet arrangements" within the meaning of the rules of the Securities and Exchange Commission.

Contractual Obligations

Contractual obligations represent future cash commitments and liabilities under agreements with third parties, and exclude orders for goods and services entered into in the normal course of business that are not enforceable or legally binding and contingent liabilities for which we cannot reasonably predict future payment. Additionally, the table excludes uncertain tax positions of $21.4 million. The expected timing of payment of the obligations presented below is estimated based on current information. Timing of payments and actual amounts paid may be different depending on changes to agreed-upon terms or amounts for some obligations.

The following chart represents our contractual obligations as of December 30, 2007, aggregated by type (amounts in thousands):

	Payments Due by Period				
Contractual Obligation	Total	Less Than 1 Year	1 – 3 Years	3 – 5 Years	More Than 5 Years
Long-term debt obligations(1)	$416,250	$ 2,500	$ 5,000	$ 5,000	$403,750
Operating leases(2)	120,435	10,329	15,036	15,412	79,658
Other(3)	90,536	90,536	—	—	—
Total	$627,221	$103,365	$20,036	$20,412	$483,408

(1) The "long-term debt obligations" in the above table include the principal amount of our Convertible Senior Notes and interest payments totaling 0.625% per annum. See Note 5 of Notes to Consolidated Financial Statements for further discussion of the terms of the Convertible Senior Notes.

(2) See Note 6 of Notes to Consolidated Financial Statements for discussion of our operating leases.

(3) "Other" in the above table includes amounts owed as a result of our litigation settlements occurring subsequent to December 30, 2007. See Note 8 of Notes to Consolidated Financial Statements for further discussion of the related settlement.

Recent Accounting Pronouncements

Information with respect to recent accounting pronouncements is included in Note 1 of Notes to Consolidated Financial Statements.

Item 7A. ***Quantitative and Qualitative Disclosures about Market Risk.***

Interest Rate Sensitivity

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio. The fair market value of fixed rate securities may be adversely impacted by fluctuations in interest rates while income earned on floating rate securities may decline as a result of decreases in interest rates. Under our current policies, we do not use interest rate derivative instruments to manage exposure to interest rate changes. We attempt to ensure the safety and preservation of our invested principal funds by limiting default risk, market risk and reinvestment risk. We mitigate default risk by investing in investment grade securities. We have historically maintained a relatively short average maturity for our investment portfolio, and we believe a hypothetical 100 basis point adverse move in interest rates along the entire interest rate yield curve would not materially affect the fair value of our interest sensitive financial instruments.

Market Price Sensitive Instruments

In order to reduce the potential equity dilution, we entered into a convertible note hedge contract entitling us to purchase a maximum of 11,451,480 shares of our common stock (subject to adjustment) at an initial strike price of $43.66 per share (subject to adjustment). Upon conversion of our Convertible Senior Notes, this hedge contract is expected to reduce the equity dilution if the daily volume-weighted average price per share of our commons stock exceeds the strike price of the hedge. We also entered into warrant transactions with the counterparties of the convertible note hedge transactions entitling them to acquire a maximum of 18,322,320 shares of our common stock (subject to adjustment) at an initial strike price of $62.87 per share (subject to adjustment). The warrant transactions could have a dilutive effect on our earnings per share to the extent that the price of our common stock during the measurement period at maturity of the warrants exceeds the strike price of the warrants. We did not hold any material derivative financial instruments for the year ended December 31, 2006.

Foreign Currency Exchange Risk

Although most of our revenue is realized in U.S. dollars, some portions of our revenue are realized in foreign currencies. As a result, our financial results could be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in foreign markets. The functional currencies of our subsidiaries are their respective local currencies. Accordingly, the accounts of these operations are translated from the local currency to the U.S. dollar using the current exchange rate in effect at the balance sheet date for the balance sheet accounts, and using the average exchange rate during the period for revenue and expense accounts. The effects of translation are recorded in accumulated other comprehensive income as a separate component of stockholders' equity.

Item 8. ***Financial Statements and Supplementary Data.***

The Report of Independent Registered Public Accounting Firm, Financial Statements and Notes to Financial Statements begin on page F-1 immediately following the signature page and are incorporated herein by reference.

Item 9. ***Changes In and Disagreements with Accountants on Accounting and Financial Disclosure.***

None.

Item 9A. ***Controls and Procedures.***

We design our internal controls to provide reasonable assurance that (1) our transactions are properly authorized; (2) our assets are safeguarded against unauthorized or improper use; and (3) our transactions are properly recorded and reported in conformity with U.S. generally accepted accounting principles. We also maintain internal controls and procedures to ensure that we comply with applicable laws and our established financial policies.

We have carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Securities Exchange Act), as of December 30, 2007. Based upon that evaluation, our principal executive officer and principal financial officer concluded that, as of December 30, 2007, our disclosure controls and procedures were effective to ensure that (a) the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (b) such information is accumulated and communicated to our management, including our principal executive officer and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management have concluded that the disclosure controls and procedures are effective at the reasonable assurance level. Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected.

An evaluation was also performed under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of any change in our internal control over financial reporting that occurred during the fourth quarter of 2007 and that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Other than completing the integration of Solexa, Inc.'s internal controls over financial reporting into our financial reporting systems during the fourth quarter of 2007, that evaluation did not identify any such change.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

We conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control — Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 30, 2007. The effectiveness of our internal control over financial reporting as of December 30, 2007 has been audited by Ernst & Young LLP, an independent registered accounting firm, as stated in their report which is included herein.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of
Illumina, Inc.

We have audited Illumina, Inc.'s internal control over financial reporting as of December 30, 2007, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Illumina, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Illumina, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 30, 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the accompanying consolidated balance sheets of Illumina, Inc. as of December 30, 2007 and December 31, 2006, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 30, 2007 of Illumina, Inc. and our report dated February 22, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Diego, California
February 22, 2008

Item 9B. ***Other Information.***

None.

PART III

Item 10. ***Directors and Executive Officers of the Registrant.***

(a) Identification of Directors. Information concerning our directors is incorporated by reference from the section entitled "Proposal One: Election of Directors" to be contained in our definitive Proxy Statement with respect to our 2008 Annual Meeting of Stockholders to be filed with the SEC no later than April 28, 2008.

(b) Identification of Executive Officers. Information concerning our executive officers is set forth under "Executive Officers" in Part I of this Annual Report on Form 10-K and is incorporated herein by reference.

(c) Compliance with Section 16(a) of the Exchange Act. Information concerning compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated by reference from the section entitled "Compliance with Section 16(a) of the Securities Exchange Act" to be contained in our definitive Proxy Statement with respect to our 2008 Annual Meeting of Stockholders to be filed with the SEC no later than April 28, 2008.

(d) Information concerning the audit committee financial expert as defined by the SEC rules adopted pursuant to the Sarbanes-Oxley Act of 2002 is incorporated by reference from our definitive Proxy Statement with respect to our 2008 Annual Meeting of Stockholders to be filed with the SEC no later than April 28, 2008.

Code of Ethics

We have adopted a code of ethics for our directors, officers and employees, which is available on our website at www.illumina.com in the Investor Information section under "Corporate." The information on, or that can be accessed from, our website is not incorporated by reference into this report.

Item 11. ***Executive Compensation.***

Information concerning executive compensation is incorporated by reference from the sections entitled "Executive Compensation and Other Information" to be contained in our definitive Proxy Statement with respect to our 2008 Annual Meeting of Stockholders to be filed with the SEC no later than April 28, 2008.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.***

Information concerning the security ownership of certain beneficial owners and management is incorporated by reference from the section entitled "Ownership of Securities" to be contained in our definitive Proxy Statement with respect to our 2008 Annual Meeting of Stockholders to be filed with the SEC no later than April 28, 2008.

Equity Compensation Plan Information

The following table presents information about our common stock that may be issued upon the exercise of options, warrants and rights under our existing equity compensation plans as of December 30, 2007: the 2000 Employee Stock Purchase Plan, the 2005 Stock and Incentive Plan (which replaced the 2000 Stock Plan) and the Solexa, Inc. 2005 Equity Incentive Plan. Prior to our initial public offering, we granted options under our 1998 Incentive Stock Plan. All of these plans have been approved by our stockholders. Options outstanding include options granted under the 1998 Incentive Stock Plan, the 2000 Stock Plan, the 2005 Stock and Incentive Plan, the Solexa, Inc. 2005 Equity Incentive Plan, and the Solexa, Inc. 1992 Plan.

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options	(b) Weighted-Average Exercise Price per Share of Outstanding Options	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by security holders	10,423,934	$24.26	5,869,564(1)(2)
Equity compensation plans not approved by security holders	—	—	—
Total	10,423,934	$24.26	5,869,564

Please refer to Note 7 to the consolidated financial statements included in this Annual Report on Form 10-K for a description of our equity compensation plans.

(1) Includes 1,834,384 shares available for grant under our 2005 Stock Incentive Plan and our 2005 Solexa Equity Incentive Plan. The 2005 Stock Incentive Plan provides for an automatic annual increase in the shares reserved for issuance by the lesser of (1) five percent of outstanding shares of our common stock on the last day of the immediately preceding fiscal year, (2) 1,200,000 shares, or (3) a lesser amount as determined by our board of directors.

(2) Includes 4,035,180 shares available for grant under our 2000 Employee Stock Purchase Plan. The 2000 Employee Stock Purchase Plan provides for an automatic annual increase in the shares reserved for issuance by the lesser of (1) three percent of outstanding shares of our common stock on the last day of the immediately preceding fiscal year or (2) 1,500,000 shares.

Item 13. *Certain Relationships and Related Transactions.*

Information concerning certain relationships and related transactions is incorporated by reference from the sections entitled "Proposal One: Election of Directors," "Executive Compensation and Other Information" and "Certain Transactions" to be contained in our definitive Proxy Statement with respect to our 2008 Annual Meeting of Stockholders to be filed with the SEC no later than April 28, 2008.

Item 14. *Principal Accounting Fees and Services.*

Information concerning principal accounting fees and services is incorporated by reference from the sections entitled "Proposal Two: Ratification of Independent Registered Public Accounting Firm" to be contained in our definitive Proxy Statement with respect to our 2008 Annual Meeting of Stockholders to be filed with the SEC no later than April 28, 2008.

PART IV

Item 15. ***Exhibits, Financial Statement Schedules.***

(a) The following documents are filed as a part of this report:

(1) *Consolidated Financial Statements:*

	Page
Index to Consolidated Financial Statements	F-1
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets as of December 30, 2007 and December 31, 2006	F-3
Consolidated Statements of Operations for the years ended December 30, 2007, December 31, 2006, and January 1, 2006	F-4
Consolidated Statements of Stockholders' Equity for the period from January 2, 2005 to December 30, 2007	F-5
Consolidated Statements of Cash Flows for the years ended December 30, 2007, December 31, 2006, and January 1, 2006	F-6
Notes to Consolidated Financial Statements	F-7
(2) *Financial Statement Schedule:*	
Valuation and Qualifying Account and Reserves for the three years ended December 30, 2007	F-37

(3) *Exhibits:*

Exhibit Number	Description of Document
2.1(16)	Agreement and Plan of Merger, dated as of November 12, 2006, among Solexa, Inc., Callisto Acquisition Corp. and the Registrant.
3.1(2)	Corrected Amended and Restated Certificate of Incorporation.
3.2(30)	Amended Bylaws.
3.3(5)	Certificate of Designation for Series A Junior Participating Preferred Stock (included as an exhibit to exhibit 4.3).
4.1(1)	Specimen Common Stock Certificate.
4.2(1)	Second Amended and Restated Stockholders Rights Agreement, dated November 5, 1999, by and among the Registrant and certain stockholders of the Registrant.
4.3(5)	Rights Agreement, dated as of May 3, 2001, between the Registrant and Equiserve Trust Company, N.A.
4.4(35)	Indenture related to the 0.625% Convertible Senior Notes due 2014, dated as of February 16, 2007, between the Registrant and the Bank of New York, as trustee.
4.5(36)	Registration Rights Agreement, dated as of February 16, 2007, between the Registrant and the Purchasers named therein.
+10.1(1)	Form of Indemnification Agreement between the Registrant and each of its directors and officers.
+10.2(1)	1998 Incentive Stock Plan.
+10.3(7)	2000 Employee Stock Purchase Plan, as amended and restated through July 20, 2006.
10.4(1)	Sublease Agreement dated August 1998 between Registrant and Gensia Sicor Inc. for the Registrant's principal offices.
10.5(37)	License Agreement dated May 1998 between Tufts and Registrant.
10.6(1)	Master Loan and Security Agreement, dated March 6, 2000, by and between Registrant and FINOVA Capital Corporation.
+10.7(20)	2000 Stock Plan, as amended and restated through March 21, 2002.
10.8(1)	Eastgate Pointe Lease, dated July 6, 2000, between Diversified Eastgate Venture and Registrant.

Exhibit Number	Description of Document
10.9(1)	Option Agreement and Joint Escrow Instructions, dated July 6, 2000, between Diversified Eastgate Venture and Registrant.
10.10(4)	First Amendment to Joint Development Agreement dated March 27, 2001 between Registrant and PE Corporation, now known as Applied Biosystems Group (with certain confidential portions omitted).
10.11(6)	First Amendment to Option Agreement and Escrow Instructions dated May 25, 2001 between Diversified Eastgate Venture and Registrant.
10.12(13)	Second Amendment to Option Agreement and Escrow Instructions dated July 18, 2001 between Diversified Eastgate Venture and Registrant.
10.13(14)	Third Amendment to Option Agreement and Escrow Instructions dated September 27, 2001 between Diversified Eastgate Venture and Registrant.
10.14(15)	First Amendment to Eastgate Pointe Lease dated September 27, 2001 between Diversified Eastgate Venture and Registrant.
10.15(8)	Replacement Reserve Agreement, dated as of January 10, 2002, between the Registrant and BNY Western Trust Company as Trustee for Washington Capital Joint Master Trust Mortgage Income Fund.
10.16(17)	Loan Assumption and Modification Agreement, dated as of January 10, 2002, between the Registrant, Diversified Eastgate Venture and BNY Western Trust Company as Trustee for Washington Capital Joint Master Trust Mortgage Income Fund.
10.17(18)	Tenant Improvement and Leasing Commission Reserve Agreement, dated as of January 10, 2002, between the Registrant and BNY Western Trust Company as Trustee for Washington Capital Joint Master Trust Mortgage Income Fund.
+10.18(42)	Solexa Share Option Plan for Consultants.
+10.19(43)	Solexa Enterprise Management Incentive Plan.
10.20(21)	Non-exclusive License Agreement dated January 2002 between Amersham Biosciences Corp. and Registrant (with certain confidential portions omitted).
10.21(22)	License Agreement dated June 2002 between Dade Behring Marburg GmbH and Registrant (with certain confidential portions omitted).
10.22(23)	Purchase and Sale Agreement and Escrow Instructions dated June 18, 2004 between Bernardo Property Advisors, Inc. and Registrant.
10.23(24)	Single Tenant Lease dated August 18, 2004 between BMR-9885 Towne Centre Drive LLC and Registrant.
10.24(25)	Settlement and Cross License Agreement dated August 18, 2004 between Applera Corporation and Registrant (with certain confidential portions omitted).
10.25(39)	Solexa 2005 Equity Incentive Plan
10.26(40)	Solexa 1992 Stock Option Plan
10.27(41)	Solexa Unapproved Company Share Option Plan
10.28(26)	Collaboration Agreement dated December 17, 2004 between Invitrogen Incorporated and Registrant (with certain confidential portions omitted).
10.29(27)	Offer letter for Christian O. Henry dated April 26, 2005.
10.30(28)	Forms of Stock Option Agreement under 2000 Stock Plan.
10.31(29)	Secured Convertible Debenture Indenture between Genizon BioSciences Inc., Computershare Trust Company of Canada and the Registrant, dated March 24, 2006.
10.32(30)	Joint Development and Licensing Agreement dated May 15, 2006 between deCODE genetics, ehf. and Registrant (with certain confidential portions omitted).
10.33(31)	Form of Change in Control Severance Agreement between the Registrant and Jay T. Flatley.
10.34(31)	Form of Change in Control Severance Agreement between the Registrant and Christian O. Henry.
10.35(31)	Form of Change in Control Severance Agreement between the Registrant and Tristan B. Orpin.
10.36(31)	Form of Change in Control Severance Agreement between the Registrant and John R. Stuelpnagel.

Exhibit Number	Description of Document
10.37(31)	Form of Change in Control Severance Agreement between the Registrant and Arthur L. Holden.
10.38(31)	Form of Change in Control Severance Agreement between the Registrant and Christian G. Cabou.
10.39(34)	Securities Purchase Agreement, dated as of November 12, 2006, between Solexa, Inc. and the Registrant.
10.40(50)	Lease between The Irvine Company LLC and the Registrant, dated September 29, 2006.
10.41(37)	Amended and Restated Lease between BMR-9885 Towne Centre Drive LLC and the Registrant for the 9885 Towne Centre Drive property, dated January 26, 2007.
10.42(37)	Lease between BMR-9885 Towne Centre Drive LLC and the Registrant for the 9865 Towne Centre Drive property, dated January 26, 2007.
10.43(38)	Amended and Restated 2005 Stock and Incentive Plan.
10.44	Settlement and Release Agreement between Affymetrix, Inc. and the Registrant, dated January 9, 2008.
10.45(44)	Confirmation of Convertible Bond Hedge Transaction, dated February 12, 2007, by and between the Registrant and Goldman, Sachs & Co.
10.46(45)	Confirmation of Convertible Bond Hedge Transaction, dated February 12, 2007, by and between the Registrant and Deutsche Bank AG London.
10.47(46)	Confirmation Issuer Warrant Transaction, dated February 12, 2007, by and between the Registrant and Goldman, Sachs & Co.
10.48(47)	Confirmation Issuer Warrant Transaction, dated February 12, 2007, by and between the Registrant and Deutsche Bank AG London.
10.49(48)	Amendment to the Confirmation of Issuer Warrant Transaction, dated February 13, 2007, by and between the Registrant and Goldman, Sachs & Co.
10.50(49)	Amendment to the Confirmation of Issuer Warrant Transaction, dated February 13, 2007, by and between the Registrant and Deutsche Bank AG London.
14(10)	Code of Ethics.
21.1	Subsidiaries of the Registrant.
23.1	Consent of Independent Registered Public Accounting Firm.
24.1	Power of Attorney (included on the signature page).
31.1	Certification of Jay T. Flatley pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Christian O. Henry pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Jay T. Flatley pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Christian O. Henry pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

+ Management contract or corporate plan or arrangement

(1) Incorporated by reference to the same numbered exhibit filed with our Registration Statement on Form S-1 (333-33922) filed April 3, 2000, as amended.

(2) Incorporated by reference to the same numbered exhibit filed with our Annual Report on Form 10-K (File No. 000-30361) for the year ended December 31, 2000 filed March 29, 2001.

(3) [reserved]

(4) Incorporated by reference to exhibit 10.13 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended March 31, 2001 filed May 8, 2001.

(5) Incorporated by reference to the same numbered exhibit filed with our Registration Statement on Form 8-A (File No. 000-30361) filed May 14, 2001.

(6) Incorporated by reference to exhibit 10.15 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended June 30, 2001 filed August 13, 2001.

(7) Incorporated by reference to exhibit 10.3 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended October 1, 2006 filed October 30, 2006.

(8) Incorporated by reference to exhibit 10.18 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended March 31, 2002 filed May 13, 2002.

(9) [reserved]

(10) Incorporated by reference to the same numbered exhibit filed with our Annual Report on Form 10-K (File No. 000-30361) for the year ended December 28, 2003 filed March 12, 2004.

(11) [reserved]

(12) [reserved]

(13) Incorporated by reference to exhibit 10.16 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended September 30, 2001 filed November 14, 2001.

(14) Incorporated by reference to exhibit 10.17 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended September 30, 2001 filed November 14, 2001.

(15) Incorporated by reference to exhibit 10.18 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended September 30, 2001 filed November 14, 2001.

(16) Incorporated by reference to exhibit 2.1 filed with our Form 8-K (File No. 000-30361) filed November 13, 2006.

(17) Incorporated by reference to exhibit 10.19 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended March 31, 2002 filed May 13, 2002.

(18) Incorporated by reference to the exhibit 10.20 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended March 31, 2002 filed May 13, 2002.

(19) [reserved]

(20) Incorporated by reference to the exhibit 10.22 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended March 31, 2002 filed May 13, 2002.

(21) Incorporated by reference to exhibit 10.24 filed with Amendment No. 1 to our Registration Statement on Form S-3 (File No. 333-111496) filed March 2, 2004.

(22) Incorporated by reference to exhibit 10.23 filed with our Amendment No. 1 to our Registration Statement on Form S-3 (File No. 333-111496) filed March 2, 2004.

(23) Incorporated by reference to exhibit 10.25 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended June 27, 2004 filed August 6, 2004.

(24) Incorporated by reference to exhibit 10.26 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended October 3, 2004 filed November 12, 2004.

(25) Incorporated by reference to exhibit 10.27 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended October 3, 2004 filed November 12, 2004.

(26) Incorporated by reference to exhibit 10.28 filed with our Form 10-K (File No. 000-30361) for the year ended January 2, 2005 filed March 8, 2005.

(27) Incorporated by reference to exhibit 10.33 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended July 3, 2005 filed August 8, 2005.

(28) Incorporated by reference to exhibit 10.29 filed with our Form 10-K (File No. 000-30361) for the year ended January 2, 2005 filed March 8, 2005.

(29) Incorporated by reference to the same numbered exhibit filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended April 2, 2006 filed May 8, 2006.

(30) Incorporated by reference to the same numbered exhibit filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended July 2, 2006 filed August 2, 2006.

(31) Incorporated by reference to the same numbered exhibit filed with our Form 8-K (File No. 000-30361) filed August 23, 2006.

(32) [reserved]

(33) [reserved]

(34) Incorporated by reference to exhibit 10.1 filed with our Form 8-K (File No. 000-30361) filed November 13, 2006.

(35) Incorporated by reference to exhibit 4.1 filed with our Form 8-K (File No. 000-30361) filed February 16, 2007.

(36) Incorporated by reference to exhibit 4.2 filed with our Form 8-K (File No. 000-30361) filed February 16, 2007.

(37) Incorporated by reference to the same numbered exhibit filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended April 1, 2007 filed May 3, 2007.

(38) Incorporated by reference to exhibit 10.1 filed with our Form 8-K (File No. 000-30361) filed on July 30, 2007.

(39) Incorporated by reference to exhibit 99.1 filed with our Form 8-K (File No. 000-30361) filed November 26, 2007.

(40) Incorporated by reference to exhibit 99.2 filed with our Form 8-K (File No. 000-30361) filed November 26, 2007.

(41) Incorporated by reference to exhibit 99.3 filed with our Form 8-K (File No. 000-30361) filed November 26, 2007.

(42) Incorporated by reference to exhibit 99.4 filed with our Form 8-K (File No. 000-30361) filed November 26, 2007.

(43) Incorporated by reference to exhibit 99.5 filed with our Form 8-K (File No. 000-30361) filed November 26, 2007.

(44) Incorporated by reference to exhibit 10.1 filed with our Form 8-K (File No. 000-30361) filed February 16, 2007.

(45) Incorporated by reference to exhibit 10.2 filed with our Form 8-K (File No. 000-30361) filed February 16, 2007.

(46) Incorporated by reference to exhibit 10.3 filed with our Form 8-K (File No. 000-30361) filed February 16, 2007.

(47) Incorporated by reference to exhibit 10.4 filed with our Form 8-K (File No. 000-30361) filed February 16, 2007.

(48) Incorporated by reference to exhibit 10.5 filed with our Form 8-K (File No. 000-30361) filed February 16, 2007.

(49) Incorporated by reference to exhibit 10.6 filed with our Form 8-K (File No. 000-30361) filed February 16, 2007.

(50) Incorporated by reference to the same numbered exhibit filed with our Annual Report on Form 10-K (File No. 000-30361) for the year ended December 31, 2006 filed February 28, 2007.

Supplemental Information

No Annual Report to stockholders or proxy materials has been sent to stockholders as of the date of this report. The Annual Report to stockholders and proxy material will be furnished to our stockholders subsequent to the filing of this Annual Report on Form 10-K and we will furnish such material to the SEC at that time.

SIGNATURES

Pursuant to the requirements of the Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 26, 2008.

ILLUMINA, INC.

BY /s/ JAY T. FLATLEY
Jay T. Flatley
President and Chief Executive Officer

February 26, 2008

POWER OF ATTORNEY

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ JAY T. FLATLEY Jay T. Flatley	President, Chief Executive Officer and Director (Principal Executive Officer)	February 26, 2008
/s/ CHRISTIAN O. HENRY Christian O. Henry	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	February 26, 2008
/s/ WILLIAM H. RASTETTER William H. Rastetter	Chairman of the Board of Directors	February 26, 2008
/s/ DANIEL M. BRADBURY Daniel M. Bradbury	Director	February 26, 2008
/s/ A. BLAINE BOWMAN A. Blaine Bowman	Director	February 26, 2008
/s/ KARIN EASTHAM Karin Eastham	Director	February 26, 2008

/s/ JACK GOLDSTEIN Jack Goldstein	Director	February 26, 2008
/s/ PAUL GRINT Paul Grint	Director	February 26, 2008
/s/ JOHN R. STUELPNAGEL John R. Stuelpnagel	Senior Vice President and General Manager, Microarrays, Chief Operating Officer and Director	February 26, 2008
/s/ DAVID R. WALT David R. Walt	Director	February 26, 2008
/s/ ROY WHITFIELD Roy Whitfield	Director	February 26, 2008

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of
Illumina, Inc.

We have audited the accompanying consolidated balance sheets of Illumina, Inc. as of December 30, 2007 and December 31, 2006, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 30, 2007. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Illumina, Inc., at December 30, 2007 and December 31, 2006, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 30, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2006, Illumina, Inc. changed its method of accounting for share-based payments in accordance with Statement of Financial Accounting Standards No. 123R, Share-Based Payment.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Illumina, Inc.'s internal control over financial reporting as of December 30, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 22, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Diego, California
February 22, 2008

ILLUMINA, INC.

CONSOLIDATED BALANCE SHEETS

	December 30, 2007	December 31, 2006
	(In thousands, except share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 174,941	$ 38,386
Short-term investments	211,141	92,418
Accounts receivable, net	83,119	39,984
Inventory, net	53,980	20,169
Deferred tax assets — current portion	26,934	259
Prepaid expenses and other current assets	12,640	2,510
Total current assets	562,755	193,726
Property and equipment, net	46,274	25,634
Investment in Solexa	—	67,784
Goodwill	228,734	2,125
Intangible assets, net	58,116	108
Deferred tax assets — long term portion	80,245	294
Other assets, net	11,608	10,913
Total assets	$ 987,732	$ 300,584
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 24,311	$ 9,853
Litigation settlements payable	90,536	—
Accrued liabilities	50,852	23,860
Current portion of long-term debt	16	63
Total current liabilities	165,715	33,776
Long-term debt, less current portion	400,000	—
Deferred gain on sale of land and building	2,485	2,468
Deferred income tax liabilities	—	6,987
Other long-term liabilities	7,854	10,011
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value, 10,000,000 shares authorized, no shares issued and outstanding at December 30, 2007 and December 31, 2006	—	—
Common stock, $0.01 par value, 120,000,000 shares authorized, 62,803,677 shares issued and outstanding at December 30, 2007, 46,857,512 shares issued and outstanding at December 31, 2006	628	469
Additional paid-in capital	1,044,302	340,197
Accumulated other comprehensive income	1,347	11,294
Accumulated deficit	(382,977)	(104,618)
Treasury stock, at cost (7,409,545 shares at December 30, 2007 and no shares at December 31, 2006)	(251,622)	—
Total stockholders' equity	411,678	247,342
Total liabilities and stockholders' equity	$ 987,732	$ 300,584

See accompanying notes to consolidated financial statements

ILLUMINA, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 30, 2007	Year Ended December 31, 2006	Year Ended January 1, 2006
	(In thousands, except per share amounts)		
Revenue			
Product revenue	$ 326,699	$155,811	$ 57,752
Service and other revenue	40,100	28,775	15,749
Total revenue	366,799	184,586	73,501
Costs and expenses:			
Cost of product revenue (including non-cash stock compensation expense of $4,045, $1,289, and $0, respectively)	119,991	51,271	19,920
Cost of service and other revenue (including non-cash stock compensation expense of $279, $235, and $0, respectively)	12,445	8,073	3,261
Research and development (including non-cash stock compensation expense of $10,016, $3,891, and $84, respectively)	73,943	33,373	27,809
Selling, general and administrative (including non-cash stock compensation expense of $19,406, $8,889, and $186, respectively)	101,256	54,057	28,158
Amortization of acquired intangible assets	2,429	—	—
Acquired in-process research and development	303,400	—	15,800
Litigation settlements	54,536	—	—
Total costs and expenses	668,000	146,774	94,948
Income (loss) from operations	(301,201)	37,812	(21,447)
Interest income	16,026	5,368	1,404
Interest and other expense, net	(3,610)	(560)	(668)
Income (loss) before income taxes	(288,785)	42,620	(20,711)
Provision (benefit) for income taxes	(10,426)	2,652	163
Net income (loss)	$(278,359)	$ 39,968	$(20,874)
Net income (loss) per basic share	$ (5.14)	$ 0.90	$ (0.52)
Net income (loss) per diluted share	$ (5.14)	$ 0.82	$ (0.52)
Shares used in calculating basic net income (loss) per share	54,154	44,501	40,147
Shares used in calculating diluted net income (loss) per share	54,154	48,754	40,147

See accompanying notes to consolidated financial statements

ILLUMINA, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-In Capital	Deferred Compensation	Accumulated Other Comprehensive Income	Accumulated Deficit	Treasury Stock		Total Stockholders' Equity
	Shares	Amount					Shares	Amount	
					(In thousands)				
Balance as of January 2, 2005	38,121	$381	$ 195,653	$(156)	$ 96	$(123,712)	—	—	$ 72,262
Issuance of common stock for cash	1,592	16	6,030	—	—	—	—	—	6,046
Issuance of common stock in conjunction with an acquisition	1,580	16	14,812	—	—	—	—	—	14,828
Deferred compensation related to unvested CyVera stock options assumed	—	—	—	(197)	—	—	—	—	(197)
Compensation expense related to acceleration of options for terminated employees	—	—	79	—	—	—	—	—	79
Deferred compensation related to a restricted stock award	1	—	192	(192)	—	—	—	—	—
Amortization of deferred compensation	—	—	—	191	—	—	—	—	191
Comprehensive income (loss):									
Unrealized gain on available-for-sale securities	—	—	—	—	29	—	—	—	29
Unrealized gain on hedging contracts	—	—	—	—	56	—	—	—	56
Foreign currency translation adjustment	—	—	—	—	77	—	—	—	77
Net loss	—	—	—	—	—	(20,874)	—	—	(20,874)
Comprehensive loss									(20,712)
Balance as of January 1, 2006	41,294	413	216,766	(354)	258	(144,586)	—	—	72,497
Issuance of common stock	5,563	56	114,440	—	—	—	—	—	114,496
May 2006 offering costs	—	—	(6,530)	—	—	—	—	—	(6,530)
Stock-based compensation expense	—	—	14,082	354	—	—	—	—	14,436
Incremental tax benefit related to stock options exercised	—	—	1,439	—	—	—	—	—	1,439
Comprehensive income (loss):									
Unrealized gain on available-for-sale securities, net of deferred tax	—	—	—	—	10,693	—	—	—	10,693
Unrealized gain on hedging contracts	—	—	—	—	(10)	—	—	—	(10)
Foreign currency translation adjustment	—	—	—	—	353	—	—	—	353
Net income	—	—	—	—	—	39,968	—	—	39,968
Comprehensive income									51,004
Balance as of December 31, 2006	46,857	469	340,197	—	11,294	(104,618)	—	—	247,342
Issuance of common stock	2,327	23	30,067	—	—	—	—	—	30,090
Issuance of common stock for the acquisition of Solexa, Inc.	13,221	132	530,592	—	—	—	—	—	530,724
Fair value of options assumed from Solexa, Inc.	—	—	75,334	—	—	—	—	—	75,334
Convertible note hedge	—	—	(139,040)	—	—	—	—	—	(139,040)
Warrants issued in connection with the convertible debt issuance	—	—	92,440	—	—	—	—	—	92,440
Warrants exercised	399	4	6,071	—	—	—	—	—	6,075
Stock-based compensation expense	—	—	33,926	—	—	—	—	—	33,926
Incremental tax benefit related to stock options exercised	—	—	20,086	—	—	—	—	—	20,086
Incremental tax benefit related to convertible debt issuance	—	—	54,629	—	—	—	—	—	54,629
Repurchases of common stock	—	—	—	—	—	—	(7,410)	(251,622)	(251,622)
Comprehensive income (loss):									
Unrealized loss on available-for-sale securities, net of deferred tax	—	—	—	—	(10,529)	—	—	—	(10,529)
Foreign currency translation adjustment	—	—	—	—	582	—	—	—	582
Net income	—	—	—	—	—	(278,359)	—	—	(278,359)
Comprehensive loss									(288,306)
Balance as of December 30, 2007	62,804	$628	$1,044,302	$ —	$ 1,347	$(382,977)	(7,410)	$(251,622)	$ 411,678

See accompanying notes to consolidated financial statements

ILLUMINA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 30, 2007	Year Ended December 31, 2006	Year Ended January 1, 2006
		(In thousands)	
Cash flows from operating activities:			
Net income (loss)	$(278,359)	$ 39,968	$(20,874)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Acquired in-process research and development	303,400	—	15,800
Amortization of increase in inventory valuation	942	—	—
Amortization of acquired intangible assets	2,429	—	—
Amortization of debt issuance costs	1,176	—	—
Depreciation expense	11,464	6,032	3,824
Loss on disposal of property and equipment	15	116	293
Amortization of premium on investments	—	—	(14)
Stock-based compensation expense	33,746	14,304	270
Incremental tax benefit related to stock options exercised	(20,086)	(1,439)	—
Amortization of gain on sale of land and building	(187)	(375)	(375)
Changes in operating assets and liabilities:			
Accounts receivable	(37,060)	(21,733)	(7,039)
Inventory	(27,130)	(9,728)	(6,502)
Prepaid expenses and other current assets	(6,127)	(1,591)	290
Deferred income taxes	(11,408)	(548)	—
Other assets	2,612	(5,212)	687
Accounts payable	12,262	2,438	3,193
Litigation settlements payable	54,536	—	—
Accrued income taxes	1,586	1,809	144
Accrued liabilities	15,901	9,066	4,070
Litigation judgment	—	—	(5,957)
Other long-term liabilities	(3,418)	5,893	3,182
Net cash provided by (used in) operating activities	56,294	39,000	(9,008)
Cash flows from investing activities:			
Net cash obtained from (paid for) acquisitions	72,075	—	(2,388)
Investment in secured convertible debentures	—	(3,036)	—
Sale of secured convertible debentures	3,593	—	—
Investment in Solexa	—	(50,000)	—
Purchases of available-for-sale securities	(598,383)	(236,331)	—
Sales and maturities of available-for-sale securities	479,415	143,846	12,248
Proceeds from sale of fixed assets	42	—	—
Purchase of property and equipment	(24,343)	(15,114)	(11,395)
Cash paid for intangible assets	(85)	(100)	—
Net cash used in investing activities	(67,686)	(160,735)	(1,535)
Cash flows from financing activities:			
Payments on long-term debt	(95)	(109)	(83)
Proceeds from issuance of convertible debt, net of issuance costs	390,269	—	—
Purchase of convertible note hedges	(139,040)	—	—
Sale of warrants	92,440	—	—
Proceeds from warrant exercises	6,075	—	—
Common stock repurchases	(251,622)	—	—
Proceeds from issuance of common stock	30,179	107,966	6,046
Incremental tax benefit related to stock options exercised	20,086	1,439	—
Net cash provided by financing activities	148,292	109,296	5,963
Effect of foreign currency translation on cash and cash equivalents	(345)	3	613
Net increase (decrease) in cash and cash equivalents	136,555	(12,436)	(3,967)
Cash and cash equivalents at beginning of the year	38,386	50,822	54,789
Cash and cash equivalents at end of the year	$ 174,941	$ 38,386	$ 50,822
Supplemental disclosures of cash flow information:			
Cash paid during the year for interest	$ 1,378	$ 11	$ 15
Cash paid during the year for income taxes	$ 2,581	$ 1,392	$ 33

See accompanying notes to consolidated financial statements

1. Organization and Summary of Significant Accounting Policies

Organization and Business

Illumina, Inc. (the Company) was incorporated on April 28, 1998. The Company is a leading developer, manufacturer and marketer of integrated systems for the large-scale analysis of genetic variation and biological function. Using the Company's proprietary technologies, the Company provides a comprehensive line of products and services that currently serve the sequencing, genotyping and gene expression markets. The Company also expects to enter the market for molecular diagnostics. The Company's tools provide researchers around the world with the performance, throughput, cost effectiveness and flexibility necessary to perform the billions of genetic tests needed to extract valuable medical information from advances in genomics and proteomics. The Company believes this information will enable researchers to correlate genetic variation and biological function, which will enhance drug discovery and clinical research, allow diseases to be detected earlier and permit better choices of drugs for individual patients.

Basis of Presentation

The consolidated financial statements of the Company have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) and include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Fiscal Year

The Company's fiscal year is 52 or 53 weeks ending the Sunday closest to December 31, with quarters of 13 or 14 weeks ending the Sunday closest to March 31, June 30, and September 30. The years ended December 30, 2007, December 31, 2006 and January 1, 2006 were all 52 weeks.

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation. During the fourth quarter of 2007, the Company classified research revenue as part of service and other revenue. Research revenue consists of government grants and other research funding. For the years ended December 30, 2007, December 31, 2006, and January 1, 2006, research revenue represented approximately $0.5 million, $1.3 million, and $1.8 million, respectively.

Use of Estimates

The preparation of financial statements requires that management make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, goodwill and related disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents are comprised of short-term, highly liquid investments with maturities of 90 days or less from the date of purchase.

Investments

The Company applies Statement of Financial Accounting Standards (SFAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, to its investments. Under SFAS No. 115, the Company classifies its investments as "available-for-sale" and records such assets at estimated fair value in the

balance sheet, with unrealized gains and losses, if any, reported in stockholders' equity. As of December 30, 2007, the Company's excess cash balances were primarily invested in marketable debt securities, including commercial paper and corporate bonds and notes, with strong credit ratings or short maturity mutual funds providing similar financial returns. The Company limits the amount of investment exposure as to institutions, maturity and investment type. The cost of securities sold is determined based on the specific identification method.

Restricted Cash

As of December 30, 2007, restricted cash, included in cash and cash equivalents, consisted of bank guarantees totaling approximately $720,000 primarily associated with various sales contracts. These guarantees are scheduled to be released during 2008. As of December 31, 2006, restricted cash consisted of two bank guarantees totaling approximately $250,000. Both guarantees were released during 2007.

Fair Value of Financial Instruments

The carrying amounts of certain of the Company's financial instruments, including cash and cash equivalents, accounts and notes receivable, accounts payable, accrued liabilities, and convertible senior notes approximate fair value.

Accounts and Notes Receivable

Trade accounts receivable are recorded at net invoice value and notes receivable are recorded at contractual value plus earned interest. Interest income on notes receivable is recognized according to the terms of each related agreement. The Company considers receivables past due based on the contractual payment terms. The Company reviews its exposure to amounts receivable and reserves specific amounts if collectibility is no longer reasonably assured. The Company also reserves a percentage of its trade receivable balance based on collection history. The Company re-evaluates such reserves on a regular basis and adjusts its reserves as needed.

Concentrations of Risk

Cash equivalents, investments and accounts receivable are financial instruments that potentially subject the Company to concentrations of credit risk. Most of the Company's cash and cash equivalents as of December 30, 2007 were deposited with financial institutions in the United States and the Company's investment policy restricts the amount of credit exposure to any one issuer and to any one type of investment, other than securities issued by the U.S. government. The Company has historically not experienced significant credit losses from investments and accounts receivable. The Company performs a regular review of customer activity and associated credit risks and generally does not require collateral. The Company maintains an allowance for doubtful accounts based upon a percentage of its trade receivable balance based on collection history and re-evaluates such reserves on a regular basis.

The Company's products require customized components that currently are available from a limited number of sources. The Company obtains certain key components included in its products from single vendors. No assurance can be given that these or other product components will be available in sufficient quantities at acceptable costs in the future.

Approximately 43%, 44%, and 38% of the Company's revenue for the years ended December 30, 2007, December 31, 2006 and January 1, 2006, respectively, was derived from shipments to customers outside the United States. Approximately 46% and 39% of the Company's net accounts receivable

balance as of December 30, 2007 and December 31, 2006, respectively, was related to customers outside the United States. Sales to territories outside of the United States are generally denominated in U.S. dollars. International sales entail a variety of risks, including currency exchange fluctuations, longer payment cycles and greater difficulty in accounts receivable collection. The Company is also subject to general geopolitical risks, such as political, social and economic instability and changes in diplomatic and trade relations. The risks of international sales are mitigated in part by the extent to which sales are geographically distributed.

Inventories

Inventories are stated at the lower of standard cost (which approximates actual cost) or market. Inventory includes raw materials and finished goods that may be used in the research and development process and such items are expensed as consumed. Provisions for slow moving, excess and obsolete inventories are provided based on product life cycle and development plans, product expiration and quality issues, historical experience and inventory levels.

Property and Equipment

Property and equipment are stated at cost, subject to review of impairment, and depreciated over the estimated useful lives of the assets (generally three to seven years) using the straight-line method. Amortization of leasehold improvements is computed over the shorter of the lease term or the estimated useful life of the related assets.

Goodwill

Goodwill represents the excess of the cost over the fair value of net assets acquired. SFAS No. 142, *Goodwill and Other Intangible Assets*, requires that goodwill be tested annually for impairment or more frequently if events and circumstances warrant, utilizing a test that begins with an estimate of the fair value of the reporting unit or intangible asset. The Company tests goodwill annually and whenever events or circumstances occur indicating that goodwill might be impaired. The Company performed its annual impairment test of goodwill as of May 1, 2007, noting no impairment, and has determined there has been no impairment of goodwill through December 30, 2007.

Intangible Assets

Intangible assets include acquired technology, customer relationships, other license agreements, and licensed technology, which are being amortized over their estimated useful lives ranging from three to 10 years (see Note 3). The amortization of the Company's acquired technology and customer relationships is excluded from cost of product revenue and is separately classified as amortization of acquired intangible assets on the Consolidated Statements of Operations. The Company will begin amortizing licensed technology, representing the balance capitalized as part of the Affymetrix litigation, in January 2008.

Long-Lived Assets

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* if indicators of impairment exist, the Company assesses the recoverability of the affected long-lived assets by determining whether the carrying value of such assets can be recovered through undiscounted future operating cash flows. If impairment is indicated, the Company measures the future discounted cash flows associated with the use of the asset and adjusts the value of the asset accordingly. While the Company's historical operating and cash flow losses are indicators of impairment, the Company believes the current and future cash flows to be received from the long-lived assets recorded at December 30, 2007 will

exceed the assets' carrying value, and accordingly the Company has not recognized any impairment losses through December 30, 2007.

Reserve for Product Warranties

The Company generally provides a one-year warranty on instrumentation. At the time revenue is recognized, the Company establishes an accrual for estimated warranty expenses associated with system sales. This expense is recorded as a component of cost of revenue.

Revenue Recognition

The Company's revenue is generated primarily from the sale of products and services. Product revenue consists of sales of arrays, reagents, flow cells, instrumentation, and oligonucleotides (oligos), which are short sequences of DNA. Service and other revenue consists of revenue received for performing genotyping and sequencing services, extended warranty sales and amounts earned under research agreements with government grants, which is recognized in the period during which the related costs are incurred.

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the seller's price to the buyer is fixed or determinable and collectibility is reasonably assured. In instances where final acceptance of the product or system is required, revenue is deferred until all the acceptance criteria have been met. All revenue is recorded net of any applicable allowances for returns or discounts.

Revenue for product sales is recognized generally upon shipment and transfer of title to the customer, provided no significant obligations remain and collection of the receivables is reasonably assured. Revenue from the sale of instrumentation is recognized when earned, which is generally upon shipment. Revenue for genotyping and sequencing services is recognized when earned, which is generally at the time the genotyping and sequencing analysis data is delivered to the customer.

In order to assess whether the price is fixed and determinable, the Company ensures there are no refund rights. If payment terms are based on future performance, the Company defers revenue recognition until the price becomes fixed and determinable. The Company assesses collectibility based on a number of factors, including past transaction history with the customer and the creditworthiness of the customer. If the Company determines that collection of a payment is not reasonably assured, revenue recognition is deferred until the time collection becomes reasonably assured, which is generally upon receipt of payment.

Sales of instrumentation generally include a standard one-year warranty. The Company also sells separately priced maintenance (extended warranty) contracts, which are generally for one or two years, upon the expiration of the initial warranty. Revenue for extended warranty sales is recognized ratably over the term of the extended warranty period. Reserves are provided for estimated product warranty expenses at the time the associated revenue is recognized. If the Company were to experience an increase in warranty claims or if costs of servicing its warrantied products were greater than its estimates, gross margins could be adversely affected.

While the majority of its sales agreements contain standard terms and conditions, the Company does enter into agreements that contain multiple elements or non-standard terms and conditions. Emerging Issues Task Force (EITF) No. 00-21, *Revenue Arrangements with Multiple Deliverables,* provides guidance on accounting for arrangements that involve the delivery or performance of multiple products, services, or rights to use assets within contractually binding arrangements. For arrangements with multiple elements, revenue recognition is based on the individual units of accounting determined to exist in the arrangement. A delivered item is considered a separate unit of accounting when the delivered

item has value to the customer on a stand-alone basis, there is objective and reliable evidence of the fair value of the undelivered items and, if the arrangement includes a general right of return relative to the delivered item, delivery or performance of the undelivered items is considered probable and substantially in the Company's control. Items are considered to have stand-alone value when they are sold separately by any vendor or the customer could resell the item on a stand-alone basis. Fair value of an item is generally the price charged for the product when regularly sold on a stand-alone basis. When objective and reliable evidence of fair value exists for all units of accounting in an arrangement, arrangement consideration is generally allocated to each unit of accounting based upon their relative fair values. In those instances when objective and reliable evidence of fair value exists for the undelivered items but not for the delivered items, the residual method is used to allocate arrangement consideration. Under the residual method, the amount of arrangement consideration allocated to the delivered items equals the total arrangement consideration less the aggregate fair value of the undelivered items. When the Company is unable to establish stand-alone value for delivered items or when fair value of undelivered items has not been established, revenue is deferred until all elements are delivered and services have been performed, or until fair value can objectively be determined for any remaining undelivered elements. The Company recognizes revenue for delivered elements only when it determines that the fair values of undelivered elements are known and there are no uncertainties regarding customer acceptance.

Shipping and Handling Expenses

Shipping and handling expenses are included in cost of product revenue and totaled $2.2 million, $1.8 million, and $1.3 million for the years ended December 30, 2007, December 31, 2006 and January 1, 2006, respectively.

Research and Development

Research and development expenses consist of costs incurred for internal and grant-sponsored research and development. Research and development expenses include salaries, contractor fees, facilities costs, utilities and allocations of benefits. Expenditures relating to research and development are expensed in the period incurred.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising costs were $2.8 million, $1.9 million and $1.2 million for the years ended December 30, 2007, December 31, 2006 and January 1, 2006, respectively.

Income Taxes

In accordance with SFAS No. 109, *Accounting for Income Taxes*, the provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for the expected future tax benefit to be derived from tax loss and credit carryforwards. Deferred tax assets and liabilities are determined using the enacted tax rates in effect for the years in which those tax assets are expected to be realized. A valuation allowance is established when it is more likely than not the future realization of all or some of the deferred tax assets will not be achieved. The evaluation of the need for a valuation allowance is performed on a jurisdiction by jurisdiction basis, and includes a review of all available positive and negative evidence. As of December 30, 2007, the Company maintained a valuation allowance only against certain U.S. and

foreign deferred tax assets that the Company concluded did not meet the "more likely than not" threshold required under SFAS No. 109.

Due to the adoption of SFAS No. 123R, the Company recognizes excess tax benefits associated with share-based compensation to stockholders' equity only when realized. When assessing whether excess tax benefits relating to share-based compensation have been realized, the Company follows the with-and-without approach excluding any indirect effects of the excess tax deductions. Under this approach, excess tax benefits related to share-based compensation are not deemed to be realized until after the utilization of all other tax benefits available to the Company.

Effective January 1, 2007, the Company adopted FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109*, which clarifies the accounting for uncertainty in tax positions. FIN No. 48 requires recognition of the impact of a tax position in the Company's financial statements only if that position is more likely than not of being sustained upon examination by taxing authorities, based on the technical merits of the position. Any interest and penalties related to uncertain tax positions will be reflected in income tax expense.

Foreign Currency Translation

The functional currencies of the Company's wholly-owned subsidiaries are their respective local currencies. Accordingly, all balance sheet accounts of these operations are translated to U.S. dollars using the exchange rates in effect at the balance sheet date, and revenues and expenses are translated using the average exchange rates in effect during the period. The gains and losses from foreign currency translation of these subsidiaries' financial statements are recorded as a separate component of stockholders' equity under the caption "accumulated other comprehensive income."

Stock-Based Compensation

Prior to the beginning of fiscal 2006, the Company measured compensation expense for its employee stock-based compensation plans using the intrinsic value method prescribed by APB Opinion No. 25. The Company applied the disclosure provisions of SFAS No. 123, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation — Transition and Disclosure*, as if the fair-value-based method had been applied in measuring stock-based compensation expense. Under APB Opinion No. 25, when the exercise price of the Company's employee stock options was not less than the market price of the underlying stock on the date of the grant, no compensation expense was recognized.

Effective January 2, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123R, *Share-Based Payment*, using the modified prospective transition method. The modified prospective transition method requires that stock-based compensation expense be recorded for all new and unvested stock options, restricted stock and employee stock purchase plan (ESPP) shares that are ultimately expected to vest as the requisite service is rendered. As of December 30, 2007, approximately $122.9 million of total unrecognized compensation cost related to stock options, restricted stock and ESPP shares issued to date is expected to be recognized over a weighted-average period of approximately two years.

The following table illustrates the effect on net loss and basic and diluted net loss per share as if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based compensation during the year ended January 1, 2006 (in thousands, except per share data):

	Year Ended January 1, 2006
Net loss as reported	$(20,874)
Add: Stock-based compensation expense recorded	270
Less: Assumed stock-based compensation expense	(8,393)
Pro forma net loss	$(28,997)
Basic and diluted net loss per share:	
As reported	$ (0.52)
Pro forma	$ (0.72)

The Company uses the Black-Scholes-Merton option-pricing model to determine the fair-value of stock-based awards under SFAS No. 123R. This model incorporates various assumptions including volatility, expected life, and interest rates. Historically, the Company used an expected stock-price volatility assumption that was primarily based on historical realized volatility of the underlying stock during a period of time. Beginning the third quarter of 2007, volatility was determined by equally weighing the historical and implied volatility of the Company's common stock. The historical volatility of the Company's common stock over the most recent period is generally commensurate with the estimated expected life of the Company's stock options, adjusted for the impact of unusual fluctuations not reasonably expected to recur and other relevant factors. The implied volatility is calculated from the implied market volatility of exchange-traded call options on the Company's common stock. The expected life of an award is based on historical experience and on the terms and conditions of the stock awards granted to employees.

The assumptions used for the specified reporting periods and the resulting estimates of weighted-average fair value per share of options and restricted stock units granted and for stock purchases under the ESPP during those periods are as follows:

	Year Ended December 30, 2007	Year Ended December 31, 2006	Year Ended January 1, 2006
Interest rate — stock options	3.68 - 4.90%	4.73%	4.08%
Interest rate — stock purchases	4.71 - 4.86%	4.08 - 4.85%	3.25 - 4.08%
Volatility — stock options	55 - 70%	76%	90%
Volatility — stock purchases	69 - 76%	76 - 90%	90 - 103%
Expected life — stock options	6 years	6 years	5 years
Expected life — stock purchases	6 - 12 months	6 - 12 months	6 - 24 months
Expected dividend yield	0%	0%	0%
Weighted average fair value per share of options granted	$25.71	$18.88	$7.38
Weighted average fair value per share of restricted stock units granted	$51.37	—	—
Weighted average fair value per share of employee stock purchases	$14.66	$4.76	$1.81

Net Income (Loss) per Share

Basic and diluted net income (loss) per common share is presented in conformity with SFAS No. 128, *Earnings per Share,* for all periods presented. In accordance with SFAS No. 128, basic net income (loss) per share is computed using the weighted-average number of shares of common stock outstanding during the period, less shares subject to repurchase. Diluted net income (loss) per share is typically computed using the weighted average number of common and dilutive common equivalent shares from stock options using the treasury stock method. The following table presents the calculation of weighted-average shares used to calculate basic and diluted net income (loss) per share (in thousands):

	Year Ended December 30, 2007	Year Ended December 31, 2006	Year Ended January 1, 2006
Weighted-average shares outstanding	54,164	44,537	40,199
Less: Weighted-average shares of common stock subject to repurchase	(10)	(36)	(52)
Weighted-average shares used in calculating basic net income (loss) per share	54,154	44,501	40,147
Plus: Effect of dilutive potential common shares	—	4,253	—
Weighted-average shares used in calculating diluted net income (loss) per share	54,154	48,754	40,147

The total number of shares excluded from the calculation of diluted net loss per share, prior to application of the treasury stock method, was 10,560,182 and 7,368,181 for the year ended December 30, 2007 and January 1, 2006, respectively, as their effect was antidilutive. The total number of warrants excluded from the calculation of diluted net loss per share was 1,719,446 for the year ended December 30, 2007. These warrants were assumed as part of the Company's merger with Solexa, Inc. on January 26, 2007. In addition, the warrants sold to the initial purchasers of the Convertible Senior Notes and/or their affiliates to acquire up to 18,322,320 shares of the Company's common stock (subject to adjustment) were excluded from the calculation of diluted net income (loss) per share for the year ended December 30, 2007 since the average fair market value of the Company's stock during the year was below the strike price of $62.87 per share.

Comprehensive Income

Comprehensive income (loss) is comprised of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on the Company's available-for-sale securities, changes in the fair value of derivatives designated as effective cash flow hedges, and foreign currency translation adjustments. The Company has disclosed comprehensive income as a component of stockholders' equity.

The components of accumulated other comprehensive income are as follows (in thousands):

	Year Ended December 30, 2007	Year Ended December 31, 2006
Foreign currency translation adjustments	$1,183	$ 601
Unrealized gain on available-for-sale securities, net of deferred tax	164	10,693
Total other comprehensive income	$1,347	$11,294

Recent Accounting Pronouncements

In September 2006 the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact, if any, the adoption of this pronouncement will have on the Company's consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 allows companies to elect to measure certain assets and liabilities at fair value and is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact, if any, the adoption of this pronouncement will have on the Company's consolidated financial statements.

In June 2007, the FASB ratified EITF No. 07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities*. EITF No. 07-3 requires that nonrefundable advance payments for goods and services that will be used or rendered in future research and development activities pursuant to executory contractual arrangements be deferred and recognized as an expense in the period that the related goods are delivered or services are performed. EITF No. 07-3 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact, if any, the adoption of this pronouncement will have on the Company's consolidated financial statements.

SFAS No. 141(R), *Business Combinations*, was issued in December of 2007. SFAS No. 141(R) established principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree. SFAS No. 141(R) also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The guidance will become effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the impact, if any, the adoption of this pronouncement will have on the Company's consolidated financial statements.

2. Acquisition of Solexa, Inc.

On January 26, 2007, the Company completed its acquisition of Solexa, Inc. (Solexa), a Delaware corporation, in a stock-for-stock merger transaction. The Company issued approximately 13.1 million shares of its common stock as consideration for this merger. The results of Solexa's operations have been included in the Company's consolidated financial statements since the acquisition date of January 26, 2007.

Upon the closing of the merger on January 26, 2007, there were approximately 3.7 million shares of the Company's restricted stock and shares issuable upon the exercise of outstanding options and warrants assumed as part of the acquisition. Total estimated merger consideration also includes approximately $75.3 million, which represents the fair market value of the vested options, warrants and restricted stock assumed. The Company also expects to recognize approximately $14.7 million of non-cash stock-based compensation expense related to unvested stock options and restricted stock at the acquisition date. This expense will be recognized beginning from the acquisition date over a

weighted-average period of approximately two years. These awards were valued using the following assumptions as of January 25, 2007 (the measurement date, as discussed below):

Interest rate	4.56 - 5.05%
Volatility	54.26%
Expected life	0.35 - 3.98 years
Expected dividend yield	0%

The purchase price of the acquisition is as follows (in thousands):

Fair market value of securities issued	$527,067
Fair market value of change of control bonuses and related taxes	8,182
Transaction costs not included in Solexa net tangible assets acquired	8,138
Fair market value of vested stock options, warrants and restricted stock assumed	75,334
Total purchase price	$618,721

The fair value of the Company's shares used in determining the purchase price was based on the average of the closing price of the Company's common stock for a range of four trading days, comprising of the two days prior to and two days subsequent to January 25, 2007, the measurement date. The measurement date was determined per the guidance in EITF No. 99-12, *Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combination*. Based on these closing prices, the Company estimated the fair value of its common stock to be $40.14 per share, which equates to a total fair value of common stock issued of $527.1 million.

Purchase Price Allocation

The Solexa purchase price was allocated to tangible and intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date (January 26, 2007). The excess of the purchase price over the fair value of net assets acquired was allocated to goodwill.

The Company believes the fair values assigned to the assets acquired and liabilities assumed were based on reasonable assumptions. The following table summarizes the estimated fair values of net assets acquired (in thousands):

Current assets	$ 51,444
Property, plant and equipment, net	6,515
Other assets	786
Deferred tax assets	18,360
Current liabilities	(13,463)
Other long-term liabilities	(1,455)
Net tangible assets acquired	62,187
Identifiable intangible assets (core technology and customer relationships)	24,400
In-process research and development	303,400
Goodwill	228,734
Total net assets acquired	$618,721

The Company's purchase price allocation changed during the fourth quarter of 2007, due to the release of the valuation allowance initially recorded in conjunction with the acquisition of Solexa against

certain deferred tax assets. As a result, the Company decreased the goodwill balance by approximately $18.4 million from the balance as of September 30, 2007 and recorded a deferred tax asset as of December 30, 2007.

In-Process Research and Development

The Company allocated $303.4 million of the purchase price to in-process research and development projects. In-process research and development (IPR&D) represents the valuation of acquired, to-be-completed research projects. At the acquisition date, Solexa's ongoing research and development initiatives were primarily involved with the development of its genetic analysis platform for sequencing and expression profiling. These in-process research and development projects are composed of Solexa's reversible terminating nucleotide biochemistry platform, referred to as sequencing-by-synthesis (SBS) biochemistry, as well as Solexa's reagent, analyzer and sequencing services related technologies, which were valued at $237.2 million, $44.2 million, $19.1 million and $2.9 million, respectively, at the acquisition date. Although these projects were approximately 95% complete at the acquisition date, they had not reached technological feasibility and had no alternative future use. Accordingly, the amounts allocated to those projects were written off in the first quarter of 2007, the period the acquisition was consummated.

The values of the research projects were determined by estimating the costs to develop the acquired technology into commercially viable products, estimating the resulting net cash flows from the projects, and discounting the net cash flows to their present value. These cash flows were estimated by forecasting total revenue expected from these products and then deducting appropriate operating expenses, cash flow adjustments and contributory asset returns to establish a forecast of net cash flows arising from the in-process technology. These cash flows were substantially reduced to take into account the time value of money and the risks associated with the inherent difficulties and uncertainties given the projected stage of development of these projects at closing. Due to the nature of the forecast and the risks associated with the projected growth and profitability of the developmental projects, discount rates of 19.5% were considered appropriate for valuation of the IPR&D. The Company believes that these discount rates were commensurate with the projects' stage of development and the uncertainties in the economic estimates described above.

If these projects are not successfully developed, the sales and profitability of the combined company may be adversely affected in future periods. The Company believes that the foregoing assumptions used in the IPR&D analysis were reasonable at the time of the acquisition. No assurance can be given, however, that the underlying assumptions used to estimate expected project sales, development costs or profitability, or the events associated with such projects, will transpire as estimated.

Identifiable Intangible Assets

Acquired identifiable assets include various patents that are separate and distinct from the intellectual property surrounding the SBS biochemistry platform (core technology) as well as customer relationships. These patents are held in both the United States and Europe. The Company valued the patents and developed technology utilizing a discounted cash flow model which uses forecasts of future royalty savings and expenses related to the intangible assets. The Company utilized a discount rate of 19.5% when preparing this model. The value of the customer relationships is the benefit derived, based upon estimated cash flows, from having a customer in place versus having to incur the time, cost and foregone cash flow required to develop or replace the customer. The amounts assigned to the core technology and customer relationships are $23.5 million and $0.9 million, respectively.

Goodwill

Goodwill represents the excess of the Solexa purchase price over the sum of the amounts assigned to assets acquired less liabilities assumed. The Company believes that the acquisition of Solexa will produce the following significant benefits:

- *Increased Market Presence and Opportunities.* The combination of the Company and Solexa should increase the combined Company's market presence and opportunities for growth in revenue, earnings and stockholder return. The Company believes that the Solexa technology is highly complementary to the Company's own portfolio of products and services and will enhance the Company's capabilities to service its existing customers, as well as accelerate the development of additional technologies, products and services. The Company believes that integrating Solexa's capabilities with the Company's technologies will better position the Company to address the emerging biomarker research and development and in-vitro and molecular diagnostic markets. The Company began to recognize revenue from products shipped as a result of this acquisition during the first quarter of 2007.

- *Operating Efficiencies.* The combination of the Company and Solexa provides the opportunity for potential economies of scale and cost savings.

The Company believes that these primary factors support the amount of goodwill recognized as a result of the purchase price paid for Solexa, in relation to other acquired tangible and intangible assets, including in-process research and development.

The following unaudited pro forma information shows the results of the Company's operations for the specified reporting periods as though the acquisition had occurred as of the beginning of that period (in thousands, except per share data):

	Year Ended December 30, 2007	Year Ended December 31, 2006
Revenue	$366,854	$187,103
Net income (loss)	$ 17,388	$ (38,957)
Net income (loss) per share, basic	$ 0.32	$ (0.68)
Net income (loss) per share, diluted	$ 0.29	$ (0.68)

The pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the actual results of operations had the acquisition taken place as of the beginning of the periods presented, or the results that may occur in the future. The pro forma results exclude the $303.4 million non-cash acquired IPR&D charge recorded upon the closing of the acquisition during the first quarter of 2007.

Investment in Solexa

On November 12, 2006, the Company entered into a definitive securities purchase agreement with Solexa in which the Company invested approximately $50 million in Solexa in exchange for 5,154,639 newly issued shares of Solexa common stock in conjunction with the merger of the two companies. This investment was valued at $67.8 million as of December 31, 2006, which represented a market value of $13.15 per share of Solexa common stock. This investment was eliminated as part of the Company's purchase accounting upon the closing of the merger on January 26, 2007.

3. Balance Sheet Account Details

The following is a summary of short-term investments as of December 30, 2007 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities and obligations of U.S. government agencies	$ 42,648	$108	$ —	$ 42,756
Debt securities issued by the states of the United States and political subdivisions of the states	14,675	—	—	14,675
Corporate debt securities	153,547	252	(89)	153,710
Total	$210,870	$360	$(89)	$211,141

Gross realized losses on sales of available-for-sale securities totaled approximately $0, $35,000 and $0 for the years ended December 30, 2007, December 31, 2006 and January 1, 2006, respectively. Gross realized gains on sales of available-for-sale securities totaled approximately $8,000, $0, and $0 for the years ended December 30, 2007, December 31, 2006 and January 1, 2006, respectively. As of December 30, 2007, all of the Company's investments in a gross unrealized loss position had been in such position for less than 12 months. Impairments are not considered other than temporary as the Company has the intent and ability to hold these investments until maturity.

The Company also recorded an unrealized gain, net of tax, of $10.8 million as of December 31, 2006, related to the investment in common stock of Solexa (see Note 2). The net unrealized gain is classified as a part of accumulated other comprehensive income in the stockholders' equity section of the consolidated balance sheet as of December 31, 2006. This unrealized gain was eliminated as part of the Company's purchase accounting upon the closing of the merger on January 26, 2007.

Contractual maturities of short-term investments at December 30, 2007 were as follows (in thousands):

	Estimated Fair Value
Due within one year	$ 14,675
After one but within five years	196,466
Total	$211,141

Accounts receivable consist of the following (in thousands):

	December 30, 2007	December 31, 2006
Accounts receivable from product and service sales	$82,144	$39,627
Notes receivable from product sales	—	112
Accounts receivable from government grants	15	167
Other receivables	1,500	416
	83,659	40,322
Allowance for doubtful accounts	(540)	(338)
Total	$83,119	$39,984

Inventory, net, consists of the following (in thousands):

	December 30, 2007	December 31, 2006
Raw materials	$27,098	$ 8,365
Work in process	20,321	8,907
Finished goods	6,561	2,897
Total	$53,980	$20,169

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

	December 30, 2007	December 31, 2006
Leasehold improvements	$ 4,531	$ 1,760
Manufacturing and laboratory equipment	50,384	30,523
Computer equipment and software	18,772	10,383
Furniture and fixtures	3,691	3,114
	77,378	45,780
Accumulated depreciation and amortization	(31,104)	(20,146)
Total	$ 46,274	$ 25,634

Depreciation expense was $11.5 million, $6.0 million and $3.8 million for the years ended December 30, 2007, December 31, 2006 and January 1, 2006, respectively.

Intangible assets consist of the following (in thousands):

	December 30, 2007		December 31, 2006	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Acquired intangible assets:				
Core technology	$23,500	$(2,154)	$ —	$ —
Customer relationships	900	(275)	—	—
Total acquired intangible assets	24,400	(2,429)	—	—
Other intangible assets:				
License agreements	1,029	(884)	944	(836)
Licensed technology	36,000	—	—	—
Total intangible assets	$61,429	$(3,313)	$944	$(836)

Amortization expense associated with the acquired intangible assets was $2.4 million for the year ended December 30, 2007. There was no amortization of acquired intangibles for the years ended December 31, 2006 and January 1, 2006, respectively.

The estimated annual amortization of intangible assets for the next five years is shown in the following table (in thousands). Actual amortization expense to be reported in future periods could differ from these estimates as a result of acquisitions, divestitures, asset impairments and other factors.

2008	$ 7,194
2009	7,193
2010	6,905
2011	6,870
2012	6,858
2013 and thereafter	23,096
Total	$58,116

Accrued liabilities consist of the following (in thousands):

	December 30, 2007	December 31, 2006
Compensation	$17,410	$ 8,239
Taxes	8,298	1,804
Short-term deferred revenue	7,541	3,382
Customer deposits	5,266	3,703
Legal and other professional fees	4,276	3,831
Reserve for product warranties	3,716	996
Short-term deferred rent	1,251	—
Short-term deferred gain on sale of building	171	375
Other	2,923	1,530
Total	$50,852	$23,860

4. Warranties

The Company generally provides a one-year warranty on genotyping and gene expression systems. At the time revenue is recognized, the Company establishes an accrual for estimated warranty expenses associated with system sales. This expense is recorded as a component of cost of product revenue. Estimated warranty expenses associated with extended maintenance contracts are recorded as cost of revenue ratably over the term of the maintenance contract.

Changes in the Company's reserve for product warranties during the three years ended December 30, 2007 are as follows (in thousands):

Balance as of January 2, 2005	$ 387
Additions charged to cost of revenue	1,094
Repairs and replacements	(730)
Balance as of January 1, 2006	751
Additions charged to cost of revenue	1,379
Repairs and replacements	(1,134)
Balance as of December 31, 2006	996
Additions charged to cost of revenue	4,939
Repairs and replacements	(2,219)
Balance as of December 30, 2007	$ 3,716

5. Convertible Senior Notes

On February 16, 2007, the Company issued $400.0 million principal amount of 0.625% Convertible Senior Notes due 2014 (the Notes), which included the exercise of the initial purchasers' option to purchase up to an additional $50.0 million aggregate principal amount of Notes. The net proceeds from the offering, after deducting the initial purchasers' discount and offering expenses, were approximately $390.3 million. The Company will pay 0.625% interest per annum on the principal amount of the Notes, payable semi-annually in arrears in cash on February 15 and August 15 of each year. The Company made an interest payment of approximately $1.2 million on August 15, 2007. The Notes mature on February 15, 2014.

The Notes will be convertible into cash and, if applicable, shares of the Company's common stock, $0.01 par value per share, based on an initial conversion rate, subject to adjustment, of 22.9029 shares per $1,000 principal amount of Notes (which represents an initial conversion price of approximately $43.66 per share), only in the following circumstances and to the following extent: (1) during the five business-day period after any five consecutive trading period (the measurement period) in which the trading price per note for each day of such measurement period was less than 97% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such day; (2) during any calendar quarter after the calendar quarter ending March 31, 2007, if the last reported sale price of the Company's common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 130% of the applicable conversion price in effect on the last trading day of the immediately preceding calendar quarter; (3) upon the occurrence of specified events; and (4) the notes will be convertible at any time on or after November 15, 2013 through the third scheduled trading day immediately preceding the maturity date.

In connection with the offering of the notes, the Company entered into convertible note hedge transactions (the hedge) with the initial purchasers and/or their affiliates (the counterparties) entitling the Company to purchase up to 11,451,480 shares of the Company's common stock, subject to adjustment, at an initial strike price of $43.66 per share, subject to adjustment. In addition, the Company sold to these counterparties warrants to acquire up to 18,322,320 shares of the Company's common stock (the warrants), subject to adjustment, at an initial strike price of $62.87 per share, subject to adjustment. The cost of the hedge that was not covered by the proceeds from the sale of the warrants was approximately $46.6 million and is reflected as a reduction of additional paid-in capital as of December 30, 2007. The hedge is expected to reduce the potential equity dilution upon conversion of the notes if the daily volume-weighted average price per share of the Company's common stock exceeds the strike price of the hedge. The warrants could have a dilutive effect on the Company's earnings per share to the extent

that the price of the Company's common stock during a given measurement period exceeds the strike price of the warrants.

6. Commitments

Deferred Gain/Building Loan

In August 2004, the Company completed a sale-leaseback transaction of its land and buildings located in San Diego. The sale of this property resulted in a $3.7 million gain. Effective upon the closing of the sale, the Company leased the property back from the buyer for an initial term of ten years, which was extended in February 2007 to 19 years. In accordance with SFAS No. 13, *Accounting for Leases*, the Company has deferred the gain and is amortizing it over the 19-year lease term.

Operating Leases

The Company leases office and manufacturing facilities under various noncancellable operating lease agreements. Facilities leases generally provide for periodic rent increases and many contain escalation clauses and renewal options. Certain leases require the Company to pay property taxes and routine maintenance. The Company is headquartered in San Diego, California and leases facilities in Hayward, California, Wallingford, Connecticut, the United Kingdom, the Netherlands, Japan, and Singapore.

Annual future minimum payments under these operating leases as of December 30, 2007 were as follows (in thousands):

2008	$ 10,329
2009	7,550
2010	7,486
2011	7,669
2012	7,743
2013 and thereafter	79,658
Total	$120,435

Rent expense, net of amortization of the deferred gain on sale of property, was $7.7 million, $4.7 million and $4.7 million for the years ended December 30, 2007, December 31, 2006 and January 1, 2006, respectively.

7. Stockholders' Equity

Common Stock

As of December 30, 2007, 4,848,395 shares were sold to employees and consultants subject to restricted stock agreements. The restricted common shares vest in accordance with the provisions of the agreements, generally over five years. As of December 30, 2007, 10,417 shares of common stock were subject to repurchase. In addition, during 2005, the Company also issued 12,000 shares for a restricted stock award to an employee under the Company's 2005 Stock and Incentive Plan based on service performance. These shares vest monthly over a three-year period. As part of the Solexa acquisition, the Company assumed 53,664 shares of restricted stock issued to an employee under the 2005 Solexa Equity Incentive Plan. These shares vest and become exercisable at the rate of 25% on the first anniversary of the date of grant and ratably on a quarterly basis over a period of 36 months thereafter.

Stock Options

2005 Stock and Incentive Plan

In June 2005, the stockholders of the Company approved the 2005 Stock and Incentive Plan (the 2005 Stock Plan). Upon adoption of the 2005 Stock Plan, issuance of options under the Company's existing 2000 Stock Plan ceased. Additionally, in connection with the acquisition of Solexa, the Company assumed stock options granted under the 2005 Solexa Equity Incentive Plan (the 2005 Solexa Equity Plan). As of December 30, 2007, an aggregate of up to 13,485,619 shares of the Company's common stock were reserved for issuance under the 2005 Stock Plan and the 2005 Solexa Equity Plan. The 2005 Stock Plan provides for an automatic annual increase in the shares reserved for issuance by the lesser of 5% of outstanding shares of the Company's common stock on the last day of the immediately preceding fiscal year, 1,200,000 shares or such lesser amount as determined by the Company's board of directors. As of December 30, 2007, options to purchase 1,834,384 shares remained available for future grant under the 2005 Stock Plan and 2005 Solexa Equity Plan.

The Company's stock option activity under all stock option plans from January 2, 2005 through December 30, 2007 is as follows:

	Options	Weighted-Average Exercise Price
Outstanding at January 2, 2005	6,205,020	$ 6.99
Granted	2,992,300	$10.02
Exercised	(869,925)	$ 4.66
Cancelled	(1,001,964)	$11.00
Outstanding at January 1, 2006	7,325,431	$ 7.96
Granted	2,621,050	$27.24
Exercised	(1,273,119)	$ 7.28
Cancelled	(314,242)	$12.44
Outstanding at December 31, 2006	8,359,120	$13.94
Options assumed through business combination	1,424,332	$21.37
Granted	3,784,508	$40.64
Exercised	(2,179,286)	$12.06
Cancelled	(964,740)	$22.38
Outstanding at December 30, 2007	10,423,934	$24.26

Following is a further breakdown of the options outstanding as of December 30, 2007:

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price of Options Exercisable
$0.03-5.99	1,243,927	4.89	$ 4.48	788,144	$ 3.84
$6.00-8.52	1,213,703	6.30	$ 7.87	643,821	$ 7.65
$8.60-12.28	1,052,123	6.46	$ 9.49	597,737	$ 9.43
$12.30-20.97	1,714,245	7.62	$ 17.90	712,249	$ 17.51
$21.31-30.54	1,094,170	8.28	$ 26.89	353,553	$ 26.28
$30.55-35.68	1,070,526	9.02	$ 34.24	121,149	$ 34.93
$35.82-39.22	907,327	8.75	$ 38.95	140,801	$ 39.09
$39.42-40.08	1,267,250	9.08	$ 40.07	212,128	$ 40.08
$40.23-640.99(1)	860,049	9.60	$ 49.93	15,576	$ 81.16
$3,123.55(1)	614	2.15	$3,123.55	614	$3,123.55
$0.03-3,123.55	10,423,934	7.68	$ 24.26	3,585,772	$ 15.83

(1) Adjusted for reverse split of securities underlying options assumed with Solexa acquisition.

The weighted average remaining life in years of options exercisable is 6.57 years as of December 30, 2007.

The aggregate intrinsic value of options outstanding and options exercisable as of December 30, 2007 was $376.0 million and $161.2 million, respectively. Aggregate intrinsic value represents the difference between the Company's closing stock price on the last trading day of the fiscal period, which was $60.09 as of December 28, 2007, and the exercise price multiplied by the number of options outstanding. Total intrinsic value of options exercised was $72.1 million and $34.0 million for the years ended December 30, 2007 and December 31, 2006, respectively.

2000 Employee Stock Purchase Plan

In February 2000, the board of directors and stockholders adopted the 2000 Employee Stock Purchase Plan (the Purchase Plan). A total of 6,233,713 shares of the Company's common stock have been reserved for issuance under the Purchase Plan. The Purchase Plan permits eligible employees to purchase common stock at a discount, but only through payroll deductions, during defined offering periods.

The price at which stock is purchased under the Purchase Plan is equal to 85% of the fair market value of the common stock on the first or last day of the offering period, whichever is lower. The initial offering period commenced in July 2000. In addition, beginning with fiscal 2001, the Purchase Plan provides for annual increases of shares available for issuance by the lesser of 3% of the number of outstanding shares of the Company's common stock on the last day of the immediately preceding fiscal year, 1,500,000 shares or such lesser amount as determined by the Company's board of directors. 133,481, 266,394 and 717,164 shares were issued under the Purchase Plan during fiscal 2007, 2006 and 2005, respectively. As of December 30, 2007, there were 4,035,180 shares available for issuance under the Purchase Plan.

Restricted Stock Units

In 2007 the Company began granting restricted stock units pursuant to its 2005 Stock and Incentive Plan as part of its regular annual employee equity compensation review program. Restricted stock units are share awards that, upon vesting, will deliver to the holder shares of the Company's common stock. Generally, restricted stock units granted in the year ended December 30, 2007, vest over four years as follows: 15% of the shares will vest one year from the date of grant, 15% will vest two years from the date of grant, 30% will vest three years from the date of grant, and 40% will vest four years from the date of grant.

A summary of the Company's restricted stock unit activity and related information in the fiscal year ended December 30, 2007 is as follows:

	Restricted Stock Units
Outstanding at December 31, 2006	—
Awarded	197,750
Vested	—
Cancelled	(500)
Outstanding at December 30, 2007	197,250

The weighted average grant-date fair value per share for the restricted stock units was $51.37 for the year ended December 30, 2007.

Based on the closing price of the Company's common stock of $60.09 on December 28, 2007, the total pretax intrinsic value of all outstanding restricted stock units on that date was $11,852,752.

No restricted stock units were outstanding as of December 31, 2006.

Warrants

In conjunction with its acquisition of Solexa, Inc. on January 26, 2007, the Company assumed 2,244,843 warrants issued by Solexa prior to the acquisition. During the year ended December 30, 2007, there were 399,315 warrants exercised, resulting in cash proceeds to the Company of approximately $6.1 million. As of December 30, 2007, 126,082 of the assumed warrants had expired.

A summary of all warrants outstanding as of December 30, 2007 is as follows:

Number of Shares	Exercise Price	Expiration Date
31,989	$57.62	9/24/2008
119,255	$14.54	4/25/2010
526,619	$14.54	7/12/2010
404,623	$21.81	11/23/2010
636,960	$21.81	1/19/2011
18,322,320(1)	$62.87	2/15/2014
20,041,766		

(1) Represents warrants sold in connection with the offering of the Company's Convertible Senior Notes (See Note 5).

No warrants were outstanding as of December 31, 2006.

Treasury Stock

In conjunction with its issuance of $400 million principal amount of 0.625% Convertible Senior Notes due 2014 on February 16, 2007, the Company repurchased 5.8 million shares of its outstanding common stock for approximately $201.6 million in privately negotiated transactions concurrently with the offering.

On February 20, 2007, the Company executed a Rule 10b5-1 trading plan to repurchase up to $75.0 million of its outstanding common stock over a period of six months. The Company repurchased approximately 1.6 million shares of its common stock under this plan for approximately $50.0 million. As of December 30, 2007, this plan had expired.

Stockholder Rights Plan

On May 3, 2001, the Board of Directors of the Company declared a dividend of one preferred share purchase right (a Right) for each outstanding share of common stock of the Company. The dividend was payable on May 14, 2001 (the Record Date) to the stockholders of record on that date. Each Right entitles the registered holder to purchase from the Company one unit consisting of one-thousandth of a share of its Series A Junior Participating Preferred Stock at a price of $100 per unit. The Rights will be exercisable if a person or group hereafter acquires beneficial ownership of 15% or more of the outstanding common stock of the Company or announces an offer for 15% or more of the outstanding common stock. If a person or group acquires 15% or more of the outstanding common stock of the Company, each Right will entitle its holder to purchase, at the exercise price of the right, a number of shares of common stock having a market value of two times the exercise price of the right. If the Company is acquired in a merger or other business combination transaction after a person acquires 15% or more of the Company's common stock, each Right will entitle its holder to purchase, at the Right's then-current exercise price, a number of common shares of the acquiring company which at the time of such transaction have a market value of two times the exercise price of the right. The Board of Directors will be entitled to redeem the Rights at a price of $0.01 per Right at any time before any such person acquires beneficial ownership of 15% or more of the outstanding common stock. The rights expire on May 14, 2011 unless such date is extended or the rights are earlier redeemed or exchanged by the Company.

8. Litigation Settlements

In the recent past, the Company incurred substantial costs in defending against patent infringement claims and expects, going forward, to devote substantial financial and managerial resources to protect the Company's intellectual property and to defend against any future claims asserted against the Company.

Affymetrix Litigation

On January 9, 2008, we resolved all our outstanding litigations with Affymetrix, Inc. (Affymetrix) by entering into a settlement agreement in which we agreed, without admitting liability, to make a one-time payment to Affymetrix of $90.0 million. In return, Affymetrix agreed to dismiss with prejudice all lawsuits it had brought against us, and we agreed to dismiss with prejudice our counterclaims in the relevant lawsuits. In exchange for the payment, Affymetrix agreed not to sue us or our affiliates or customers for making, using or selling any of our current products, evolutions of those products or services related to those products. In addition, Affymetrix agreed that, for four years, it will not sue us for making, using or selling our products or services that are based on future technology developments. The covenant not to sue covers all fields other than photolithography, the process by which Affymetrix manufactures its arrays and a field in which we do not operate.

The January 2008 settlement resolved complaints Affymetrix had previously filed in the U.S. and abroad. Specifically, on July 26, 2004, Affymetrix had filed a complaint in the U.S. District Court for the District of Delaware alleging that the use, manufacture and sale of our BeadArray products and services, including our Array Matrix and BeadChip products, infringe six Affymetrix patents. At that time Affymetrix was also seeking an injunction against the sale of any products that would ultimately be determined to infringe these patents, unspecified monetary damages, interest and attorneys' fees. Subsequently, on October 24, 2007, Affymetrix had filed complaints in the U.S. District Court for the District of Delaware, in Regional Court in Düsseldorf (Germany), and in the High Court of Justice, Chancery Division — Patents Court in London (United Kingdom) alleging that the use, manufacture and sale of certain of our BeadArray products and services, including our Array Matrix and BeadChip products, infringe three U.S. patents and three European patents of Affymetrix. In its U.S. complaint filed in 2007, Affymetrix had also alleged that our sequencing technology, including the Genome Analyzer, infringes two Affymetrix U.S. patents. Affymetrix also sought an injunction against the sale of any products that would ultimately be determined to infringe these patents, unspecified monetary damages, interest and attorneys' fees.

As of December 30, 2007, the Company accrued for the total $90.0 million payment as a result of the settlement, of which $36.0 million was recorded as licensed technology and classified as an intangible asset. The remaining $54.0 million was charged to expense during the fourth quarter of 2007 and is included in income (loss) from operations on the Consolidated Statements of Operations. This allocation was determined in accordance with SFAS No. 5, *Accounting for Contingencies*, and EITF 00-21 using the concepts of fair value based on the past and estimated future revenue streams related to the products covered by the patents previously under dispute. The value of the licensed technology is the benefit derived, calculated using estimated discounted cash flows and future revenue projections, from the perpetual covenant not to sue for damages related to the sale of the Company's current products. The Company utilized a discount rate of 9.25% when preparing this model. The effective life and related amortization will be based on the higher of the percentage of usage or the straight-line method. This percentage of usage will be determined using the revenues generated from products covered by the patents previously under dispute. These patents expire at various times through 2015.

Former Employee Claim

On June 15, 2005, a former employee of the Company filed suit against the Company in the U.S. District Court for the District of Delaware seeking an order requiring the Company and the U.S. Patent and Trademark Office to correct the inventorship of certain of the Company's patents and patent applications by adding the former employee as an inventor, alleging that the Company committed inequitable conduct and fraud in not naming him as an inventor, and seeking a judgment declaring certain of the Company's patents and patent applications unenforceable, unspecified monetary damages and attorney's fees. On January 30, 2008, this dispute was resolved to the mutual satisfaction of the parties by entering into a release and settlement agreement pursuant to which all claims pending in that litigation were dismissed with prejudice. As a result of the settlement, the Company recognized a charge of $0.5 million for the year ended December 30, 2007 in income (loss) from operations on the Consolidated Statements of Operations.

Applied Biosystems Litigation

On December 26, 2006, the Applied Biosystems Group of Applera Corporation (Applied Biosystems) filed suit in California Superior Court, Santa Clara County against Solexa (which was acquired by the Company on January 26, 2007). This State Court action is about the ownership of several patents assigned in 1995 to Solexa's predecessor company (Lynx Therapeutics) by a former employee (Dr. Stephen Macevicz) who is the inventor of these patents and is named as a co-defendant in the suit. Lynx was originally a unit of Applied Biosystems but was spun out in 1992. On May 31, 2007, Applied

Biosystems filed a second suit, this time against the Company, in the U.S. District Court for the Northern District of California. This second suit seeks a declaratory judgment of non-infringement of the Macevicz patents that are the subject of the State Court action mentioned above. Both suits were later consolidated in the U.S. District Court for the Northern District of California, San Francisco Division.

The Macevicz patents relate to methods for sequencing DNA using successive rounds of oligonucleotide probe ligation (Sequencing-by-Ligation). The Company's Genome Analyzer system uses a different technology called DNA Sequencing-by-Synthesis (SBS), which is not covered by any of these patents. In addition, the sequencing technology originally used by Lynx Therapeutics (called "MPSS™") is not based on the methods covered by the Macevicz patents. In any event, the Company has never used MPSS™ in the Company's sequencing platform. Furthermore, the Company has no plans to use any of the Sequencing-by-Ligation technologies covered by these patents. By these consolidated actions Applied Biosystems is seeking ownership of the Macevicz patents, unspecified costs and damages, and a declaration of non-infringement of these patents. Applied Biosystems is not asserting any claim for patent infringement against the Company.

9. Collaborative Agreements

deCODE genetics

In May 2006, the Company and deCODE genetics, ehf. (deCODE) executed a Joint Development and Licensing Agreement (the Development Agreement). Pursuant to the Development Agreement, the parties agreed to collaborate exclusively to develop, validate and commercialize specific diagnostic tests for variants in genes involved in three disease-related pathways: the gene-encoding leukotriene A4 hydrolase, linked to heart attack; the gene-encoding transcription factor 7-like 2 (TCF7L2), linked to type 2 diabetes; and the gene-encoding BARD1, linked to breast cancer. The Company and deCODE are developing diagnostic tests based on these variants for use on the Company's BeadXpress system.

Under the agreement, the Company will be responsible for the manufacturing, marketing and selling of the diagnostic products. The companies will share the development costs of these products and split the profits from sales of the diagnostics tests. The Development Agreement may be terminated as to a particular product under development if one party decides to discontinue funding the development of that product, and may be terminated in whole by either party if the other party commits an uncured material breach, files for bankruptcy or becomes insolvent. Under a separate supply agreement, the Company installed instrumentation at deCODE that will enable deCODE to perform whole genome association studies on up to 100,000 samples using the Company's Sentrix HumanHap300 BeadChips and associated reagents. The Company has deferred approximately $2.0 million of revenue for instruments installed during the third quarter of 2006 under guidance provided by SFAS No. 48, *Revenue Recognition When Right of Return Exists*. This amount is classified as a long-term liability as of December 30, 2007. The Company has also deferred approximately $1.3 million of costs related to product shipments to deCODE, which are classified as a long-term asset as of December 30, 2007.

10. Investment in Genizon BioSciences Inc.

In January 2006, Genizon BioSciences Inc. (Genizon), a Canadian company focused on gene discovery, purchased from the Company approximately $1.9 million in equipment and committed to purchase an additional $4.3 million in consumables. The Company understands that Genizon is using the Company's products to perform whole-genome and targeted association studies involving thousands of members of the Quebec Founder Population. The goal of the studies is to provide understanding of the genetic origins and mechanisms of common diseases which may then lead to possible drug targets.

In March 2006, the Company entered into a Subscription Agreement for Secured Convertible Debentures with Genizon. Pursuant to the agreement, the Company purchased a Secured Convertible Debenture (the Debenture) of Genizon and certain warrants for CDN $3.5 million (approximately U.S. $3.0 million). The Debenture matures two years from issuance and bears interest, payable semi-annually, at a rate of 5% per annum for the first year and 12.5% per annum for the second year. Unless the Debenture is converted before maturity, 112.5% of the principal amount of the Debenture is due upon maturity. The Company also received warrants to purchase 226,721 shares of Genizon Class H Preferred Shares at an exercise price of $1.54 per share.

The Company concluded that the purchase of the Debenture and the concurrent purchase by Genizon of the Company's products are "linked" transactions under guidance contained in EITF No. 00-21. Since the transactions are considered "linked," the Company deferred approximately $3.0 million of revenue (the face value of the Debentures) in the first quarter of 2006, related to the Genizon product shipments. During the fourth quarter of 2007, the Company sold the Debenture and warrants to third party investors for the face value of the Debenture (CDN $3.5 million or approximately U.S. $3.0 million) plus accrued interest, at which time the associated deferred revenue was recognized. Deferred costs of approximately $1.1 million related to product shipments to Genizon were also recognized in the fourth quarter of 2007, as well as approximately $0.5 million of foreign exchange gain due to the appreciation of the Canadian dollar versus the U.S. dollar between the debenture purchase and sale dates.

11. Income Taxes

The provision (benefit) for income taxes consists of the following (in thousands):

	Year Ended December 30, 2007	Year Ended December 31, 2006	Year Ended January 1, 2006
Current:			
Federal	$ 18,564	$1,125	$ —
State	4,801	1,177	—
Foreign	(2,172)	903	105
Total current provision	21,193	3,205	105
Deferred:			
Federal	(20,254)	—	—
State	(11,622)	—	—
Foreign	257	(553)	58
Total deferred provision	(31,619)	(553)	58
Total tax provision (benefit)	$(10,426)	$2,652	$163

The provision (benefit) for income taxes reconciles to the amount computed by applying the federal statutory rate to income (loss) before taxes as follows (in thousands):

	Year Ended December 30, 2007	Year Ended December 31, 2006	Year Ended January 1, 2006
Tax at federal statutory rate	$(101,075)	$ 14,945	$(7,043)
State, net of federal benefit	(174)	767	633
Alternative minimum tax	—	1,125	—
Research and other credits	(4,981)	(1,900)	(1,239)
Acquired in-process research & development	106,190	—	5,372
Adjustments to deferred tax balances	(690)	(3,509)	2,952
Change in valuation allowance	(17,125)	(10,038)	(1,138)
Permanent differences	1,229	818	(226)
Foreign rate adjustments	6,426	3	(28)
Other	(226)	441	880
Total tax provision (benefit)	$ (10,426)	$ 2,652	$ 163

The income (loss) before income taxes summarized by region is as follows (in thousands):

	Year Ended December 30, 2007	Year Ended December 31, 2006	Year Ended January 1, 2006
United States	$ 58,445	$42,612	$(21,365)
Foreign	(347,230)	8	654
Total income (loss) before income taxes	$(288,785)	$42,620	$(20,711)

Significant components of the Company's deferred tax assets and liabilities are as follows (in thousands):

	December 30, 2007	December 31, 2006
Deferred tax assets:		
Net operating losses	$ 34,277	$ 13,728
Tax credits	11,465	10,831
Deferred revenue	2,236	2,859
Capitalized research and development costs	2,018	1,290
Accrued litigation settlements	21,427	—
Other accruals and reserves	6,326	2,491
Stock compensation	8,166	4,736
Convertible debt	49,137	—
Other, net	8,068	2,592
Total deferred tax assets	143,120	38,527
Valuation allowance on deferred tax assets	(28,343)	(36,458)
Net deferred tax assets	114,777	2,069
Deferred tax liabilities:		
Property and equipment	(408)	(1,516)
Net unrealized gain on investments	(106)	(6,987)
Purchased intangible amortization	(7,084)	—
Total deferred tax liabilities	(7,598)	(8,503)
Net deferred tax assets (liabilities)	$107,179	$ (6,434)

A valuation allowance is established when it is more likely than not the future realization of all or some of the deferred tax assets will not be achieved. The evaluation of the need for a valuation allowance is performed on a jurisdiction by jurisdiction basis, and includes a review of all available positive and negative evidence. As of December 30, 2007, the Company has concluded that it is more likely than not that a significant portion of its deferred tax assets will be realized and, accordingly the Company released a portion of its valuation allowance, approximately $17.1 million of which was recorded as a reduction to the tax provision. Based upon the available evidence as of December 30, 2007, the Company is not able to conclude it is more likely than not certain U.S. and foreign deferred tax assets will be realized. Therefore, the Company has recorded a valuation allowance of approximately $2.9 million and $25.4 million against certain U.S. and foreign deferred tax assets, respectively.

As of December 30, 2007, the Company had net operating loss carryforwards for federal and state tax purposes of approximately $28.7 million and $99.1 million respectively, which begin to expire in 2025 and 2015 respectively, unless previously utilized. In addition, the Company also had U.S. federal and state research and development tax credit carryforwards of approximately $9.2 million and $9.3 million respectively, which begin to expire in 2018 and 2019 respectively, unless previously utilized.

As of December 30, 2007, the valuation allowance includes approximately $20.2 million of pre-acquisition deferred tax assets of Solexa. To the extent any of these assets are recognized, the adjustment will be applied first to reduce to zero any goodwill related to the acquisition, and then as a reduction to the tax provision. During 2007, the Company recorded approximately $2.1 million as a

reduction to goodwill related to pre-acquisition deferred tax assets that previously had a valuation allowance recorded against them and were recognized during the year.

Pursuant to Section 382 and 383 of the Internal Revenue Code, utilization of the Company's net operating losses and credits may be subject to annual limitations in the event of any significant future changes in its ownership structure. These annual limitations may result in the expiration of net operating losses and credits prior to utilization. Previous limitations due to Section 382 and 383 have been reflected in the deferred tax assets as of December 30, 2007.

Due to the adoption of SFAS No. 123R, the Company recognizes excess tax benefits associated with share-based compensation to stockholders' equity only when realized. When assessing whether excess tax benefits relating to share-based compensation have been realized, the Company follows the with-and-without approach excluding any indirect effects of the excess tax deductions. Under this approach, excess tax benefits related to share-based compensation are not deemed to be realized until after the utilization of all other tax benefits available to the Company. During 2007, the Company realized approximately $20.1 million of such excess tax benefits, and accordingly recorded a corresponding credit to additional paid in capital. As of December 30, 2007, the Company has approximately $11.2 million of unrealized excess tax benefits associated with share-based compensation. These tax benefits will be accounted for as a credit to additional paid-in capital, if and when realized, rather than a reduction of the tax provision.

Residual United States income taxes have not been provided on approximately $1.7 million of undistributed earnings of foreign subsidiaries as of December 30, 2007, since the earnings are considered to be permanently invested in the operations of such subsidiaries.

Effective January 1, 2007, the Company adopted FIN No. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109*, which clarifies the accounting for uncertainty in tax positions. FIN No. 48 requires recognition of the impact of a tax position in the Company's financial statements only if that position is more likely than not of being sustained upon examination by taxing authorities, based on the technical merits of the position. The adoption of FIN No. 48 did not result in an adjustment to the Company's opening stockholders' equity since there was no cumulative effect from the change in accounting principle.

The following table summarizes the gross amount of the Company's uncertain tax positions (in thousands):

Balance at January 1, 2007	$ 5,381
Increases related to current year tax positions	1,619
Increase of uncertain tax positions resulting from Solexa acquisition	14,376
Balance at December 30, 2007	$21,376

As of December 30, 2007, approximately $5.8 million of the Company's uncertain tax positions would reduce the Company's annual effective tax rate, if recognized.

The Company does not expect its uncertain tax positions to change significantly over the next 12 months. Any interest and penalties related to uncertain tax positions will be reflected in income tax expense. As of December 30, 2007, no interest or penalties have been accrued related to the Company's uncertain tax positions. Tax years 1998 to 2007 remain subject to future examination by the major tax jurisdictions in which the Company is subject to tax.

12. Retirement Plan

The Company has a 401(k) savings plan covering substantially all of its employees. Company contributions to the plan are discretionary. During the years ended December 30, 2007, December 31, 2006, and January 1, 2006, the Company made matching contributions of $1.4 million, $0.4 million, and $0, respectively.

13. Segment Information, Geographic Data and Significant Customers

Subsequent to December 30, 2007, the Company reorganized its operating structure to further leverage the synergies between its sequencing and genotyping businesses. Under the new structure, a newly created Life Sciences Business Unit will include all products and services related to the research market, namely the BeadArray, BeadXpress and Sequencing product lines. The Company has also created a Diagnostics Business Unit to put more focus on the emerging opportunity in molecular diagnostics. The Diagnostics Business Unit plans to develop diagnostic content for the BeadXpress system, and ultimately for the Company's sequencing products. For the fiscal year ended December 30, 2007, the Company had no activity related to the Diagnostics Business Unit and operating results were reported on an aggregate basis to the chief operating decision maker of the Company, the chief executive officer. In accordance with SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, the Company operated in one segment for the fiscal year ended December 30, 2007. Beginning January 2008, the Company will have two reportable segments including the Life Sciences Business Unit and the Diagnostics Business Unit.

The Company had revenue in the following regions for the years ended December 30, 2007, December 31, 2006 and January 1, 2006 (in thousands):

	Year Ended December 30, 2007	Year Ended December 31, 2006	Year Ended January 1, 2006
United States	$207,692	$103,043	$45,480
Europe	109,556	55,440	17,551
Asia	35,155	15,070	6,850
Other	14,396	11,033	3,620
Total	$366,799	$184,586	$73,501

The Company had no customers that provided more than 10% of total revenue in the years ended December 30, 2007, December 31, 2006 and January 1, 2006.

Long-lived assets include property and equipment, net, goodwill and intangible assets, net. The Company had long-lived assets in the following regions as of December 30, 2007 and December 31, 2006 (in thousands):

	Year Ended December 30, 2007	Year Ended December 31, 2006
United States	$311,686	$27,505
Europe	21,175	133
Asia	263	229
Other	—	—
Total	$333,124	$27,867

The increase in long-lived assets located in the United States and Europe at December 30, 2007 compared to December 31, 2006 was primarily due to the Solexa acquisition and the settlement of the Affymetrix litigation.

14. Quarterly Financial Information (unaudited)

The following financial information reflects all normal recurring adjustments, except as noted below, which are, in the opinion of management, necessary for a fair statement of the results of interim periods. Summarized quarterly data for fiscal 2007 and 2006 are as follows (in thousands except per share data):

	First Quarter(1)	Second Quarter	Third Quarter	Fourth Quarter(2),(3)
2007:				
Total revenue	$ 72,150	$84,535	$97,510	$112,604
Total cost of revenue	25,120	30,141	37,078	40,097
Net income (loss)	(298,076)	9,264	14,503	(4,050)
Net income (loss) per share, basic	(5.58)	0.17	0.27	(0.07)
Net income (loss) per share, diluted	(5.58)	0.16	0.24	(0.07)
2006:				
Total revenue	$ 29,102	$41,577	$53,472	$ 60,435
Total cost of revenue	9,293	13,576	16,356	20,119
Net income (loss)	(104)	6,768	16,162	17,142
Net income (loss) per share, basic	(0.00)	0.16	0.35	0.37
Net income (loss) per share, diluted	(0.00)	0.14	0.32	0.34

The sum of the net income (loss) per share for each of the four quarters within each fiscal year presented may not equate to the net income (loss) per share reported for the full fiscal year because different numbers of shares were outstanding during the periods presented.

(1) During the first quarter of 2007, the Company recorded a $303.4 million charge related to acquired in-process research and development from the Solexa acquisition.

(2) During the fourth quarter of 2007, the Company recorded a $54.0 million charge related to the settlement of its Affymetrix litigation.

(3) During the fourth quarter of 2007, the Company recorded a $11.1 million benefit related to the release of the valuation allowance recorded against certain U.S. deferred tax assets.

15. Subsequent Events

Litigation Settlements

Subsequent to year-end, the Company entered into two settlement agreements. On January 9, 2008, the Company entered into a settlement agreement with Affymetrix to resolve its patent litigation (see Note 8). The cash settlement of $90.0 million was paid on January 25, 2008. On January 30, 2008 a dispute with a former employee was resolved regarding the inventorship of certain of the Company's patents. All claims pending in that litigation were dismissed with prejudice in accordance with the release and settlement agreement (see Note 8). The cash settlement of $0.5 million was paid on February 6, 2008.

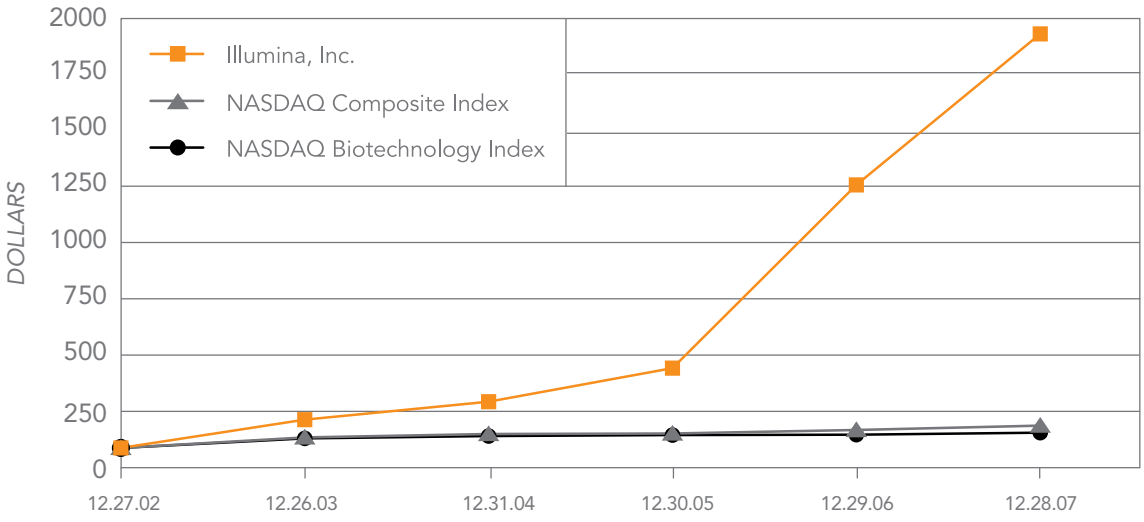
Investments

At February 19, 2008, the Company held approximately $55.9 million of auction rate securities issued primarily by municipalities and universities. In February 2008, auctions failed for $10.7 million of these auction rate securities and there is no assurance that currently successful auctions on the other auction rate securities in the Company's investment portfolio will continue to succeed and as a result its ability to liquidate its investment and fully recover the carrying value of the Company's investment in the near term may be limited or not exist. All of the Company's auction rate securities, including those subject to the failure, are currently rated AAA, the highest rating, by a rating agency. If the issuers are unable to successfully close future auctions and their credit ratings deteriorate, the Company may in the future be required to record an impairment charge on these investments. The Company believes it will be able to liquidate its investment without significant loss within the next year, and currently believes these securities are not significantly impaired, primarily due to the government guarantee of the underlying securities. However, it could take until the final maturity of the underlying notes (up to 30 years) to realize these investments' recorded value. Based on the Company's expected operating cash flows, and its other sources of cash, the Company does not anticipate the potential lack of liquidity on these investments will affect its ability to execute its current business plan.

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS AND RESERVES FOR THE THREE YEARS ENDED DECEMBER 30, 2007

	Allowance for Doubtful Accounts	Reserve for Inventory
	(In thousands)	
Balance as of January 2, 2005	$ 146	$ 1,038
Charged to expense	167	304
Utilizations	—	(247)
Balance as of January 1, 2006	313	1,095
Charged to expense	179	127
Utilizations	(154)	(372)
Balance as of December 31, 2006	338	850
Acquired through business acquisition	—	439
Charged to expense	237	1,863
Utilizations	(35)	(1,063)
Balance as of December 30, 2007	$ 540	$ 2,089

STOCK PERFORMANCE GRAPH*



**The graph depicted above shows a comparison of total stockholder returns for our common stock, the NASDAQ Composite Index, and the NASDAQ Biotechnology Index, from December 27, 2002 through December 28, 2007. The graph assumes that $100 was invested on December 27, 2002, in our common stock and in each index. No cash dividends have been declared on our common stock. Stockholder returns over the indicated period should not be considered indicative of future stockholder returns.*

corporate information

BOARD OF DIRECTORS

Jay T. Flatley
President and Chief Executive Officer

William H. Rastetter, Ph.D.
Chairman

Blaine Bowman
Director

Daniel M. Bradbury
Director

Karin Eastham
Director

Jack Goldstein, Ph.D.
Director

Paul Grint, M.D.
Director

David R. Walt, Ph.D.
Director

Roy Whitfield
Director

EXECUTIVE OFFICERS

Jay T. Flatley
President and Chief Executive Officer

Christian G. Cabou
Senior Vice President and General Counsel

Gregory F. Heath, Ph.D.*
Senior Vice President and General Manager, Diagnostics Business

Christian O. Henry
Senior Vice President, Chief Financial Officer, and Acting General Manager, Sequencing Business

Joel McComb*
Senior Vice President and General Manager, Life Sciences Business

Tristan B. Orpin
Senior Vice President, Commercial Operations

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FORM 10-K
Included with this report is a copy of the Company's Form 10-K filed with the Securities and Exchange Commission. Additional copies are available by contacting Illumina's Investor Relations Department: http://investor.illumina.com or investor@illumina.com +1.858.202.4507

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Ernst & Young LLP
San Diego, CA 92122

LEGAL COUNSEL
Dewey & LeBoeuf LLP
New York, NY 10019

*Joel McComb and Gregory F. Heath joined Illumina effective March 17, 2008.

ANNUAL MEETING

The Company's Annual Meeting of Stockholders will be held at Illumina's corporate headquarters in San Diego, CA at 11:00 a.m. PST on May 16, 2008.

SELECTED COMMON STOCK DATA

The Company's common stock, par value $0.01, has been traded under the symbol ILMN since July 28, 2000 on The NASDAQ Global Select Market.

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: this release may contain forward-looking statements that involve risks and uncertainties. Among the important factors that could cause actual results to differ materially from those in any forward-looking statements are Illumina's ability (i) to integrate effectively our recent acquisition of Solexa, Inc., (ii) to develop and commercialize further our BeadArray™, VeraCode®, and Solexa® technologies and to deploy new sequencing, gene expression, and genotyping products and applications for our technology platforms, (iii) to manufacture robust microarrays and Oligator® oligonucleotides, (iv) to integrate and scale our VeraCode technology, together with other factors detailed in our filings with the Securities and Exchange Commission, including our recent filings on Forms 10-K and 10-Q or in information disclosed in public conference calls, the date and time of which are released beforehand. We disclaim any intent or obligation to update these forward-looking statements beyond the date of this report.

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For a complete listing of Illumina's international distributors, visit www.illumina.com/distributors.

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TRADEMARK INFORMATION

Illumina, Solexa, Making Sense Out of Life, Oligator, Sentrix, GoldenGate, DASL, BeadArray, Array of Arrays, Infinium, BeadXpress, VeraCode, IntelliHyb, iSelect, and CSPro are registered trademarks or trademarks of Illumina. All other brands and names contained herein are the property of their respective owners.

ILLUM-2401

EXHIBIT 2.f

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 28, 2008

or

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

For the transition period from to .

Commission file number: 000-30361

Illumina, Inc.

(Exact name of Registrant as Specified in Its Charter)

Delaware	**33-0804655**
(State or other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*
9885 Towne Centre Drive, San Diego, California	**92121**
(Address of Principal Executive Offices)	*(zip code)*

Registrant's telephone number, including area code: (858) 202-4500

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

Title of Each Class	Name of Exchange on Which Registered
Common stock, $0.01 par value	The NASDAQ Global Select Market

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

None

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

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

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

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

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

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

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

As of February 2, 2009, there were 121,077,875 shares (excluding 17,927,983 shares held in treasury) of the Registrant's Common Stock outstanding. The aggregate market value of the Common Stock held by non-affiliates of the Registrant as of June 27, 2008 (the last business day of the Registrant's most recently completed second fiscal quarter), based on the closing price for the Common Stock on The NASDAQ Global Select Market on that date, was $4,849,118,890. This amount excludes an aggregate of 2,556,098 shares of Common Stock held by officers and directors and each person known by the Registrant to own 10% or more of the outstanding Common Stock. Exclusion of shares held by any person should not be construed to indicate that such person possesses the power, directly or indirectly, to direct or cause the direction of the management or policies of the Registrant, or that the Registrant is controlled by or under common control with such person.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement for the annual meeting of stockholders expected to be held on May 8, 2009 are incorporated by reference into Items 10 through 14 of Part III of this Report.

ILLUMINA, INC.

FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 28, 2008

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PART I

ITEM 1. *Business.*

This Annual Report on Form 10-K may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. These statements relate to future events or our future financial performance. We have attempted to identify forward-looking statements by terminology including "anticipates," "believes," "can," "continue," "could," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "should" or "will" or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks outlined under "Item 1A. Risk Factors" in this Annual Report, that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Accordingly, you should not unduly rely on these forward-looking statements, which speak only as of the date of this Annual Report. We are not under any duty to update any of the forward-looking statements after the date we file this Annual Report on Form 10-K or to conform these statements to actual results, unless required by law. You should, however, review the factors and risks we describe in the reports we file from time to time with the Securities and Exchange Commission.

Illumina®, Array of Arrays™, BeadArray™, BeadXpress®, CSPro®, DASL®, GoldenGate®, Genome Studio™, Infinium®, IntelliHyb®, iSelect®, Making Sense Out of Life®, Oligator®, Sentrix®, Solexa®, and VeraCode® are our trademarks. This report also contains brand names, trademarks or service marks of companies other than Illumina, and these brand names, trademarks and service marks are the property of their respective holders.

Available Information

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports are available free of charge on our website, www.illumina.com. The information on our website is not incorporated by reference into this report. Such reports are made available as soon as reasonably practicable after filing with, or furnishing to, the Securities and Exchange Commission (SEC). The SEC also maintains an Internet site at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that electronically file with the SEC. Copies of our annual report will be made available, free of charge, upon written request.

Overview

We are a leading developer, manufacturer and marketer of integrated systems for the large scale analysis of genetic variation and biological function. We were incorporated in California in April 1998 and reincorporated in Delaware in July 2000. Our principal executive offices are located at 9885 Towne Centre Drive, San Diego, California 92121. Our telephone number is (858) 202-4500.

Using our proprietary technologies, we provide a comprehensive line of products and services that currently serve the sequencing, genotyping and gene expression markets. In the future, we expect to enter the market for molecular diagnostics. Our customers include leading genomic research centers, pharmaceutical companies, academic institutions, clinical research organizations and biotechnology companies. Our tools provide researchers around the world with the performance, throughput, cost effectiveness and flexibility necessary to perform the billions of genetic tests needed to extract valuable medical information from advances in genomics and proteomics. We believe this information will enable researchers to correlate genetic variation and biological function, which will enhance drug discovery and clinical research, allow diseases to be detected earlier and permit better choices of drugs for individual patients.

On January 26, 2007, we completed the acquisition of Solexa, Inc. (Solexa) for 26.2 million shares of our common stock. As a result of that acquisition, we develop and commercialize sequencing technologies used to

perform a range of analyses, including whole genome re-sequencing, gene expression analysis and small RNA analysis. We believe we are the only company with genome-scale technology for sequencing, genotyping and gene expression, the three cornerstones of modern genetic analysis.

During the first quarter of 2008, we reorganized our operating structure into two newly created business segments, Life Sciences and Diagnostics. During 2008, the Diagnostics Business Unit had limited business activity and, accordingly, operating results were reported on an aggregate basis as one operating segment. In the future, at each reporting period end, we will reassess our reportable operating segments, particularly as we enter the market for molecular diagnostics.

On August 1, 2008, we completed the acquisition of Avantome, Inc. (Avantome). As consideration for the acquisition, we paid $25.8 million in cash and may pay up to an additional $35.0 million in contingent cash consideration based on the achievement of certain milestones. Avantome is a development stage company working on developing low-cost, long read sequencing technology. We expect this technology, if and when available as a product, to have applicability to both the research and diagnostic markets.

Our Strategy

Our goal is to make our Genome Analyzer, BeadArray and BeadXpress platforms the industry standards for products and services addressing the genetic analysis markets. We plan to achieve this by:

- focusing on emerging high-growth markets;
- seeking new and complementary technologies through strategic acquisitions and other investments;
- expanding our technologies into multiple product lines, applications and market segments; and
- strengthening our technological leadership.

Our Markets

Our current technologies serve three primary markets: next-generation sequencing, mid-to-high-complexity microarrays for genotyping and gene expression, and the "applied markets," the majority of which are comprised of agricultural research. Next-generation sequencing is the most rapidly growing of these three markets. It is fueled by private and public funding, new global initiatives to broadly characterize genetic variation, and the migration of legacy genetic applications to sequencing based technologies. We believe our DNA sequencing systems, coupled with complementary technologies from strategic investments, including the acquisition of Avantome and our collaborative alliance with Oxford Nanopore Technologies will enable us to address numerous market segments with innovative solutions.

In 2009, we expect to enter the market for molecular diagnostics. The molecular diagnostic market is currently estimated at nearly $3 billion with the potential to grow to over $5 billion by 2012. This market assessment covers regulated assays and reagents, and does not factor in laboratory-developed tests, which account for a significant portion of the total market. The primary growth drivers in the molecular diagnostics market are the continued discovery of genetic markers with proven clinical utility, the increasing adoption of genetic based diagnostic tests, and the expansion of reimbursement programs to include a greater number of approved diagnostic tests. We believe our Veracode technology platform is ideally suited to provide a cost-effective, high-throughput, mid- to low-multiplex solution to the molecular diagnostic market. We are planning to submit the platform for review by the Food and Drug Administration in 2009.

Industry Background

Genetic Variation and Biological Function

Every person inherits two copies of each gene, one from each parent. The two copies of each gene may be identical, or they may be different. These differences are referred to as genetic variation. Examples of the physical consequences of genetic variation include differences in eye and hair color. Genetic variation can also have important medical consequences. Genetic variation affects disease susceptibility, including predisposition

to cancer, diabetes, cardiovascular disease and Alzheimer's disease. In addition, genetic variation may cause people to respond differently to the same drug treatment. Some people may respond well, others may not respond at all, and still others may experience adverse side effects. A common form of genetic variation is a single-nucleotide polymorphism, or SNP. A SNP is a variation in a single position in a DNA sequence. It is estimated that the human genome contains over ten million SNPs.

While in some cases a single SNP will be responsible for medically important effects, it is now believed that combinations of SNPs may contribute to the development of most common diseases. Since there are millions of SNPs, it is important to investigate many representative, well-chosen SNPs simultaneously in order to discover medically valuable information.

Another contributor to disease and dysfunction is the over- or under-expression of genes within an organism's cells. A very complex network of genes interacts to maintain health in complex organisms. The challenge for scientists is to delineate the associated genes' expression patterns and their relationship to disease. Until recently, this problem was addressed by investigating effects on a gene-by-gene basis. This is time consuming and difficulties exist when several pathways cannot be observed or "controlled" at the same time. With the advent of microarray technology, thousands of genes can now be tested at the same time.

There are multiple methods of studying genetic variation and biological function, including sequencing, SNP genotyping and gene expression profiling, each of which is uniquely addressed in our breadth of products and services. Our broad portfolio of current products and services supports a range of applications, from highest multiplexing (for whole-genome discovery and profiling) to mid-and low-multiplexing options (for high-throughput targeted screening).

Sequencing

DNA sequencing is the process of determining the order of bases (A, C, G or T) in a DNA sample, which can be further divided into *de novo* sequencing, re-sequencing and tag sequencing. In *de novo* sequencing, the goal is to determine the sequence of a representative sample from a species never before sequenced. Understanding the similarities and differences in DNA sequence between many species can help our understanding of the function of the protein structures encoded in the DNA.

In re-sequencing, the sequence of samples from a given species is determined and compared to a standard or reference sequence to identify changes that reflect genetic variation. Re-sequencing studies can be performed on a genome-wide basis, which is referred to as whole-genome re-sequencing, or on targeted areas of the genome (for example, regions identified by genome-wide association study), which is known as targeted re-sequencing. This is an extremely comprehensive form of genetic analysis, in which every base is characterized for possible mutations. We believe that these underlying discoveries will likely feed the development of new array products for broader testing and biomarker validation.

In tag sequencing, short sequences, often representative of a larger molecule or genomic location, are detected and counted. In these applications, the number of times that each tag is seen provides quantification of an underlying biological process. As an example, in digital gene expression, one or more tag sequences may be analyzed for each expressed gene, and the number of copies of these tags which are detected in an experiment is a measure of how actively that gene is being expressed in the tissue sample being analyzed. Similarly, a tag sequencing approach known as ChIP sequencing is used to determine the locations and extent of protein and DNA interactions throughout the genome.

SNP Genotyping

SNP genotyping is the process of determining which base (A, C, G or T) is present at a particular site in the genome within any organism. The most common use of SNP genotyping is for genome-wide association studies (GWAS) to look for an association between DNA sequence variants and a specific phenotype of interest. This is commonly done by studying the DNA of individuals that are affected by a common disease or that exhibit a specific trait against the DNA of control individuals who do not have this disease or trait. The use of SNP genotyping to obtain meaningful statistics on the effect of an individual SNP or a collection of

SNPs requires the analysis of millions of SNP genotypes and the testing of large populations for each disease. For example, a single large study could involve genotyping more than 1,000,000 SNPs per patient in more than 1,000 patients, thus requiring 1 billion assays. Using previously available technologies, this scale of SNP genotyping was both impractical and prohibitively expensive.

Large-scale SNP genotyping can be used in a variety of ways, including studies designed to understand the genetic contributions to disease (disease association studies), genomics based drug development, clinical trial analysis (responders and non-responders, and adverse event profiles), disease predisposition testing, and disease diagnosis. SNP genotyping can also be used outside of healthcare, for example in the development of plants and animals with commercially desirable characteristics. These markets will require billions of SNP genotyping assays annually.

Gene Expression Profiling

Gene expression profiling is the process of determining which genes are active in a specific cell or group of cells and is accomplished by measuring mRNA, the intermediary messenger between genes (DNA) and proteins. Variation in gene expression can cause disease, or act as an important indicator of disease or predisposition to disease. By comparing gene expression patterns between cells from different environments, such as normal tissue compared to diseased tissue or in the presence or absence of a drug, specific genes or groups of genes that play a role in these processes can be identified. Studies of this type, often used in drug discovery, require monitoring thousands, and preferably tens of thousands, of mRNAs in large numbers of samples. Once a smaller set of genes of interest has been identified, researchers can then examine how these genes are expressed or suppressed across numerous samples, for example, within a clinical trial.

As gene expression patterns are correlated to specific diseases, gene expression profiling is becoming an increasingly important diagnostic tool. Diagnostic use of expression profiling tools is anticipated to grow rapidly with the combination of the sequencing of various genomes and the availability of more cost-effective technologies.

Our Technologies

Sequencing Technology

Our DNA sequencing technology, acquired as part of the Solexa merger in the first quarter of 2007, is based on the use of our sequencing-by-synthesis (SBS) biochemistry. In SBS, single stranded DNA is extended from a priming site, one base at a time, using reversible terminator nucleotides. These are DNA bases which can be added to a growing second strand, but which initially cannot be further extended. This means that at each cycle of the chemistry, only one base can be added. Each base which is added includes a fluorescent label which is specific to the particular base. Thus following incorporation, the fluorescence can be imaged, its color determined, and the base itself can be inferred. Once this is done, an additional step removes both the fluorescence and the blocking group that had prevented further extension of the second strand. This allows another base to be added, and the cycle can be repeated. Our technology is capable of generating several billion bases of DNA sequence from a single experiment with a single sample preparation. The reversible terminator bases that we use are novel synthetic molecules which we manufacture. They are not well incorporated by naturally occurring polymerases, so we have also developed proprietary polymerase enzymes for this purpose. Both the nucleotides and enzymes are the subject of significant intellectual property owned by us.

In our DNA sequencing systems, we apply the SBS biochemistry on microscopic islands of DNA, referred to as DNA clusters. Each cluster starts as a single DNA molecule, typically a few hundred bases long, attached to the inside surface of a flow cell. We then use a proprietary amplification biochemistry to create copies of each starting molecule. As the copies are made, they are covalently linked to the surface, so they cannot diffuse away. After a number of cycles of amplification, each cluster might have 500 to 1,000 copies of the original starting molecule, but still be only about a micron (one-millionth of a meter) in diameter. By making so many copies, the fluorescent signal from each cluster is significantly increased. Because the clusters are so small, tens of millions of clusters can be independently formed inside a single flow cell. This

large number of clusters can then be sequenced simultaneously by alternate cycles of SBS biochemistry and fluorescent imaging.

BeadArray Technology

Our BeadArray technology combines microscopic beads and a substrate in a simple proprietary manufacturing process to produce arrays that can perform many assays simultaneously, enabling large-scale analysis of genetic variation and biological function in a unique high-throughput, cost effective, and flexible manner. We achieve high-throughput with a high density of test sites per array and we are able to format arrays either in a pattern arranged to match the wells of standard microtiter plates or in various configurations in the format of standard microscope slides. We seek to maximize cost effectiveness by reducing consumption of expensive reagents and valuable samples, and through the low manufacturing costs associated with our technologies. Our ability to vary the size, shape and format of the well patterns and to create specific bead pools, or sensors, for different applications provides the flexibility to address multiple markets and market segments. We believe that these features have enabled our BeadArray technology to become a leading platform for the high-growth market of SNP genotyping and have allowed us to be a key player in the gene expression market.

Our proprietary BeadArray technology consists of prepared beads that self-assemble into microwells etched into an array substrate. We have deployed our BeadArray technology in two different array formats, the Array Matrix and the BeadChip. Our first bead based product was the Array Matrix which incorporates fiber optic bundles. Each bundle is comprised of approximately 50,000 individual fibers and 96 of these bundles are placed into an aluminum plate to form an Array Matrix. BeadChips are microscope slide-size silicon wafers with varying numbers of sample sites per slide. Both formats are chemically etched to create tens of thousands to tens of millions of wells for each sample site.

In a separate process, we create sensors by affixing a specific type of molecule to each of the billions of microscopic beads in a batch. We make different batches of beads, with the beads in a given batch coated with one particular type of molecule. The particular molecules on a bead define that bead's function as a sensor. For example, we create a batch of SNP sensors by attaching a particular DNA sequence, or a short segment of synthetically manufactured DNA called an oligonucleotide (oligo), to each bead in the batch. We combine batches of coated beads to form a pool specific to the type of array we intend to create. A bead pool one milliliter in volume contains sufficient beads to produce thousands of arrays.

To form an array, a pool of coated beads is brought into contact with the array surface where they are randomly drawn into the wells, one bead per well. The beads in the wells comprise our individual arrays. Because the beads assemble randomly into the wells, we perform a final procedure called "decoding" in order to determine which bead type occupies which well in the array. We employ several proprietary methods for decoding, a process that requires only a few steps to identify all the beads in the array. One beneficial by-product of the decoding process is a functional validation of each bead in the array. This quality control test characterizes the performance of each bead and can identify and eliminate use of any empty wells. We ensure that each bead type on the array is sufficiently represented by including multiple copies of each bead type. Multiple bead type copies improve the reliability and accuracy of the resulting data by allowing statistical processing of the results of identical beads. We believe we are the only microarray company to provide this level of quality control in the industry.

An experiment is performed by preparing a sample, such as DNA, and introducing it to the array. The molecules in the sample bind to their matching molecules on the coated beads. The molecules in either the sample or on the bead are labeled with fluorescent dye either before or after the binding. The iScan or BeadArray Reader detects the fluorescent dye by shining a laser on the fiber optic bundle or on the BeadChip. This allows the detection of the molecules resulting in a quantitative analysis of the sample.

VeraCode Technology

Our proprietary VeraCode technology platform leverages the power of digital holographic codes to provide a robust detection method for multiplex assays requiring high precision, accuracy and speed.

Commercially launched in March of 2007 for the research market, VeraCode enables low-cost multiplexing from 1 to 384-plex in a single well. At the heart of the VeraCode technology are cylindrical glass beads measuring 240 microns in length by 28 microns in diameter. Each VeraCode bead type is inscribed with a unique digital holographic code to designate and track the specific analyte or genotype of interest throughout the multiplex reaction. We believe the up to 24 bits of information inscribed in each code allows for an unprecedented level of error checking, improves the robustness of the optical readout process and provides a level of reliability that sets a new standard in multiplex testing. Unlike traditional microarrays, the VeraCode microbeads are used in solution, which takes advantage of solution-phase kinetics for more rapid hybridization times, dramatically reducing the time to achieve results. This technology enables us to serve a number of markets including research, agriculture, forensics, pharmaceuticals and molecular diagnostics.

Our Products

Using our proprietary technologies, our products give our customers the ability to analyze the genome at any level of complexity from whole genome sequencing to low multiplex assays. This enables us to serve a number of markets, including research, agriculture, forensics, pharmaceuticals and molecular diagnostics. The majority of our product sales consist of instruments and consumables based on these various technologies. For the years ended December 28, 2008, December 30, 2007 and December 31, 2006, instrument sales comprised 32%, 33% and 23%, respectively, of total revenues and consumable sales represented 58%, 53% and 54%, respectively, of total revenues.

Our major products include the following:

Instrumentation

Product	Product Description	Applications	Launch Date
Genome Analyzer II	Instrument for high-throughput (14 — 18Gb per run) sequencing using Illumina sequencing by synthesis technology.	Whole-genome sequencing, targeted sequencing, gene expression discovery and profiling and epigenomics analysis.	Q1 2008
iScan System	High-resolution imaging instrument to rapidly scan our BeadArray based assays.	Array based whole-genome genotyping, gene expression and DNA methylation analysis.	Q1 2008
BeadXpress Reader	Low- to mid-multiplex, high-throughput instrument for readout of assays (e.g., biomarker validation and development of molecular diagnostics) deployed on VeraCode bead technology.	Low-multiplex genotyping, gene expression and protein analysis.	Q1 2007

Consumables

Product	Product Description	Applications	Launch Date
Standard Sequencing Kit	Reagents used for sequencing by synthesis chemistry on the Genome Analyzer.	Whole-genome sequencing, targeted sequencing, gene expression discovery and profiling and epigenomics analysis.	Q1 2007
Paired-End Genomic DNA Sample Prep Kit	Streamlined library preparation kit to generate 200 — 500 kb insert paired-end reads.	Whole-genome sequencing, targeted sequencing, gene expression discovery and profiling and epigenomics analysis.	Q2 2008
InfiniumHD Whole-Genome BeadChips	Multi-sample DNA Analysis microarrays that interrogate up to 1.2 million markers per sample. Product line includes Human1M-Duo, Human610-Quad, Human660W-Quad and HumanCytoSNP-12.	Array based whole-genome genotyping.	Q1 — Q4 2008
iSelect Custom Genotyping BeadChips	Customer designable SNP genotyping arrays for 6,000 to 200,000 markers for use with any species.	Array based custom genotyping.	Q2 2006
Whole-Genome Gene Expression BeadChips	Multi-sample expression profiling arrays with up-to-date content for human, mouse and rat.	Gene expression profiling and expression Quantitative Trait Loci (QTL) analysis.	FY05 — FY08

Our Services

Sequencing

We have been offering sequencing services on our Genome Analyzers since 2007. Our services range from small sets of samples requiring as little as one run to finish, to large-scale projects, like whole-genome sequencing, necessitating multiple instruments running in parallel for extended periods of time. The breadth of applications offered includes novel custom products as well as all released products. These applications include but are not limited to re-sequencing, de novo sequencing, small RNA discovery and profiling, gene expression using tag based or using random primed RNA sampling technology, ChIP SEQ and methylome interrogation.

Array

We have been offering FastTrack Genotyping Services since 2002. Our FastTrack Genotyping Services offers all of our genotyping products, including standard and custom GoldenGate, standard Infinium and Infinium HD, as well as iSelect Infinium. Our projects range in size from a few hundred samples to over 10,000 samples. Our current capacity peak is 450 million genotypes per day. Our customer base includes academic institutions, and biotech and pharmaceutical companies.

Intellectual Property

We have an extensive patent portfolio, including, as of February 1, 2009, ownership of, or exclusive licenses to, 135 issued U.S. patents and 168 pending U.S. patent applications, including four allowed applications that have not yet issued as patents, some of which derive from a common parent application. Our issued patents, which are directed at various aspects of our arrays, assays, oligo synthesis, sequencing technology, instruments and chemical detection technologies, expire between 2010 and 2026. We are seeking

to extend the patents directed at the full range of our technologies. We have received or filed counterparts for many of these patents and applications in one or more foreign countries.

We also rely upon trade secrets, know-how, copyright and trademark protection, as well as continuing technological innovation and licensing opportunities to develop and maintain our competitive position. Our success will depend in part on our ability to obtain patent protection for our products and processes, to preserve our trade secrets, to enforce our patents, copyrights and trademarks, to operate without infringing the proprietary rights of third parties and to acquire licenses related to enabling technology or products.

We are party to various exclusive and non-exclusive license agreements and other arrangements with third parties, which grant us rights to use key aspects of our array and sequencing technologies, assay methods, chemical detection methods, reagent kits and scanning equipment. We have exclusive licenses from Tufts University to patents that are directed at our use of BeadArray technology. These patents were filed by Dr. David Walt, a member of our board of directors, the Chairman of our Scientific Advisory Board and one of our founders. Our exclusive licenses expire with the termination of the underlying patents, which will occur between 2010 and 2020. We also have additional nonexclusive licenses from various third parties for other components of our products. In most cases, the agreements remain in effect over the term of the underlying patents, may be terminated at our request without further obligation and require that we pay customary royalties while the agreement is in effect.

Research and Development

We have made substantial investments in research and development since our inception. We have assembled a team of skilled engineers and scientists who are specialists in biology, chemistry, informatics, instrumentation, optical systems, software, manufacturing and other related areas required to complete the development of our products. Our research and development efforts have focused primarily on the tasks required to optimize our Sequencing, BeadArray, VeraCode and Oligator technologies and to support commercialization of the products and services derived from these technologies. As of December 28, 2008, we had a total of 406 employees engaged in research and development activities.

Our research and development expenses for 2008, 2007, and 2006 (inclusive of charges relating to stock-based compensation of $14.1 million, $10.0 million and $3.9 million, respectively) were $100.0 million, $73.9 million and $33.4 million, respectively. We expect research and development expense to increase during 2009 as we continue to expand our research and product development efforts.

Marketing and Distribution

Our current products address the genetic analysis portion of the life sciences market, in particular, experiments involving sequencing, SNP genotyping and gene expression profiling. These experiments may be involved in many areas of biologic research, including basic human disease research, pharmaceutical drug discovery and development, pharmacogenomics, toxicogenomics and agricultural research. Our potential customers include pharmaceutical, biotechnology, agrichemical, diagnostics and consumer products companies, as well as academic or private research centers. The genetic analysis market is relatively new and emerging and its size and speed of development will be ultimately driven by, among other items:

- the ability of the research community to extract medically valuable information from genomics and to apply that knowledge to multiple areas of disease-related research and treatment;
- the availability of sufficiently low cost, high-throughput research tools to enable the large amount of experimentation required to study genetic variation and biological function; and
- the availability of government and private industry funding to perform the research required to extract medically relevant information from genomic analysis.

We market and distribute our products directly to customers in North America, Europe and Asia-Pacific. In each of these areas, we have dedicated sales, service and application support personnel responsible for expanding and managing their respective customer bases. In smaller markets within Europe and Asia-Pacific,

we sell our products and provide services to customers through distributors that specialize in life science products. We expect to significantly increase our sales and distribution resources during 2009 and beyond as we launch a number of new products and expand the number of customers that can use our products.

Manufacturing

We manufacture our sequencing and array platforms, reagent kits, scanning equipment and oligos. Our manufacturing capacity for consumables has grown to support our increased customer demand during 2008. In the third quarter of 2008, we began shipping BeadChips from our new Singapore facility. We are also focused on continuing to enhance the quality and manufacturing yield of our Array Matrices, BeadChips and FlowCells. To continue to increase throughput and improve the quality and manufacturing yield as we increase the complexity of our products, we are exploring ways to continue increasing the level of automation in the manufacturing process. We adhere to access and safety standards required by federal, state and local health ordinances, such as standards for the use, handling and disposal of hazardous substances.

Raw Materials

Our manufacturing operations require a wide variety of raw materials, electronic and mechanical components, chemical and biochemical materials and other supplies. While we have multiple commercial sources for many of our components and supplies, there are some raw materials we obtain from single source suppliers. If we are unable to secure a sufficient supply of those or other product components, our business could be temporarily interrupted. To mitigate this risk, we can redesign our products for alternative components or use alternative reagents. In addition, while we generally attempt to keep our inventory at minimal levels, we do purchase incremental inventory as circumstances warrant to protect our supply chain.

Competition

Although we expect that our products and services will provide significant advantages over products and services currently available from other sources, we expect to encounter intense competition from other companies that offer products and services for the sequencing, SNP genotyping and gene expression markets. These include companies such as Affymetrix, Agilent, Beckman Coulter, Complete Genomics, Fluidigm, GE Corp., Life Technologies, Luminex, Pacific Biosciences, Roche Diagnostics and Sequenom. Some of these companies have or will have substantially greater financial, technical, research, and other resources and larger, more established marketing, sales, distribution and service organizations than we do. In addition, they may have greater name recognition than we do in the markets we address and in some cases a larger installed base of systems. Each of these markets is very competitive and we expect new competitors to emerge and the intensity of competition to increase. In order to effectively compete with these companies, we will need to demonstrate that our products have superior throughput, cost and accuracy advantages over competing products. Rapid technological development may result in our products or technologies becoming obsolete. Products offered by us could be made obsolete either by less expensive or more effective products based on similar or other technologies. Although we believe that our technology and products will offer advantages that will enable us to compete effectively with these companies, we cannot assure you that we will be successful.

Segment and Geographic Information

During the first quarter of 2008, we reorganized our operating structure into a newly created Life Sciences Business Unit, which includes all products and services related to the research market, namely the Sequencing, BeadArray and BeadXpress product lines. We also created a Diagnostics Business Unit to focus on the emerging opportunity in molecular diagnostics. During 2008, we had limited activity related to the Diagnostics Business Unit and operating results were reported on an aggregate basis to our chief operating decision maker, the chief executive officer. Accordingly, we operated in one reportable segment during 2008.

We currently sell our products to a number of customers outside the United States, including customers in other areas of North America, Europe and Asia-Pacific. Shipments to customers outside the United States totaled $293.2 million, or 51% of our total revenue during 2008, compared to $159.1 million, or 43%, and

$81.5 million, or 44%, in 2007 and 2006, respectively. Sales to territories outside of the United States were generally denominated in U.S. dollars. In 2008, we reorganized our international structure to establish more efficient channels between product development, product manufacturing and sales. The reorganization increased our foreign subsidiaries' anticipated dependence on the U.S. entity for management decisions, financial support, production assets and inventory thereby making the foreign subsidiaries more of a direct and integral component of the U.S. entity's operations. As a result, we reassessed the primary economic environment of our foreign subsidiaries and determined the subsidiaries are more U.S. dollar based, resulting in a U.S. dollar functional currency determination. We expect that sales to international customers will continue to be an important and growing source of revenue. See Note 14 of the Notes to Consolidated Financial Statements for further information concerning our foreign and domestic operations.

Seasonality

Historically, customer purchasing patterns have not shown significant seasonal variation, although demand for our products is usually lowest in the first quarter of the calendar year and highest in the third quarter of the calendar year as academic customers spend unused budget allocations before the end of the government's fiscal year.

Environmental Matters

We are committed to the protection of our employees and the environment. Our operations require the use of hazardous materials which subject us to a variety of federal, state and local environmental and safety laws and regulations. We believe we are in material compliance with current applicable laws and regulations; however, we could be held liable for damages and fines should contamination of the environment or individual exposures to hazardous substances occur. In addition, we cannot predict how changes in these laws and regulations, or the development of new laws and regulations, will affect our business operations or the cost of compliance.

Employees

As of December 28, 2008, we had a total of 1,536 employees. None of our employees are represented by a labor union. We consider our employee relations to be positive. Our success will depend in large part upon our ability to attract and retain employees. In addition, we employ a number of temporary and contract employees. We face competition in this regard from other companies, research and academic institutions, government entities and other organizations.

Executive Officers

Our executive officers and their ages as of February 1, 2009, are as follows:

Jay Flatley, age 56, is President and Chief Executive Officer of Illumina. Prior to his appointment in 1999, Mr. Flatley was the President and Chief Executive Officer of Molecular Dynamics, later acquired by Amersham Pharmacia Biotech in 1998 and now a part of GE Healthcare. Mr. Flatley, who was a founder and member of the board of directors for Molecular Dynamics, lead the company to its initial public offering (IPO) in 1993, in addition to helping the company develop and launch over 15 major instrumentation systems, including the world's first capillary based DNA sequencer. Prior to joining Molecular Dynamics, Mr. Flatley was Vice President of Engineering and Strategic Planning for Plexus Computers, a manufacturer of high-performance Unix super-microcomputers. Before his career at Plexus, Mr. Flatley was Executive Vice President for Manning Technologies and held various manufacturing positions while working for the Autolab division of Spectra Physics.

Christian Henry, age 40, is Senior Vice President and Chief Financial Officer. Mr. Henry joined Illumina in June 2005 and is responsible for worldwide financial operations, controllership functions and facilities management. In addition, throughout 2008, Mr. Henry was Acting General Manager of Illumina's DNA Sequencing business. Mr. Henry served previously as the Chief Financial Officer for Tickets.com, a publicly traded, online ticket provider that was acquired by Major League Baseball Advanced Media, LP. Prior to that,

Mr. Henry was Vice President, Finance and Corporate Controller of Affymetrix, Inc., a publicly traded life sciences company, where he oversaw accounting, planning, SEC and management reporting, treasury and risk management. He previously held a similar position at Nektar Therapeutics (formerly Inhale Therapeutic Systems, Inc.).

Christian Cabou, age 60*,* is Senior Vice President, General Counsel and Secretary of Illumina. Mr. Cabou joined Illumina in May 2006 and has worldwide responsibility for all legal and intellectual property matters. Mr. Cabou is also Illumina's Code of Ethics Compliance Officer. Before joining Illumina, Mr. Cabou spent five years as General Counsel for GE Global Research and, before that, was Senior Counsel of Global Intellectual Property for GE Medical Systems. Prior to his position at GE, Mr. Cabou spent seven years with the law firm Foley & Lardner where he was a partner. He had twenty years of experience in engineering design and management prior to his career in law and intellectual property.

Greg Heath, age 51, is Senior Vice President & General Manager, Diagnostics Business Unit of Illumina. Dr. Heath joined Illumina in March 2008 and is responsible for managing Illumina's emerging diagnostics business, specifically overseeing the development of diagnostic content for the BeadXpress system, and ultimately for Illumina's sequencing platform. Dr. Heath joined Illumina from Roche Molecular Systems where he held a number of senior executive positions, including head of clinical genomics, senior vice president of global product marketing, senior vice president of global marketing and business development, and most recently, senior vice president of global business. From 2000 — 2003, Dr. Heath was head of business development and licensing for the diagnostics division of F. Hoffman La Roche in Basel. Prior to this, Dr. Heath held numerous roles in marketing and business development with Roche Diagnostics' U.S. affiliate.

Joel McComb, age 44, is Senior Vice President & General Manager, Life Sciences Business Unit of Illumina. Mr. McComb joined Illumina in March 2008 and is responsible for managing all products and services related to the research market, namely the Sequencing, BeadArray and VeraCode product lines. Mr. McComb joined Illumina from GE Healthcare where he held a number of executive positions, including president of the interventional medicine business and president of life sciences discovery systems. From 2001 — 2004, Mr. McComb was president, chief executive officer and board member of Innovadyne Technologies. Prior to Innovadyne, Mr. McComb held various positions at Beckman Coulter, including roles as general manager of the primary care diagnostic division and director of corporate business development.

Tristan Orpin, age 42, is Senior Vice President, Commercial Operations of Illumina. Mr. Orpin joined Illumina in December 2002 in the role of Vice President of Worldwide Sales, and in January of 2007 was promoted to the position of Senior Vice President of Commercial Operations. Before joining Illumina, Mr. Orpin was Director of Sales and Marketing for Sequenom from September 1999 to August 2001. Later, Mr. Orpin was elected Vice President of Sales and Marketing and held this position from August 2001 to November 2002. Prior to 2001, Mr. Orpin served in several senior sales and marketing positions at Bio-Rad Laboratories.

Mostafa Ronaghi, Ph.D., age 40, is Senior Vice President and Chief Technology Officer of Illumina. Dr. Ronaghi joined Illumina in August 2008 and is responsible for leading internal research programs and evaluating new technologies for the Company. In 2007, Dr. Ronaghi co-founded Avantome, a privately held sequencing company. Before this, he co-founded NextBio, a search engine for life science data. In 2001, Dr. Ronaghi co-founded ParAllele Bioscience, which was eventually acquired by Affymetrix, Inc., and was involved in the development and commercialization of highly multiplexed technology for genetic testing. In 1997, he co-founded Pyrosequencing AB, which was renamed Biotage in 2003. In June 2000, the company completed a successful initial public offering on the Stockholm Stock Exchange. Dr. Ronaghi was a principal investigator at Stanford University from 2002 — 2008 where he focused on the development of novel tools for molecular diagnostic applications.

ITEM 1A. ***Risk Factors.***

Our business is subject to various risks, including those described below. In addition to the other information included in this Form 10-K, the following issues could adversely affect our operating results or our stock price.

We expect intense competition in our target markets, which could render our products obsolete, result in significant price reductions or substantially limit the volume of products that we sell. This would limit our ability to compete and maintain profitability. If we cannot continuously develop and commercialize new products, our revenue may not grow as intended.

We compete with life sciences companies that design, manufacture and market instruments for analysis of genetic variation and biological function and other applications using technologies, capillary electrophoresis, mass spectrometry, flow cytometry, microfluidics, nanotechnology, next-generation DNA sequencing and mechanically deposited, inkjet and photolithographic arrays. We anticipate that we will face increased competition in the future as existing companies develop new or improved products and as new companies enter the market with new technologies. The markets for our products are characterized by rapidly changing technology, evolving industry standards, changes in customer needs, emerging competition, new product introductions and strong price competition. For example, prices per data point for genotyping have fallen significantly over the last two years and we anticipate that prices will continue to fall. One or more of our competitors may render our technology obsolete or uneconomical. Some of our competitors have greater financial and personnel resources, broader product lines, a more established customer base and more experience in research and development than we do. Furthermore, life sciences and pharmaceutical companies, which are our potential customers and strategic partners, could develop competing products. For example, during the third quarter of fiscal 2007, Life Technologies (previously referred to as Applied Biosystems Group, a business segment of Applera Corporation) launched the SOLiD™ System, its next generation sequencing technology. If we are unable to develop enhancements to our technology and rapidly deploy new product offerings, our business, financial condition and results of operations will suffer.

Negative conditions in global credit markets may result in delayed payments from our customers and may negatively impact our smaller suppliers.

The recent economic conditions and market turbulence may impact the operations of certain of our customers and suppliers. Certain of our customers may face challenges gaining timely access to sufficient credit, which could result in an impairment of their ability to make timely payments to us. If that were to occur, our allowance for doubtful accounts and our days sales outstanding could increase. Additionally, these economic conditions may cause our smaller suppliers to be unable to supply in a timely manner sufficient quantities of customized components, which would impair our ability to manufacture on schedule and at commercially reasonable costs. In addition, due to discontinuing parts, suppliers may also extend lead times, limit supplies or increase prices due to capacity constraints or other factors.

In addition, our business depends on the overall demand for methods of analysis of genetic variation and biological function. We rely in large part on the research and development spending of our customers, which is often discretionary, and the recent economic downturn has caused many companies to reduce their research and development budgets. If the current worldwide economic downturn continues, our customers may delay or reduce their purchases of our products and services. A reduction in demand will reduce our revenues and harm our profitability.

Due to our increasing foreign operations, fluctuations in foreign currency exchange rates could negatively impact our results of operations.

We are focused on expanding our international operations in key markets. We have sales offices located internationally throughout Europe and the Asia Pacific region, as well as manufacturing facilities in the United Kingdom and Singapore. During 2008, the majority of our sales to international customers and purchases of raw materials from international suppliers were denominated in the U.S. dollar. Changes in the value of the

relevant currencies may affect the cost of certain items required in our operations. Changes in currency exchange rates may also affect the relative prices at which we are able sell products in the same market.

Our revenues from international customers may be negatively impacted as increases in the U.S. dollar relative to our international customers local currency could make our products more expensive, impacting our ability to compete. Our costs of materials from international suppliers may increase if in order to continue doing business with us they may raise their prices as the value of the U.S. dollar decreases relative to their local currency.

Foreign policies and actions regarding currency valuation could result in actions by the United States and other countries to offset the effects of such fluctuations. The recent global financial downturn has led to a high level of volatility in foreign currency exchange rates and that level of volatility may continue and thus adversely impact our business or financial conditions.

If we are unable to find third-party manufacturers to manufacture components of our products, we may not be able to launch or support our products in a timely manner, or at all.

The nature of our products requires customized components that currently are available from a limited number of sources. For example, we currently use multiple components in our products that are single-sourced. If we are unable to secure a sufficient supply of those or other product components, we will be unable to meet demand for our products. We may need to enter into contractual relationships with manufacturers for commercial-scale production of some of our products, or develop these capabilities internally, and we cannot assure you that we will be able to do this on a timely basis, for sufficient quantities or on commercially reasonable terms. Accordingly, we may not be able to establish or maintain reliable, high-volume manufacturing at commercially reasonable costs.

If we lose our key personnel or are unable to attract and retain additional personnel, we may be unable to achieve our goals.

We are highly dependent on our management and scientific personnel, including Jay Flatley, our president and chief executive officer. The loss of their services could adversely impact our ability to achieve our business objectives. We will need to hire additional qualified personnel with expertise in molecular biology, chemistry, biological information processing, sales, marketing and technical support. We compete for qualified management and scientific personnel with other life science companies, universities and research institutions, particularly those focusing on genomics. Competition for these individuals, particularly in the San Diego and San Francisco area, is intense, and the turnover rate can be high. Failure to attract and retain management and scientific personnel would prevent us from pursuing collaborations or developing our products or technologies.

Our planned activities will require additional expertise in specific industries and areas applicable to the products developed through our technologies, including the life sciences and healthcare industries. Thus, we will need to add new personnel, including management, and develop the expertise of existing management. The failure to do so could impair the growth of our business.

We may encounter difficulties in managing our growth. These difficulties could impair our profitability.

We have experienced and expect to continue to experience rapid and substantial growth in order to achieve our operating plans, which will place a strain on our human and capital resources. If we are unable to manage this growth effectively, our profitability could suffer. Our ability to manage our operations and growth effectively requires us to continue to expend funds to enhance our operational, financial and management controls, reporting systems and procedures and to attract and retain sufficient numbers of talented employees. If we are unable to scale up and implement improvements to our manufacturing process and control systems in an efficient or timely manner, or if we encounter deficiencies in existing systems and controls, then we will not be able to make available the products required to successfully commercialize our technology. Failure to attract and retain sufficient numbers of talented employees will further strain our human resources and could impede our growth.

A significant portion of our sales is to international customers.

Shipments to customers outside the United States comprised 51%, 43% and 44% of our revenue for the years ended December 28, 2008, December 30, 2007 and December 31, 2006, respectively. We intend to continue to expand our international presence by selling to customers located outside of the U.S. and we expect the total amount of non-U.S. sales to continue to grow. Export sales entail a variety of risks, including:

- longer payment cycles and difficulties in collecting accounts receivable outside of the United States;
- currency exchange fluctuations;
- challenges in staffing and managing foreign operations;
- tariffs and other trade barriers;
- unexpected changes in legislative or regulatory requirements of foreign countries into which we import our products;
- difficulties in obtaining export licenses or in overcoming other trade barriers and restrictions resulting in delivery delays; and
- significant taxes or other burdens of complying with a variety of foreign laws.

In addition, we are also subject to general geopolitical risks, such as political, social and economic instability and changes in diplomatic and trade relations. One or more of these factors could have a material adverse effect on our business, financial condition and operating results.

We may encounter difficulties in integrating acquisitions that could adversely affect our business, specifically the effective launch and customer acceptance of new technology platforms.

We have made, and may in the future make, acquisitions of or significant investments in businesses with complementary products, services or technologies. Acquisitions involve numerous risks, including, but not limited to:

- difficulties in integrating the operations, technologies, products and personnel of acquired companies;
- lack of synergies or the inability to realize expected synergies and cost-savings;
- difficulties in managing geographically dispersed operations;
- revenue and expense levels of acquired entities differing from those anticipated at the time of the acquisitions;
- negative near-term impacts on financial results after an acquisition;
- the potential loss of key employees, customers and strategic partners of acquired companies;
- claims by terminated employees and shareholders of acquired companies or other third parties related to the transaction;
- the issuance of dilutive securities, assumption or incurrence of additional debt obligations or expenses, or use of substantial portions of our cash;
- diversion of management's attention from normal daily operations of the business;
- inconsistencies in standards, controls, procedures and policies; and
- the impairment of intangible assets as a result of technological advancements, or worse-than-expected performance of acquired companies;

Acquisitions and other transactions are inherently risky and our previous or future transactions may not be successful. The inability to effectively manage the risks associated with these transactions could materially and adversely affect our business, financial condition or results of operations.

Any inability to protect effectively our proprietary technologies could harm our competitive position.

Our success will depend in part on our ability to obtain patents and maintain adequate protection of our intellectual property in the United States and other countries. If we do not protect our intellectual property adequately, competitors may be able to use our technologies and thereby erode our competitive advantage. The laws of some foreign countries do not protect proprietary rights to the same extent as the laws of the United States, and many companies have encountered significant challenges in protecting their proprietary rights abroad. These challenges can be caused by the absence of rules and methods for the establishment and enforcement of intellectual property rights abroad.

The patent positions of companies developing tools for the life sciences and pharmaceutical industries, including our patent position, generally are uncertain and involve complex legal and factual questions. We will be able to protect our proprietary rights from unauthorized use by third parties only to the extent that our proprietary technologies are covered by valid and enforceable patents or are effectively maintained as trade secrets. We intend to apply for patents covering our technologies and products as we deem appropriate. However, our patent applications may be challenged and may not result in issued patents or may be invalidated or narrowed in scope after they are issued. Questions as to inventorship may also arise. Any finding that our patents and applications are unenforceable could harm our ability to prevent others from practicing the related technology, and a finding that others have inventorship rights to our patents and applications could require us to obtain certain rights to practice related technologies, which may not be available on favorable terms, if at all.

In addition, our existing patents and any future patents we obtain may not be sufficiently broad to prevent others from practicing our technologies or from developing competing products. There also is risk that others may independently develop similar or alternative technologies or design around our patented technologies. Also, our patents may fail to provide us with any competitive advantage. We may need to initiate lawsuits to protect or enforce our patents, or litigate against third party claims, which would be expensive and, if we lose, may cause us to lose some of our intellectual property rights and reduce our ability to compete in the marketplace. Furthermore, these lawsuits may divert the attention of our management and technical personnel.

We also rely upon trade secret protection for our confidential and proprietary information and have taken security measures to protect this information. These measures, however, may not provide adequate protection for our trade secrets or other confidential information. Among other things, we seek to protect our trade secrets and confidential information by entering into confidentiality agreements with employees, collaborators and consultants. Nevertheless, employees, collaborators or consultants may still disclose our confidential information, and we may not otherwise be able to protect effectively our trade secrets. Accordingly, others may gain access to our confidential information, or may independently develop substantially equivalent information or techniques.

Litigation or other proceedings or third party claims of intellectual property infringement could require us to spend significant time and money and could prevent us from selling our products or services or impact our stock price.

Our commercial success depends, in part, on our non-infringement of the patents or proprietary rights of third parties and on our ability to protect our own intellectual property. Third parties have asserted and may in the future assert that we are employing their proprietary technology without authorization. As we enter new markets, we expect that competitors will likely claim that our products infringe their intellectual property rights as part of a business strategy to impede our successful entry into those markets. In addition, third parties may have obtained and may in the future obtain patents allowing them to claim that the use of our technologies infringes these patents. We could incur substantial costs and divert the attention of our management and technical personnel in defending ourselves against any of these claims. Any adverse ruling or perception of an adverse ruling in defending ourselves against these claims could have a material adverse impact on our stock price, which may be disproportionate to the actual import of the ruling itself. Furthermore, parties making claims against us may be able to obtain injunctive or other relief, which effectively could block our ability to develop further, commercialize and sell products, and could result in the

award of substantial damages against us. In the event of a successful claim of infringement against us, we may be required to pay damages and obtain one or more licenses from third parties, or be prohibited from selling certain products. In addition, we may be unable to obtain these licenses at a reasonable cost, if at all. We could therefore incur substantial costs related to royalty payments for licenses obtained from third parties, which could negatively affect our gross margins. In addition, we could encounter delays in product introductions while we attempt to develop alternative methods or products. Defense of any lawsuit or failure to obtain any of these licenses on favorable terms could prevent us from commercializing products, and the prohibition of sale of any of our products could materially affect our ability to grow and maintain profitability.

Changes in our effective income tax rate could impact our profitability.

We are subject to income taxes in both the United States and numerous foreign jurisdictions. Significant judgments based on interpretations of existing tax laws or regulations are required in determining the provision for income taxes. Our effective income tax rate could be adversely affected by various factors including, but not limited to, changes in the mix of earnings in tax jurisdictions with different statutory tax rates, changes in the valuation of deferred tax assets and liabilities, changes in existing tax laws or tax rates, changes in the level of non-deductible expenses including share-based compensation, changes in our future levels of research and development spending, mergers and acquisitions, and the result of examinations by various tax authorities.

If we are unable to increase our manufacturing capacity and develop and maintain operation of our manufacturing capability, we may not be able to launch or support our products in a timely manner, or at all.

We continue to ramp up our capacity to meet the anticipated demand for our products. Although we have significantly increased our manufacturing capacity and we believe we have plans in place sufficient to ensure we have adequate capacity to meet our business plan for 2009, there are uncertainties inherent in expanding our manufacturing capabilities and we may not be able to increase our capacity in a timely manner. For example, manufacturing and product quality issues may arise as we increase production rates at our manufacturing facilities and launch new products. As a result, we may experience difficulties in meeting customer, collaborator and internal demand, in which case we could lose customers or be required to delay new product introductions, and demand for our products could decline. Additionally, in the past, we have experienced variations in manufacturing conditions that have temporarily reduced production yields. Due to the intricate nature of manufacturing products that contain DNA, we may encounter similar or previously unknown manufacturing difficulties in the future that could significantly reduce production yields, impact our ability to launch or sell these products, or to produce them economically, prevent us from achieving expected performance levels or cause us to set prices that hinder wide adoption by customers.

Additionally, we currently manufacture in a limited number of locations. Our manufacturing facilities are located in San Diego and Hayward, California; Singapore; and Little Chesterford, United Kingdom. These areas are subject to natural disasters such as earthquakes or floods. If a natural disaster were to significantly damage one of our facilities or if other events were to cause our operations to fail, we may be unable to manufacture our products, provide our services or develop new products.

Also, many of our manufacturing processes are automated and are controlled by our custom-designed Laboratory Information Management System (LIMS). Additionally, the decoding process in our array manufacturing requires significant network and storage infrastructure. If either our LIMS system, or our networks or storage infrastructure were to fail for an extended period of time, it may adversely impact our ability to manufacture our products on a timely basis and would prevent us from achieving our expected shipments in any given period.

We expect that our results of operations will fluctuate. This fluctuation could cause our stock price to decline.

Our revenue is subject to fluctuations due to the timing of sales of high-value products and services projects, the impact of seasonal spending patterns, the timing and size of research projects our customers perform, changes in overall spending levels in the life sciences industry, and other unpredictable factors that may affect customer ordering patterns. Given the difficulty in predicting the timing and magnitude of sales for our products and services, we may experience quarter-to-quarter fluctuations in revenue resulting in the potential for a sequential decline in quarterly revenue. A large portion of our expenses is relatively fixed, including expenses for facilities, equipment and personnel. In addition, we expect operating expenses to continue to increase significantly in absolute dollars. Accordingly, if revenue does not grow as anticipated, we may not be able to maintain annual profitability. Any significant delays in the commercial launch of our products, unfavorable sales trends in our existing product lines, or impacts from the other factors mentioned above, could adversely affect our future revenue growth or cause a sequential decline in quarterly revenue. Due to the possibility of fluctuations in our revenue and expenses, we believe that quarterly comparisons of our operating results are not a good indication of our future performance. If our operating results fluctuate or do not meet the expectations of stock market analysts and investors, our stock price could decline.

Our success depends upon the continued emergence and growth of markets for analysis of genetic variation and biological function.

We design our products primarily for applications in the life sciences and pharmaceutical industries. The usefulness of our technology depends in part upon the availability of genetic data and its usefulness in identifying or treating disease. We are focusing on markets for analysis of genetic variation and biological function, namely sequencing, SNP genotyping and gene expression profiling. These markets are new and emerging, and they may not develop as quickly as we anticipate, or reach their full potential. Other methods of analysis of genetic variation and biological function may emerge and displace the methods we are developing. Also, researchers may not seek or be able to convert raw genetic data into medically valuable information through the analysis of genetic variation and biological function. In addition, factors affecting research and development spending generally, such as changes in the regulatory environment affecting life sciences and pharmaceutical companies, and changes in government programs that provide funding to companies and research institutions, could harm our business. If useful genetic data is not available or if our target markets do not develop in a timely manner, demand for our products may grow at a slower rate than we expect, and we may not be able to sustain profitability.

Loss of the tax deduction on our outstanding convertible notes.

We could lose some or all of the tax deduction for interest expense associated with our $400.0 million aggregate principal amount of convertible notes due in 2014 if the foregoing notes are not subject to the special Treasury Regulations governing integration of certain debt instruments, the notes are converted, or we invest in non-taxable investments.

We may not be able to sustain operating profitability.

Prior to 2006, we had incurred net losses each year since our inception, and in 2007 we reported a net loss of $278.4 million, reflecting significant charges associated with our acquisition of Solexa in January 2007 and the settlement of our litigation with Affymetrix. As of December 28, 2008, our accumulated deficit was $332.5 million. Our ability to sustain profitability will depend, in part, on the rate of growth, if any, of our revenue and on the level of our expenses. Non-cash stock-based compensation expense and expenses related to prior and future acquisitions are also likely to continue to adversely affect our future profitability. We expect to continue incurring significant expenses related to research and development, sales and marketing efforts to commercialize our products and the continued development of our manufacturing capabilities. In addition, we expect that our research and development and selling and marketing expenses will increase at a higher rate in the future as a result of the development and launch of new products. Although we have regained profitability, we may not be able to sustain profitability on a quarterly basis.

Negative conditions in the global credit markets may impair the liquidity of a portion of our investment portfolio.

Our investment securities consist of marketable debt securities, including treasury bills and commercial paper with strong credit ratings, corporate bonds and short maturity mutual funds providing similar financial returns. Additionally, as of December 28, 2008, we had $55.9 million of auction rate securities issued primarily by municipalities and universities. These securities are debt instruments with a long-term maturity and with an interest rate that is reset in short intervals through auctions. Our entire auction rate portfolio is held in a brokerage account with UBS Financial Services, Inc., a subsidiary of UBS AG (UBS) and is currently rated AAA or AA by a rating agency. Beginning in February 2008, these auction rate securities became illiquid because their scheduled auctions failed to settle. An auction failure occurs when the parties wishing to sell securities at auction cannot. As of December 28, 2008, the securities continued to fail auction and remained illiquid.

Various regulatory agencies initiated investigations into the sales and marketing practices of several banks and broker-dealers, including UBS, which sold auction rate securities, alleging violations of federal and state laws. Along with several other broker-dealers, UBS subsequently reached a settlement with the federal and state regulators that required them to repurchase auction rate securities from certain investors at par at some future date. In November 2008, we signed a settlement agreement to sell our auction rate securities at par value to UBS during the period of June 30, 2010 through July 2, 2012.

The settlement agreement with UBS and the associated put option mitigates the risk of loss on our auction rate security portfolio. However, given the negative conditions in the global credit markets there is still risk that UBS may not be able to fulfill its obligation.

Item 1B. *Unresolved Staff Comments.*

None.

Item 2. *Properties.*

The following chart indicates the facilities we lease as of December 28, 2008, the location and size of each such facility and their designated use. During 2008, we expanded our facilities and leased additional space to accommodate growth in our business. We anticipate continuing to expand our facilities over the next several years as we continue to expand our worldwide commercial operations and our manufacturing capabilities.

Location	Approximate Square Feet	Operation	Lease Expiration Dates
San Diego, CA	289,300	R&D, Manufacturing, Storage, Distribution and Administrative	2008 – 2023
Hayward, CA	148,000	R&D, Manufacturing and Administrative	2008 – 2013
Singapore	36,100	Manufacturing and Administrative	2010 – 2013
Little Chesterford, United Kingdom	28,500	R&D, Manufacturing and Administrative	2009
Tokyo, Japan	9,800	Sales and Administrative	2009 – 2014
Netherlands	9,300	Distribution and Administrative	2011
Melbourne, Australia	3,900	Sales and Administrative	2013

In February 2008, we agreed to lease an additional facility in Little Chesterford, United Kingdom that is in the process of being constructed for research and development, manufacturing and administrative purposes. This facility covers approximately 41,500 square feet. We expect to occupy this new building by the end of 2009.

Item 3. ***Legal Proceedings.***

In the recent past, we incurred substantial costs in defending ourselves against patent infringement and patent ownership claims and expect, going forward, to devote substantial financial and managerial resources to protect our intellectual property and to defend against any future claims asserted against us. From time to time, we may also be parties to other litigation in the ordinary course of business. While the results of any litigation are uncertain, management does not believe the ultimate resolution of its legal matters will result in a material adverse impact to us.

Applied Biosystems Litigation

On December 26, 2006, the Applied Biosystems Group of Applera Corporation (Applied Biosystems) filed suit in California Superior Court, Santa Clara County against Solexa (which we acquired on January 26, 2007). This State Court action related to the ownership of several patents assigned in 1995 to Solexa's predecessor company (Lynx Therapeutics) by a former employee (Dr. Stephen Macevicz), who is the inventor of these patents and is named as a co-defendant in the suit. The Macevicz patents are directed to methods for sequencing DNA (US Pat. Nos. 5,750,341 and 6,306,597) using successive rounds of oligonucleotide probe ligation (sequencing-by-ligation), and to a probe (5,969,119) used in connection with these sequencing methods. Lynx was originally a unit of Applied Biosystems but was spun out in 1992. On May 31, 2007, Applied Biosystems filed a second suit, this time against us, in the U.S. District Court for the Northern District of California. This second suit sought a declaratory judgment of non-infringement of the Macevicz patents that were the subject of the State Court action mentioned above. Both suits were later consolidated in the U.S. District Court for the Northern District of California, San Francisco Division. By these consolidated actions, Applied Biosytems was seeking ownership of the three Macevicz patents, unspecified costs and damages, and a declaration of non-infringement and invalidity of these patents. Applied Biosystems was not asserting any claim for patent infringement against us.

On January 5, 2009, the case went to trial in two phases. The first phase addressed the determination of ownership of the patents-in-suit, and the second phase addressed whether these patents were valid and infringed by Applied Biosystems. On January 14, 2009, at the end of the first phase, a federal jury determined that Solexa was the rightful owner of all three Macevicz patents. On January 27, 2009, the same jury found that Applied Biosystems did not infringe the '119 probe patent and that the '119 patent was valid. In August 2008, the court had ruled that Applied Biosystems' two-base system did not infringe the '341 and '597 patents. Prior to the jury finding of non-infringement of the '119 patent, Applied Biosystems conceded its one-base system infringed claim 1 of the '597 patent and Solexa conceded invalidity of that same claim under the court's construction of that claim. Both parties reserved the right to appeal the court's construction of claim 1 of the '597 patent, among other things.

Our Genome Analyzer products use a different technology, called Sequencing-by-Synthesis (SBS), which is not covered by any of the Macevicz patents. In addition, we have no plans to use any of the Sequencing-by-Ligation technologies covered by these patents.

Item 4. ***Submission of Matters to a Vote of Security Holders.***

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

PART II

Item 5. ***Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.***

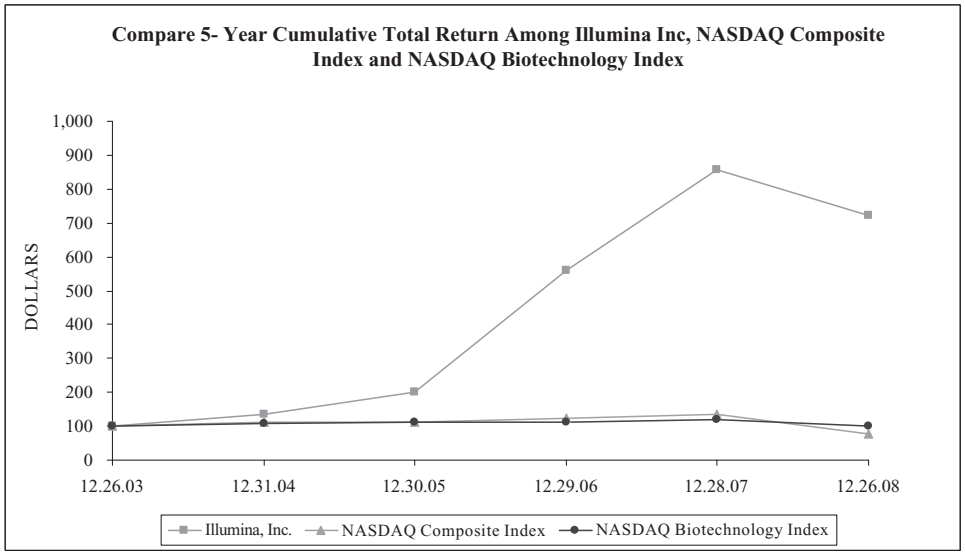
Market Information

Our common stock has been quoted on The NASDAQ Global Select Market under the symbol "ILMN" since July 28, 2000. Prior to that time, there was no public market for our common stock. The following table sets forth, for the periods indicated, the quarterly high and low sales prices per share of our common stock as reported on The NASDAQ Global Select Market and has been adjusted to reflect the two-for-one split of our common stock that was effected in the form of a 100% stock dividend on September 22, 2008.

	2008		2007	
	High	Low	High	Low
First Quarter	$38.30	$27.89	$21.10	$14.06
Second Quarter	43.50	34.90	21.04	14.47
Third Quarter	47.88	36.97	26.94	20.02
Fourth Quarter	42.32	18.82	31.69	25.17

Stock Performance Graph

The graph below compares the cumulative total stockholder returns on our common stock for the last five fiscal years with the cumulative total stockholder returns on the NASDAQ Composite Index and the NASDAQ Biotechnology Index for the same period. The graph assumes that $100 was invested on December 26, 2003 in our common stock and in each index and that all dividends were reinvested. No cash dividends have been declared on our common stock. Stockholder returns over the indicated period should not be considered indicative of future stockholder returns.



Holders

As of February 2, 2009 we had 476 record holders and 56,709 beneficial holders of our common stock.

Dividends

Our present policy is to retain earnings, if any, to finance future growth. We have never paid cash dividends and have no present intention to pay cash dividends in the foreseeable future. In addition, the

indenture for our convertible senior notes due 2014, which are convertible into cash and, in certain circumstances, shares of our common stock, requires us to increase the conversion rate applicable to the notes if we pay any cash dividends.

Purchases of Equity Securities by the Issuer

On October 23, 2008, our board of directors authorized a $120.0 million stock repurchase program, which was announced October 24, 2008. The following table summarizes shares repurchased pursuant to this program during the quarter ended December 28, 2008:

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share(1)	Total Number of Shares Purchased as Part of Publicly Announced Programs(1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Programs(1)
September 29 – October 26, 2008	92,969	$23.67	92,969	$117,797,090
October 27 – November 23, 2008	2,915,514	22.80	2,915,514	51,260,959
November 24 – December 28, 2008	100,400	20.35	100,400	49,215,398
Total	3,108,883	$22.75	3,108,883	$ 49,215,398

(1) All shares purchased were in connection with the Company's $120.0 million stock repurchase program announced October 24, 2008 and were made in open-market transactions or through privately negotiated transactions in compliance with Rule 10b-18 under the Securities Exchange Act of 1934.

Sales of Unregistered Securities

None during the fourth quarter of fiscal 2008.

Item 6. ***Selected Financial Data.***

The following table sets forth selected historical consolidated financial data for each of our last five fiscal years during the period ended December 28, 2008.

Statement of Operations Data

	Year Ended December 28, 2008 (52 weeks)	Year Ended December 30, 2007 (52 weeks)	Year Ended December 31 2006 (52 weeks)	Year Ended January 1, 2006 (52 weeks)	Year Ended January 2, 2005 (53 weeks)
	(In thousands, except per share data)				
Total revenue	$573,225	$ 366,799	$184,586	$ 73,501	$50,583
Income (loss) from operations(1),(2),(3)	80,457	(301,201)	37,812	(21,447)	(5,513)
Net income (loss)	50,477	(278,359)	39,968	(20,874)	(6,225)
Net income (loss) per share:					
Basic	0.43	(2.57)	0.45	(0.26)	(0.09)
Diluted	0.38	(2.57)	0.41	(0.26)	(0.09)
Shares used in calculating net income (loss) per share(4):					
Basic	116,855	108,308	89,002	80,294	71,690
Diluted	133,607	108,308	97,508	80,294	71,690

Balance Sheet Data

	December 28, 2008	December 30, 2007	December 31, 2006	January 1, 2006	January 2, 2005
			(In thousands)		
Cash, cash equivalents and short-term investments(3),(5),(6),(7)	$ 640,075	$386,082	$130,804	$ 50,822	$66,994
Working capital	355,379	397,040	159,950	57,992	64,643
Total assets	1,377,100	987,732	300,584	100,610	94,907
Current portion of long-term debt(7)	399,999	—	—	—	—
Long-term debt, less current portion(7)	—	400,000	—	54	—
Total stockholders' equity(1),(5),(6)	848,596	411,678	247,342	72,497	72,262

In addition to the following notes, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 8, "Financial Statements and Supplementary Data" for further information regarding our consolidated results of operations and financial position for periods reported therein and for known factors that will impact comparability of future results.

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(1) The consolidated financial statements include results of operations of acquired companies commencing on their respective acquisition dates. In August 2008, we completed our acquisition of Avantome. As consideration, we paid $25.8 million in cash and may pay up to an additional $35.0 million in contingent cash consideration based on the achievement of certain milestones. In January 2007, we completed our acquisition of Solexa in a stock for stock merger transaction for a total purchase price of $618.7 million. In April 2005, we completed our acquisition of Cyvera Corporation for a total purchase price of $17.8 million. As part of the accounting for the acquisitions, we recorded charges to write-off acquired in-process research and development, or IPR&D, of $24.7 million, $303.4 million and $15.8 million during the fiscal years ended December 28, 2008, December 30, 2007 and January 1, 2006, respectively. See Note 2 of Notes to Consolidated Financial Statements for further information regarding our Avantome and Solexa acquisitions.

(2) We adopted Statement of Financial Accounting Standards (SFAS) 123(R), *"Share-Based Payment,"* on January 2, 2006 using the modified prospective transition method. Because we elected to use the modified prospective transition method, results for prior periods have not been restated to include share-based compensation expense. See Note 1 and Note 10 of Notes to Consolidated Financial Statements for further information.

(3) For the year ended December 30, 2007, we recorded a $54.0 million charge for the settlement of our litigation with Affymetrix. In January 2008, we paid $90.0 million related to the Affymetrix settlement. See Note 5 of Notes to Consolidated Financial Statements.

(4) Adjusted to reflect a two-for-one stock split effective September 22, 2008. For an explanation of the determination of the number of shares used to compute basic and diluted net income (loss) per share, see Note 1 of Notes to Consolidated Financial Statements.

(5) In August 2008, a total of 8,050,000 shares were sold to the public at a public offering price of $43.75 per share, raising net proceeds to us of $342.6 million. See Note 10 of Notes to Consolidated Financial Statements.

(6) For the years ended December 28, 2008 and December 30, 2007, we repurchased 3.1 million and 14.8 million shares, respectively, of common stock for $70.8 million and $251.6 million, respectively. See Note 10 of Notes to Consolidated Financial Statements.

(7) In February 2007, we issued $400.0 million principal amount of 0.625% Convertible Senior Notes due 2014. As of December 28, 2008, the principal amount of these Notes is classified as current liabilities since the conditions to convertibility were satisfied during the third calendar quarter of 2008. See Note 8 of Notes to Consolidated Financial Statements.

Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operations.***

The purpose of the following discussion and analysis is to provide an overview of the business to help facilitate an understanding of significant factors influencing our historical operating results, financial condition and cash flows and also to convey our expectations of the potential impact of known trends, events, or uncertainties that may impact our future results. The following discussion and analysis should be read in conjunction with "Item 6. Selected Financial Data" and our consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K. The discussion and analysis in this Annual Report on Form 10-K contains forward-looking statements that involve risks and uncertainties, such as statements of our plans, strategies, objectives, expectations, intentions and adequacy of resources. Words such as "anticipate," "believe," "continue," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "project" or similar words or phrases, or the negatives of these words, may identify forward-looking statements, but the absence of these words does not necessarily mean that a statement is not forward looking. Examples of forward-looking statements include, among others, statements regarding the integration of our acquired technologies with our existing technology, the commercial launch of new products and the duration which our existing cash and other resources is expected to fund our operating activities.

Forward-looking statements are subject to known and unknown risks and uncertainties and are based on potentially inaccurate assumptions that could cause actual results to differ materially from those expected or implied by the forward looking statements. Factors that could cause or contribute to these differences include those discussed in "Item 1A. Risk Factors" as well as those discussed elsewhere. The risk factors and other cautionary statements made in this Annual Report on Form 10-K should be read as applying to all related forward-looking statements wherever they appear in this Annual Report on Form 10-K.

Overview

We are a leading developer, manufacturer and marketer of integrated systems for the large scale analysis of genetic variation and biological function. Using our proprietary technologies, we provide a comprehensive line of products and services that currently serve the sequencing, genotyping and gene expression markets. In the future, we expect to enter the market for molecular diagnostics. Our customers include leading genomic research centers, pharmaceutical companies, academic institutions, clinical research organizations and biotechnology companies. Our tools provide researchers around the world with the performance, throughput, cost effectiveness and flexibility necessary to perform the billions of genetic tests needed to extract valuable medical information from advances in genomics and proteomics. We believe this information will enable researchers to correlate genetic variation and biological function, which will enhance drug discovery and clinical research, allow diseases to be detected earlier and permit better choices of drugs for individual patients.

On January 26, 2007, we completed the acquisition of Solexa for 26.2 million shares of our common stock. As a result of that acquisition, we develop and commercialize genetic analysis technologies used to perform a range of analyses, including whole genome re-sequencing, gene expression analysis and small RNA analysis. We believe we are the only company with genome-scale technology for sequencing, genotyping and gene expression, the three cornerstones of modern genetic analysis.

During the first quarter of 2008, we reorganized our operating structure into two newly created business segments, Life Sciences and Diagnostics. During 2008, the Diagnostics Business Unit had limited business activity and, accordingly, operating results were reported on an aggregate basis as one operating segment. In the future, at each reporting period end, we will reassess our reportable operating segments, particularly as we enter the market for molecular diagnostics.

On August 1, 2008, we completed the acquisition of Avantome. As consideration for the acquisition, we paid $25.8 million in cash and may pay up to an additional $35.0 million in contingent cash consideration based on the achievement of certain milestones. Avantome is a development stage company working on developing low-cost, long read sequencing technology. We expect this technology, if and when available as a product, to have applicability to both the research and diagnostic markets.

Our revenue is subject to fluctuations due to the timing of sales of high-value products and service projects, the impact of seasonal spending patterns, the timing and size of research projects our customers perform, changes in overall spending levels in the life science industry and other unpredictable factors that may affect our customer ordering patterns. Any significant delays in the commercial launch or any lack or delay of commercial acceptance of new products, unfavorable sales trends in our existing product lines, or impacts from the other factors mentioned above, could adversely affect our revenue growth or cause a sequential decline in quarterly revenue. Due to the possibility of fluctuations in our revenue and net income or loss, we believe quarterly comparisons of our operating results are not a good indication of our future performance.

As of December 28, 2008, our accumulated deficit was $332.5 million and total stockholders' equity was $848.6 million. Our losses have principally occurred as a result of acquired in-process research and development (IPR&D) charges of $24.7 million related to our acquisition of Avantome in 2008 and $303.4 million related to our acquisition of Solexa in 2007, the substantial resources required for the research, development and manufacturing scale-up effort required to commercialize our products and services and a charge of $54.5 million in 2007 primarily related to settlement of our litigation with Affymetrix. We expect to continue to incur substantial costs for research and development over the next several years. We will also need to increase our selling, general and administrative costs as we build up our sales and marketing infrastructure to expand and support the sale of systems, other products and services.

Critical Accounting Policies and Estimates

General

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes. Management bases its estimates on historical experience and various other assumptions it believes to be reasonable. Although these estimates are based on management's best knowledge of current events and actions that may impact us in the future, actual results may be different from the estimates. Our critical accounting policies are those that affect our financial statements materially and involve difficult, subjective or complex judgments by management. Management has discussed the development and selection of these critical accounting policies with the audit committee of our board of directors, and the audit committee has reviewed the disclosure. Our accounting policies are more fully described in Note 1 of the Consolidated Financial Statements.

Revenue Recognition

Our revenue is generated primarily from the sale of products and services. Product revenue consists of sales of arrays, reagents, flow cells, instrumentation, oligonucleotides (oligos) and associated freight charges. Service and other revenue consists of revenue received for performing genotyping and sequencing services, extended warranty sales and amounts earned under research agreements with government grants, which are recognized in the period during which the related costs are incurred.

We recognize revenue in accordance with the guidelines established by SEC Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition*. Under SAB No. 104, revenue cannot be recorded until all of the following criteria have been met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; the seller's price to the buyer is fixed or determinable; and collectibility is reasonably assured. All revenue is recorded net of any applicable allowances for returns or discounts.

Revenue for product sales is recognized generally upon shipment and transfer of title to the customer, provided no significant obligations remain and collection of the receivables is reasonably assured. Revenue from the sale of instrumentation is recognized when earned, which is generally upon shipment. Revenue for genotyping and sequencing services is recognized when earned, which is generally at the time the genotyping or sequencing analysis data is delivered to the customer.

In order to assess whether the price is fixed and determinable, we ensure there are no refund rights. If payment terms are based on future performance or a right of return exists, we defer revenue recognition until the price becomes fixed and determinable. We assess collectibility based on a number of factors, including past transaction history with the customer and the creditworthiness of the customer. If we determine that collection of a payment is not reasonably assured, revenue recognition is deferred until the time collection becomes reasonably assured, which is generally upon receipt of payment. Changes in judgments and estimates regarding application of SAB No. 104 might result in a change in the timing or amount of revenue recognized.

Sales of instrumentation generally include a standard one-year warranty. We also sell separately priced maintenance (extended warranty) contracts, which are generally for one or two years, upon the expiration of the initial warranty. Revenue for extended warranty sales is recognized ratably over the term of the extended warranty period. Reserves are provided for estimated product warranty expenses at the time the associated revenue is recognized. If we were to experience an increase in warranty claims or if costs of servicing our warrantied products were greater than our estimates, gross margins could be adversely affected.

While the majority of our sales agreements contain standard terms and conditions, we do enter into agreements that contain multiple elements or non-standard terms and conditions. Emerging Issues Task Force (EITF) No. 00-21, *Revenue Arrangements with Multiple Deliverables,* provides guidance on accounting for arrangements that involve the delivery or performance of multiple products, services, or rights to use assets within contractually binding arrangements. Significant contract interpretation is sometimes required to determine the appropriate accounting, including whether the deliverables specified in a multiple element arrangement should be treated as separate units of accounting for revenue recognition purposes, and if so, how the price should be allocated among the deliverable elements, when to recognize revenue for each element, and the period over which revenue should be recognized. We recognize revenue for delivered elements only when we determine that the fair values of undelivered elements are known and there are no uncertainties regarding customer acceptance.

Investments

Effective January 1, 2008, we adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurement*. In February 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. SFAS 157-2, *Effective Date of FASB Statement No. 157*, which provides a one-year deferral of the effective date of SFAS No. 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. In October 2008, the FASB issued FASB FSP SFAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*. The FSP clarifies the application of FASB Statement No. 157, *Fair Value Measurements*, in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active.

We determine fair value of our financial assets and liabilities in accordance with SFAS No. 157 and 157-3. Fair value is defined under SFAS No. 157 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under SFAS No. 157 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value:

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

In using this fair value hierarchy and the framework established by SFAS No. 157, management may be required to make assumptions of pricing by market participants and assumptions about risk, specifically when using unobservable inputs to determine fair value. These assumptions are judgmental in nature and may significantly affect our results of operations.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We evaluate the collectibility of our accounts receivable based on a combination of factors. We regularly analyze customer accounts, review the length of time receivables are outstanding, review historical loss rates and assess current economic trends that may impact the level of credit losses in the future. Our allowance for doubtful accounts has generally been adequate to cover our actual credit losses. However, since we cannot reliably predict future changes in the financial stability of our customers, we cannot guarantee that our reserves will continue to be adequate.

Inventory Valuation

We record adjustments to inventory for potentially excess, obsolete or impaired goods in order to state inventory at net realizable value. We must make assumptions about future demand, market conditions and the release of new products that will supersede old ones. We regularly review inventory for excess and obsolete products and components, taking into account product life cycle and development plans, product expiration and quality issues, historical experience and our current inventory levels. If actual market conditions are less favorable than anticipated, additional inventory adjustments could be required.

Contingencies

We are subject to legal proceedings primarily related to intellectual property matters. Based on the information available at the balance sheet dates and through consultation with our legal counsel, we assess the likelihood of any adverse judgments or outcomes of these matters, as well as the potential ranges of probable losses. If losses are probable and reasonably estimable, we will record a liability and an expense for the estimated loss.

Goodwill and Intangible Asset Valuation

We make significant judgments in relation to the valuation of goodwill and intangible assets resulting from acquisitions and litigation settlements.

In determining the carrying amounts of our goodwill and intangible assets arising from acquisitions, we use the purchase method of accounting. The purchase method of accounting requires extensive use of accounting estimates and judgments to allocate the purchase price to the fair value of the net tangible and intangible assets acquired, including IPR&D. Goodwill and intangible assets deemed to have indefinite lives are not amortized, but are subject to at least annual impairment tests. The amounts and useful lives assigned to other acquired intangible assets impact future amortization, and the amount assigned to IPR&D is expensed immediately.

Determining the fair values and useful lives of intangible assets acquired as part of litigation settlements also requires the exercise of judgment. While there are a number of different generally accepted valuation methods to estimate the value of intangible assets, one method used by management is the discounted cash flow method. This method requires significant management judgment to forecast the future operating results used in this type of analysis. In addition, other significant estimates are required such as residual growth rates and discount factors. The estimates we use to value and amortize intangible assets are consistent with the plans and estimates that we use to manage our business and are based on available historical information and industry estimates and averages. These judgments can significantly affect our net operating results. Our judgments can also change with respect to the estimated life of intangible assets which could increase or decrease related amortization expense.

SFAS No. 142, *Goodwill and Other Intangible Assets,* requires that goodwill and certain intangible assets be assessed for impairment using fair value measurement techniques. If the carrying amount of a reporting unit exceeds its fair value, then a goodwill impairment test is performed to measure the amount of the impairment loss, if any. The goodwill impairment test compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. The implied fair value of goodwill is determined in the same manner as in a business combination. Determining the fair value of the implied goodwill is judgmental in nature and often involves the use of significant estimates and assumptions. These estimates and assumptions could have a significant impact on whether or not an impairment charge is recognized and also the magnitude of any such charge. Estimates of fair value are primarily determined using discounted cash flows and market comparisons. These approaches use significant estimates and assumptions, including projection and timing of future cash flows, discount rates reflecting the risk inherent in future cash flows, perpetual growth rates, determination of appropriate market comparables, and determination of whether a premium or discount should be applied to comparables. It is reasonably possible that the plans and estimates used to value these assets may be incorrect. If our actual results, or the plans and estimates used in future impairment analyses, are lower than the original estimates used to assess the recoverability of these assets, we could incur additional impairment charges. We have performed our annual test of goodwill as of May 30, 2008 noting no impairment. No indicators have arisen since management's assessment on May 30, 2008 that would require further assessment.

Impairment of Long-Lived Assets

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* if indicators of impairment exist, we assess the recoverability of the affected long-lived assets by determining whether the carrying value of such assets can be recovered through undiscounted future operating cash flows. If impairment is indicated, we measure the future discounted cash flows associated with the use of the asset and adjust the value of the asset accordingly. Certain estimates and assumptions are used in determining the fair value of long-lived assets. These estimates and assumptions are judgmental in nature and could have a significant impact on the determination of the recognition of an impairment charge and the magnitude of any such change. If our actual results, or the plans and estimates used in future impairment analyses, are lower than the original estimates used to assess the recoverability of these assets, we could incur additional impairment charges.

Stock-Based Compensation

We account for stock-based compensation in accordance with SFAS No. 123R, *Share-Based Payment.* Under the provisions of SFAS No. 123R, stock-based compensation cost is estimated at the grant date based on the award's fair-value as calculated by the Black-Scholes-Merton (BSM) option-pricing model and is recognized as expense over the requisite service period. The BSM model requires various highly judgmental assumptions including volatility, forfeiture rates, and expected option life. If any of these assumptions used in the BSM model change significantly, stock-based compensation expense may differ materially in the future from that recorded in the current period.

Income Taxes

In accordance with SFAS No. 109, *Accounting for Income Taxes*, the provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for the expected future tax benefit to be derived from tax loss and credit carryforwards. Deferred tax assets and liabilities are determined using the enacted tax rates in effect for the years in which those tax assets are expected to be realized. A valuation allowance is established when it is more likely than not the future realization of all or some of the deferred tax assets will not be achieved. The evaluation of the need for a valuation allowance is performed on a jurisdiction-by-jurisdiction basis, and includes a review of all available positive and negative evidence. Factors reviewed include projections of pre-tax book income over the foreseeable future, determination of cumulative pre-tax book income after

permanent differences, history of earnings, and reliability of forecasting. As of December 28, 2008, we have maintained a valuation allowance only against certain U.S. and foreign deferred tax assets that we concluded have not met the "more likely than not" threshold required under SFAS No. 109.

Due to the adoption of SFAS No. 123R, we recognize excess tax benefits associated with share-based compensation to stockholders' equity only when realized. When assessing whether excess tax benefits relating to share-based compensation have been realized, we follow the with-and-without approach, excluding any indirect effects of the excess tax deductions. Under this approach, excess tax benefits related to share-based compensation are not deemed to be realized until after the utilization of all other tax benefits available to us.

Effective January 1, 2007, we adopted FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109*, which clarifies the accounting for uncertainty in tax positions. FIN No. 48 requires that we recognize the impact of a tax position in our financial statements only if that position is more likely than not of being sustained upon examination by taxing authorities, based on the technical merits of the position. Any interest and penalties related to uncertain tax positions will be reflected in income tax expense.

Results of Operations

To enhance comparability, the following table sets forth audited consolidated statement of operations data for the years ended December 28, 2008, December 30, 2007 and December 31, 2006 stated as a percentage of total revenue.

	Year Ended December 28, 2008	Year Ended December 30, 2007	Year Ended December 31, 2006
Revenue:			
Product revenue	93%	89%	84%
Service and other revenue	7	11	16
Total revenue	100	100	100
Costs and expenses:			
Cost of product revenue	34	33	28
Cost of service and other revenue	2	3	5
Research and development	17	20	18
Selling, general and administrative	26	27	29
Impairment of manufacturing equipment	1	—	—
Amortization of intangible assets	2	1	—
Acquired in-process research and development	4	83	—
Litigation settlements	—	15	—
Total costs and expenses	86	182	80
Income (loss) from operations	14	(82)	20
Interest income	2	4	3
Interest and other expense, net	—	(1)	—
Income (loss) before income taxes	16	(79)	23
Provision (benefit) for income taxes	7	(3)	1
Net income (loss)	9%	(76)%	22%

Comparison of Years Ended December 28, 2008 and December 30, 2007

Our fiscal year is the 52 or 53 weeks ending the Sunday closest to December 31, with quarters of 13 or 14 weeks ending the Sunday closest to March 31, June 30, and September 30. The years ended December 28, 2008 and December 30, 2007 were both 52 weeks.

Revenue

	Year Ended December 28, 2008	Year Ended December 30, 2007	Percentage Change
	(In thousands)		
Product revenue	$532,390	$326,699	63%
Service and other revenue	40,835	40,100	2
Total revenue	$573,225	$366,799	56%

Product revenue consists of revenue from the sale of consumables, instruments, oligos and associated freight charges. The increase in product revenue was driven primarily by sales of our Infinium BeadChips, sequencing systems and sequencing consumables. Consumables and instruments constituted 63% and 35% of product revenue for the year ended December 28, 2008, respectively, compared to 59% and 37% for the year ended December 30, 2007, respectively.

Consumable revenue increased by $140.2 million over prior year. Growth in consumable revenue was primarily attributable to strong demand for our Infinium and sequencing products, which led to increased sales of $104.8 million and $35.4 million, respectively. The increase in revenue associated with our Infinium products can be mainly attributed to the strong demand for our Infinium High-Density BeadChips, particularly the Human610-Quad, which we began shipping during the first quarter of 2008. Of the overall increase in Infinium BeadChip sales, approximately 79% is due to new product introductions with higher average selling prices, while the remaining 21% can be attributed to increased volume. The increase in sequencing consumables is primarily attributable to the growth in our installed base of instruments and the progression of customer labs ramping to production scale.

Instrument revenue increased by $64.8 million over prior year, of which $63.0 million was due to increased sales of our sequencing systems. This increase in revenue can be primarily attributed to shipments of our second generation Genome Analyzer, the Genome Analyzer II (GAII). Additionally, during the second quarter of 2008, we launched the iScan System, our next-generation BeadChip scanner to replace the BeadArray Reader. Any increase in revenue resulting from shipments of this new system was offset by a reduction in sales of our BeadArray Reader as we stopped manufacturing this product upon the launch of our iScan System.

We expect to see continued growth in product revenue, which can be mainly attributed to the anticipated launch of several new products, sales of existing products and the growth of our installed base of instruments.

Service and other revenue includes revenue generated from genotyping and sequencing service contracts, extended warranty contracts, and research revenue. The increase in service and other revenue is primarily due to an increase of $3.1 million in extended warranty sales coupled with an increase of $2.0 million in sequencing service contracts. This increase was substantially offset by a decline of $4.7 million in our Fast Track genotyping service contracts as we shift more towards CSPro certified customers. CSPro is a collaborative program through which we certify third party service partners using our products to ensure delivery of performance and data quality equivalent to that available from our internal service offering. The decline in service revenue as a result of the shift to CSPro certified customers has been offset by the resulting increase in our consumable sales to these third party service providers. If product sales increase, we expect to see continued increases in the sale of our extended warranty contracts. We also expect sales from SNP genotyping and sequencing service contracts to fluctuate on a yearly and quarterly basis, depending on the mix, the number of contracts completed and the success of our certified service providers. The timing of

completion of SNP genotyping and sequencing service contracts is highly dependent on the customers' schedules for delivering the SNPs and samples to us.

Cost of Product and Service and Other Revenue

	Year Ended December 28, 2008	Year Ended December 30, 2007	Percentage Change
	(In thousands)		
Cost of product revenue	$192,868	$119,991	61%
Cost of service and other revenue	12,756	12,445	2
Total cost of product and service and other revenue	$205,624	$132,436	55%

Cost of revenue, which excludes impairment of manufacturing equipment and amortization of intangible assets, represents manufacturing costs incurred in the production process, including component materials, assembly labor and overhead, installation, warranty, packaging and delivery costs, as well as costs associated with performing genotyping and sequencing services on behalf of our customers.

The increase in cost of product revenue was primarily driven by higher instrument and consumable sales. Cost of product revenue as a percentage of related revenue was 36% for the year ended December 28, 2008 compared to 37% for the year ended December 30, 2007. The decrease is primarily due to favorable product mix driven by increased sales of our new High-Density Infinium Beadchips, with higher average selling prices as compared to the Infinium Beadchips sold in the prior year. This was partially offset by increased provisions for inventory obsolescence of $7.2 million for the year ended December 28, 2008 compared to $1.9 million for the year ended December 30, 2007. The increase in the inventory reserve is primarily associated with product transitions. During the year, we recorded reserves for product obsolescence associated with the launch of our new Infinium Beadchips and the launch of a new sequencing kit. Instrument cost of sales as a percentage of related revenue increased slightly over the prior year due to lower average selling prices mainly associated with promotional campaigns as we launched our next generation Beadarray Reader, the iScan in the first half of 2008.

Cost of service and other revenue increased over the prior year primarily due to higher extended warranty contract revenue. Cost of service and other revenue as a percentage of related revenue stayed consistent at 31%.

Research and Development Expenses

	Year Ended December 28, 2008	Year Ended December 30, 2007	Percentage Change
	(In thousands)		
Research and development	$99,963	$73,943	35%

Our research and development expenses consist primarily of salaries and other personnel-related expenses, laboratory supplies and other expenses related to the design, development, testing and enhancement of our products. We expense our research and development expenses as they are incurred.

Research and development expenses as a percentage of revenue decreased to 17% for the year ended December 28, 2008 compared to 20% for the year ended December 30, 2007. However, there was an overall increase in research and development expenditures compared to the prior year. Costs to support our BeadArray technology research activities increased $10.4 million for the year ended December 28, 2008 compared to the year ended December 30, 2007, primarily due to an overall increase in personnel-related expenses, increased lab and material expenses associated with the establishment of our manufacturing facility in Singapore and the development of new products. The continued development of our Sequencing technology resulted in increased research and development expenditures of $9.1 million for the year ended December 28, 2008 compared to the year ended December 30, 2007. In addition, non-cash stock-based compensation expense increased by $4.1 million compared to the year ended December 30, 2007. Accrued compensation expense of $1.5 million

associated with contingent consideration for the Avantome acquisition completed on August 1, 2008 and expenses related to the development of our newly created Diagnostics Business Unit of $0.9 million also contributed to the increase in research and development expense for the year ended December 28, 2008.

We believe a substantial investment in research and development is essential to remaining competitive and expanding into additional markets. Accordingly, we expect our research and development expenses to increase in absolute dollars as we expand our product base.

Selling, General and Administrative Expenses

	Year Ended December 28, 2008	Year Ended December 30, 2007	Percentage Change
	(In thousands)		
Selling, general and administrative	$148,014	$101,256	46%

Our selling, general and administrative expenses consist primarily of personnel costs for sales and marketing, finance, human resources, business development, legal and general management, as well as professional fees, such as expenses for legal and accounting services. Selling, general and administrative expenses as a percentage of revenue were 26% for the year ended December 28, 2008 compared to 28% for the year ended December 30, 2007. Selling, general and administrative expenses for the year ended December 28, 2008 and December 30, 2007 included stock-based compensation expenses totaling $28.5 million and $19.4 million, respectively.

Sales and marketing expenses increased $34.1 million for the year ended December 28, 2008 compared to the year ended December 30, 2007. The increase is primarily due to increases of $29.3 million attributable to personnel-related expenses, including salaries, benefits and commissions, to support the growth of our business. Included as part of these personnel- related expenses is an increase in employee travel expenses of $4.5 million due to increased headcount and continued international expansion. The remaining $4.8 million variance is comprised of increases to non-personnel-related costs of $2.9 million, consisting mainly of sales and marketing activities for our existing and new products and an increase of $1.9 million of non-cash stock-based compensation expense.

General and administrative expense increased $12.7 million during the year ended December 28, 2008 compared to the year ended December 30, 2007 due to increases of $10.4 million in personnel-related expenses associated with the growth of our business, $7.2 million of non-cash stock-based compensation expense and $0.9 million in outside consulting services offset by a decrease of $5.8 million in legal costs primarily related to the settlement of the Affymetrix litigation during the first quarter of 2008.

We expect our selling, general and administrative expenses to increase in absolute dollars as we expand our staff, add sales and marketing infrastructure and incur additional costs to support the expected growth in our business.

Impairment of Manufacturing Equipment

	Year Ended December 28, 2008	Year Ended December 30, 2007	Percentage Change
	(In thousands)		
Impairment of manufacturing equipment	$4,069	$—	N/A

The impairment of manufacturing equipment resulted from our assessment of recoverability on a portion of our imaging and decoding systems that were no longer being utilized due to the development of our next-generation system and our transition to the Infinium HD product line.

Amortization of Intangible Assets

	Year Ended December 28, 2008	Year Ended December 30, 2007	Percentage Change
	(In thousands)		
Amortization of intangible assets	$10,438	$2,429	330%

Amortization of intangible assets as a percentage of revenue was 2% and 1%, respectively, for the year ended December 28, 2008 and year ended December 30, 2007. The increase in amortization expense is primarily due to the settlement of our lawsuit with Affymetrix on January 9, 2008, resulting in the recording of an intangible asset of $36.0 million. See Note 5 of Notes to Consolidated Financial Statements for further information regarding this settlement.

We began amortizing this asset during the first quarter of 2008, causing an increase in amortization of intangible assets of $7.8 million for the year ended December 28, 2008. The additional increase of $0.2 million during the year ended December 28, 2008 as compared to the year ended December 30, 2007 represents an additional month of amortization associated with the assets acquired from Solexa that we began amortizing in February 2007.

Acquired In-Process Research and Development

	Year Ended December 28, 2008	Year Ended December 30, 2007	Percentage Change
	(In thousands)		
Acquired in-process research and development	$24,660	$303,400	(92%)

As a result of the Avantome acquisition in August 2008 and the Solexa acquisition in January 2007, we recorded acquired IPR&D charges of $24.7 million and $303.4 million, respectively. See Note 2 of Notes to Consolidated Financial Statements for further information regarding these acquisitions.

Litigation Settlements

	Year Ended December 28, 2008	Year Ended December 30, 2007	Percentage Change
	(In thousands)		
Litigation settlements	$—	$54,536	(100%)

During the year ended December 30, 2007, we recorded a charge of $54.5 million associated with two settlement agreements. The total charge is comprised primarily of $54.0 million related to a $90.0 million settlement with Affymetrix entered into on January 9, 2008 for certain patent litigation between the parties. See Note 5 of Notes to Consolidated Financial Statements for further information regarding the Affymetrix settlement.

Interest Income

	Year Ended December 28, 2008	Year Ended December 30, 2007	Percentage Change
	(In thousands)		
Interest income	$12,519	$16,026	(22%)

Interest income on our cash and cash equivalents and investments decreased $3.5 million during the year ended December 28, 2008 compared to the year ended December 30, 2007. The decrease was primarily driven by the overall decline in interest rates due to current market conditions coupled with a change in our cash and investment portfolio to a mix of shorter duration maturities and an increased number of agency-rated investments.

Interest and Other Expense, Net

	Year Ended December 28, 2008	Year Ended December 30, 2007	Percentage Change
	(In thousands)		
Interest and other expense, net	$(2,070)	$(3,610)	(43%)

Interest and other expense, net, consists of interest expense and other income and expenses primarily related to net foreign currency exchange transaction gains and losses. Interest and other expense, net, increased $1.5 million for the year ended December 28, 2008 compared to the year ended December 30, 2007.

Interest expense related to our convertible debt issued in February 2007 was $4.0 million and $3.6 million, respectively, for the year ended December 28, 2008 and the year ended December 30, 2007. The increase represents an additional month and a half of interest expense recorded in the year ended December 28, 2008 compared to the year ended December 30, 2007.

In addition, we recorded $1.9 million in net foreign currency transaction gains for the year ended December 28, 2008 compared to immaterial losses recorded in the year ended December 30, 2007. The gains resulting from our net foreign currency transactions for the year ended December 28, 2008 are due to fluctuations in foreign currency exchange rates coupled with a change in our foreign entity functional currency designation from the local currency to the U.S. dollar beginning the third quarter of 2008. As a result of this change, in the third quarter we began re-measuring our foreign subsidiaries' nonmonetary assets and liabilities and related income and expense accounts to the U.S. dollar and recording the resulting net gain as income. Previously, under local functional currency designation, the effects of translation were recorded within stockholders' equity as other comprehensive income (loss).

Provision (benefit) for Income Taxes

	Year Ended December 28, 2008	Year Ended December 30, 2007	Percentage Change
	(In thousands)		
Provision (benefit) for income taxes	$40,429	$(10,426)	(488%)

The provision consists of federal, state and foreign income tax expense for the years ended December 28, 2008 and December 30, 2007, respectively. In addition for the year ended December 30, 2007, the provision was reduced by $17.1 million as a result of the release of the valuation allowance against a significant portion of our U.S. deferred tax assets.

As of December 28, 2008, we had net operating loss carryforwards for federal and state tax purposes of $87.7 million and $148.3 million, respectively, which begin to expire in 2025 and 2013, respectively, unless previously utilized. In addition, we also had U.S. federal and state research and development tax credit carryforwards of $12.6 million and $13.9 million, respectively, which begin to expire in 2018 and 2019, respectively, unless previously utilized.

Pursuant to Section 382 and 383 of the Internal Revenue Code, utilization of our net operating losses and credits may be subject to annual limitations in the event of any significant future changes in our ownership structure. These annual limitations may result in the expiration of net operating losses and credits prior to utilization. Previous limitations due to Section 382 and 383 have been reflected in the deferred tax assets as of December 28, 2008.

Based on the available evidence as of December 28, 2008, we were not able to conclude it was more likely than not certain U.S. and foreign deferred tax assets will be realized. Therefore, we have recorded a valuation allowance of $2.8 million and $12.4 million against certain U.S. and foreign deferred tax assets, respectively. At December 30, 2007, we concluded that it was more likely than not that a significant portion of our deferred tax assets will be realized and, accordingly, we released a portion of our valuation allowance, $17.1 million, of which was recorded as a reduction to the tax provision.

As of December 28, 2008, no material changes have been made to our uncertain tax positions recorded in accordance with FIN No. 48, *Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109*.

Comparison of Years Ended December 30, 2007 and December 31, 2006

Our fiscal year is 52 or 53 weeks ending the Sunday closest to December 31, with quarters of 13 or 14 weeks ending the Sunday closest to March 31, June 30, and September 30. The years ended December 30, 2007 and December 31, 2006 were both 52 weeks.

Revenue

	Year Ended December 30, 2007	Year Ended December 31, 2006	Percentage Change
	(In thousands)		
Product revenue	$326,699	$155,811	110%
Service and other revenue	40,100	28,775	39
Total revenue	$366,799	$184,586	99%

Product revenue consists of revenue from the sale of consumables, instruments, oligos and associated freight charges. Consumables and instruments constituted 59% and 37% of product revenue for the year ended December 30, 2007, respectively, compared to 64% and 28% for the year ended December 31, 2006, respectively. The change in sales associated with our product mix is due to increased sales in instruments primarily attributable to the Genome Analyzer, which was introduced during the first quarter of 2007. Growth in consumable revenue was primarily attributable to strong demand for our Infinium products.

Consumable revenue increased by $93.6 million over prior year, of which $81.1 million primarily represents increased sales volume of our Infinium products. The increase in revenue associated with our Infinium products can be mainly attributed to our HumanHap family of BeadChips, the Human 1M DNA Analysis BeadChip and our iSelect Infinium BeadChips for more focused content applications. Of the overall increase in Infinium BeadChip sales, approximately 82% is due to a higher volume of shipments, while the remaining 18% can be attributed to new product introductions and slightly higher average selling prices.

Instrument revenue increased by $77.6 million over prior year, of which $68.7 million was due to increased sales of our sequencing systems, particularly the Genome Analyzer and cluster stations.

Service and other revenue includes revenue generated from genotyping and sequencing service contracts, extended warranty contracts and research revenue. Service and other revenue increased $11.3 million over prior year primarily due to the completion of several significant Infinium and iSelect custom SNP genotyping service contracts and sequencing services contracts. This increase in services represented $9.9 million of the variance, while the remainder of the difference was generated by an increase in extended warranty contracts of $2.2 million offset by a decrease in grant revenue of $0.8 million. We expect sales from SNP genotyping and sequencing services contracts to fluctuate on a yearly and quarterly basis, depending on the mix and number of contracts that are completed. The timing of completion of SNP genotyping and sequencing services contracts are highly dependent on the customers' schedules for delivering the SNPs and samples to us.

Cost of Product and Service and Other Revenue

	Year Ended December 30, 2007	Year Ended December 30, 2006	Percentage Change
	(In thousands)		
Cost of product revenue	$119,991	$51,271	134%
Cost of service and other revenue	12,445	8,073	54
Total cost of product and service and other revenue	$132,436	$59,344	123%

Cost of revenue, which excludes amortization of intangible assets, represents manufacturing costs incurred in the production process, including component materials, assembly labor and overhead, installation, warranty, packaging and delivery costs, as well as costs associated with performing genotyping and sequencing services on behalf of our customers.

The increase in cost of product revenue was primarily driven by higher instrument and consumable sales. Cost of product revenue as a percentage of related revenue was 37% for the year ended December 30, 2007 compared to 33% for the year ended December 31, 2006. The increase is primarily due to the shift in product mix towards instruments mainly attributable to sales of our sequencing systems, which were introduced during the first quarter of 2007. In addition, cost of product revenue as a percentage of related revenue was adversely impacted by the increase in non-cash stock-based compensation expense as well as $0.7 million associated with the amortization of inventory revaluation costs related to our acquisition of Solexa in January 2007. Non-cash stock-based compensation expense was $4.0 million and $1.3 million for the periods ended December 30, 2007 and December 31, 2006, respectively.

Cost of service revenue increased over the prior year primarily due to higher sequencing and genotyping services revenue. Cost of service revenue as a percentage of related revenue was 31% for the year ended December 30, 2007 compared to 28% for the year ended December 31, 2006. The increase in cost of service revenue as a percentage of related revenue was primarily related to unfavorable product mix driven by higher sales of our sequencing services, which were introduced during 2007.

Research and Development Expenses

	Year Ended December 30, 2007	Year Ended December 31, 2006	Percentage Change
	(In thousands)		
Research and development	$73,943	$33,373	122%

Our research and development expenses consist primarily of salaries and other personnel-related expenses, laboratory supplies and other expenses related to the design, development, testing and enhancement of our products. We expense our research and development expenses as they are incurred.

Research and development expenses increased to $73.9 million for the year ended December 30, 2007 compared to $33.4 million for the year ended December 31, 2006. Research and development expenses as a percentage of total revenue were 20% for the year ended December 30, 2007 compared to 18% for the year ended December 31, 2006. Of the increase for the year ended December 30, 2007, $27.0 million was due to higher research and development expenses associated with our acquisition of Solexa in January 2007. Costs to support our BeadArray technology research activities increased $8.5 million for the year ended December 30, 2007 compared to the year ended December 31, 2006, primarily due to an overall increase in personnel-related expenses and increased lab and material expenses. Several new Infinium chip products, including the Human 1M DNA Analysis BeadChip, HumanCNV370-Duo BeadChip and HumanHap550-Duo BeadChip, have been introduced to the market in 2007. In addition, non-cash stock-based compensation expense increased $6.1 million compared to the year ended December 31, 2006. These increases were partially offset by a $1.0 million decrease in research and development expenses related to the VeraCode technology compared to the year ended December 31, 2006. We began shipping our BeadXpress System, which is based on our VeraCode technology, during the first quarter of 2007. As a result of completing the development of this product, the related research and development expenses have decreased.

Selling, General and Administrative Expenses

	Year Ended December 30, 2007	Year Ended December 31, 2006	Percentage Change
	(In thousands)		
Selling, general and administrative	$101,256	$54,057	87%

Our selling, general and administrative expenses consist primarily of personnel costs for sales and marketing, finance, human resources, business development, legal and general management, as well as professional fees, such as expenses for legal and accounting services. Selling, general and administrative expenses increased to $101.3 million for the year ended December 30, 2007 compared to $54.1 million for the year December 31, 2006.

Sales and marketing expense increased $24.5 million during the year ended December 30, 2007 compared to the year ended December 31, 2006. The increase is primarily due to increases of $18.6 million attributable to personnel-related expenses to support the growth of our business, $3.3 million of non-cash stock-based compensation expense and $2.6 million attributable to other non-personnel-related expenses consisting mainly of sales and marketing activities for our existing and new products.

General and administrative expense increased $22.7 million during the year ended December 30, 2007 compared to the year ended December 30, 2006 due to increases of $8.7 million in personnel-related expenses associated with the growth of our business, $7.2 million of non-cash stock-based compensation expense, $3.4 million in outside legal fees and $3.3 million in other outside service expenses, primarily due to increases in consulting fees and increased tax, audit, and other public company costs.

Amortization of Intangible Assets

	Year Ended December 30, 2007	Year Ended December 31, 2006	Percentage Change
	(In thousands)		
Amortization of intangible assets	$2,429	$—	N/A

Amortization of intangible assets totaled $2.4 million for the year ended December 30, 2007. There was no amortization of acquired intangibles for the year ended December 31, 2006. The amount amortized in 2007 represents the amortization of our intangible assets acquired from Solexa in January 2007.

Acquired In-Process Research and Development

	Year Ended December 30, 2007	Year Ended December 30, 2006	Percentage Change
	(In thousands)		
Acquired in-process research and development	$303,400	$—	N/A

During the year ended December 30, 2007, we recorded $303.4 million of acquired IPR&D resulting from the Solexa acquisition. At the acquisition date, Solexa's ongoing research and development initiatives were primarily involved with the development of its genetic analysis platform for sequencing and expression profiling. These in-process research and development projects are comprised of Solexa's reversible terminating nucleotide biochemistry platform, referred to as sequencing-by-synthesis (SBS) biochemistry, as well as Solexa's reagent, analyzer and sequencing services related technologies, which were valued at $237.2 million, $44.2 million, $19.1 million and $2.9 million, respectively, at the acquisition date. Although these projects were approximately 95% complete at the acquisition date, they had not reached technological feasibility and had no alternative future use. Accordingly, the amounts allocated to those projects were written off in the first quarter of 2007, the period the acquisition was consummated. Acquisitions of businesses, products or technologies by us in the future may result in substantial charges for acquired IPR&D that may cause fluctuations in our interim or annual operating results. There were no charges resulting from any acquisitions during the same period in fiscal 2006.

Litigation Settlements

	Year Ended December 30, 2007	Year Ended December 31, 2006	Percentage Change
	(In thousands)		
Litigation settlements	$54,536	$—	N/A

During the year ended December 30, 2007, we recorded a charge of $54.5 million associated with two settlement agreements entered into subsequent to year-end. The total charge is comprised primarily of $54.0 million related to a $90.0 million settlement with Affymetrix entered into on January 9, 2008 for certain patent litigation between the parties. See Note 5 of Notes to Consolidated Financial Statements for further information regarding this settlement.

Interest Income

	Year Ended December 30, 2007	Year Ended December 31, 2006	Percentage Change
	(In thousands)		
Interest income	$16,026	$5,368	199%

Interest income on our cash and cash equivalents and investments was $16.0 million and $5.4 million for the years ended December 30, 2007 and December 31, 2006, respectively. The increase in interest income over the prior year was primarily driven by higher cash balances from the proceeds of our February 2007 convertible debt offering, cash acquired as part of the Solexa acquisition, and improved operating cash flow. In addition, we experienced higher effective interest rates on our cash equivalents and short-term investments.

Interest and Other Expense, Net

	Year Ended December 30, 2007	Year Ended December 31, 2006	Percentage Change
	(In thousands)		
Interest and other expense, net	$(3,610)	$(560)	545%

Interest and other expense, net, consists of interest expense and other income and expenses related to net foreign currency exchange transaction gains and losses. Interest and other expense, net, increased to $3.6 million for the year ended December 30, 2007, compared to $0.6 million for the year ended December 31, 2006.

Interest expense was $3.6 million for the year ended December 30, 2007, compared to an immaterial amount for the year ended December 31, 2006. The increase is primarily related to our convertible debt offering in February 2007. For the years ended December 30, 2007 and December 31, 2006, we recorded $0.5 million and $0.4 million, respectively, in net foreign currency transaction losses, respectively. In 2007, these foreign currency exchange losses were offset by $0.5 million of foreign currency exchange gains associated with the sale of our secured convertible debentures with Genizon BioSciences, Inc. in the fourth quarter of 2007.

Provision (benefit) for Income Taxes

	Year Ended December 30, 2007	Year Ended December 31, 2006	Percentage Change
	(In thousands)		
Provision (benefit) for income taxes	$(10,426)	$2,652	(493%)

The provision (benefit) for income taxes was ($10.4) million and $2.7 million for the years ended December 30, 2007 and December 31, 2006, respectively. The provision consists of federal, state, and foreign income tax expense offset in 2007 by the release of the valuation allowance against a significant portion of our U.S. deferred tax assets.

During the year ended December 30, 2007, we utilized $72.9 million and $10.8 million of our federal and state net operating loss carryforwards, respectively, to reduce our federal and state income taxes. As of December 30, 2007, we had net operating loss carryforwards for federal and state tax purposes of $28.7 million and $99.1 million, respectively, which begin to expire in 2025 and 2015, respectively, unless previously utilized. In addition, we also had U.S. federal and state research and development tax credit

carryforwards of $9.2 million and $9.3 million respectively, which begin to expire in 2018 and 2019 respectively, unless previously utilized.

Pursuant to Section 382 and 383 of the Internal Revenue Code, utilization of our net operating losses and credits may be subject to annual limitations in the event of any significant future changes in our ownership structure. These annual limitations may result in the expiration of net operating losses and credits prior to utilization. Previous limitations due to Section 382 and 383 have been reflected in the deferred tax assets as of December 30, 2007.

As of December 30, 2007, we concluded that it is more likely than not that a significant portion of our deferred tax assets will be realized and, accordingly we released a portion of our valuation allowance, $17.1 million of which was recorded as a reduction to the tax provision. In addition, we established current and long term deferred tax assets on the consolidated balance sheets of $26.8 million and $80.1 million, respectively, and decreased the goodwill balances recorded in conjunction with the CyVera and Solexa acquisitions by $2.1 million and $18.4 million, respectively. Based upon the available evidence as of December 30, 2007, we are not able to conclude it is more likely than not certain U.S. and foreign deferred tax assets will be realized. Therefore, we have recorded a valuation allowance of $2.9 million and $25.4 million against certain U.S. and foreign deferred tax assets, respectively.

Liquidity and Capital Resources

Cashflow

	Year Ended December 28, 2008	Year Ended December 30, 2007	Year Ended December 31, 2006
		(In thousands)	
Net cash provided by operating activities	$ 87,882	$ 56,294	$ 39,000
Net cash used in investing activities	(277,249)	(67,686)	(160,735)
Net cash provided by financing activities	337,672	148,292	109,296
Effect of foreign currency translation	3,778	(345)	3
Net increase (decrease) in cash and cash equivalents	$ 152,083	$136,555	$ (12,436)

Historically, our sources of cash have included:

- issuance of equity and debt securities, including cash generated from the issuance of our convertible notes in February 2007, our public offering of common stock in August 2008 and the exercise of stock options and participation in our Employee Stock Purchase Plan (ESPP);
- cash generated from operations; and
- interest income.

Our historical cash outflows have primarily been associated with:

- cash used for operating activities such as the purchase and growth of inventory, expansion of our sales and marketing and research and development infrastructure and other working capital needs;
- cash paid for litigation settlements;
- cash used for our stock repurchases;
- expenditures related to increasing our manufacturing capacity and improving our manufacturing efficiency;
- cash paid for acquisitions; and
- interest payments on our debt obligations.

Other factors that impact our cash inflow and outflow include:

- significant increases in our product and services revenue. As our product sales have increased significantly since 2001, operating income has increased significantly as well, providing us with an increased source of cash to finance the expansion of our operations; and
- fluctuations in our working capital.

We currently invest our funds in treasury notes, commercial paper, auction rate securities, corporate bonds and U.S. dollar-based short maturity mutual funds. We do not hold securities backed by mortgages.

As of December 28, 2008, we had cash, cash equivalents and investments of $696.0 million compared to $386.1 million as of December 30, 2007. Included in the investment balance as of December 28, 2008 were auction rate securities of $55.9 million issued primarily by municipalities and universities. The markets for auction rate securities effectively ceased when the vast majority of auctions failed in February 2008, preventing investors from selling their auction rate securities. As of December 28, 2008, the securities continued to fail auction and remained illiquid. As a result, we have recorded an unrealized loss of $8.7 million for the year ended December 28, 2008, resulting in a reduction to the fair value of our auction rate securities to $47.2 million as of December 28, 2008. This value was determined in accordance with SFAS No. 157. We used Level 3 hierarchical inputs, due to the lack of actively traded market data, including management's assumptions of pricing by market participants and assumptions about risk. We based our fair value determination on estimated discounted future cash flows of interest income over a projected period reflective of the length of time we anticipate it will take the securities to become liquid. Additionally, we classified these securities as long-term investments as of December 28, 2008 as we believe we may not be able to liquidate our investments within the next year. As of December 30, 2007, these securities were classified as short-term as the failures of these auctions did not occur until February 2008.

In November 2008, we signed a settlement agreement allowing us to sell our auction rate securities at par value to UBS at our discretion during the period of June 30, 2010 through July 2, 2012. To account for this settlement agreement, we recorded a put option of $8.7 million and recognized a corresponding gain in earnings during the fourth quarter of 2008. The fair value of the put option was determined using a discounted cash flow approach including estimates of interest rates, timing and amount of cash flow, with consideration given to UBS's financial ability to repurchase the auction rate securities beginning June 30, 2010. The fair value of the put option approximates the difference between the par value and fair value of the auction rate securities. The auction rate securities were previously classified as available-for-sale, and unrealized gains and losses were recognized in other comprehensive income. By signing the settlement agreement, we no longer have the intent of holding the auction rate securities until recovery as we will now recover any unrealized loss through the settlement agreement. Accordingly, we elected a one-time transfer of the auction rate securities from available-for-sale to trading and reclassified previously recorded unrealized losses from other comprehensive income to earnings. We will continue to recognize gains and losses in earnings approximately equal to changes in the fair value of the auction rate securities at each balance sheet date. These gains and losses will likely be offset by changes in the fair value of the put option as we elect the fair value option subject to our assessment of the counterparties ability to perform. See Part I Item 1A: "Risk Factors — Negative conditions in the global credit markets may impair the liquidity of a portion of our investment portfolio."

The primary inflow of cash during the year ended December 28, 2008 was from the sale of 8,050,000 shares of our common stock to the public in August 2008 at a public offering price of $43.75 per share, raising net proceeds to us of $342.6 million, after deducting underwriting discounts and commissions and offering expenses. Additional cash inflows during this year resulted from the sale and maturity of our investments in available-for-sale securities of $411.8 million and $44.3 million from the exercise of our stock options.

The primary cash outflows during the year ended December 28, 2008 were attributable to the purchase of available-for-sale securities for $568.7 million, the one-time payment of $90.0 million made to Affymetrix in accordance with the settlement agreement, the repurchase of an aggregate of 3.1 million shares of our

common stock for $70.8 million and $59.7 million in capital expenditures primarily for construction-in-progress associated with the expansion of our San Diego facilities, additions to manufacturing equipment as well as the development of our manufacturing facility in Singapore. Additionally, on August 1, 2008, we completed our acquisition of Avantome, Inc. As consideration for the acquisition, we paid $25.8 million in cash, including transaction costs, and may pay up to an additional $35.0 million in contingent cash consideration based on the achievement of certain milestones.

Our primary short-term needs for capital, which are subject to change, include expenditures related to:

- our facilities expansion needs, including costs of leasing additional facilities;
- the acquisition of equipment and other fixed assets for use in our current and future manufacturing and research and development facilities;
- support of our commercialization efforts related to our current and future products, including expansion of our direct sales force and field support resources both in the United States and abroad;
- potential strategic acquisitions and investments;
- the continued advancement of research and development efforts; and
- improvements in our manufacturing capacity and efficiency.

We expect that our product revenue and the resulting operating income, as well as the status of each of our new product development programs, will significantly impact our cash management decisions.

Our outstanding convertible notes became convertible into cash and, if applicable, shares of our common stock as of April 1, 2008. The notes continued to be convertible through December 31, 2008. Subsequent to year end, on December 29, 2008, a noteholder converted notes in an aggregate principal amount of $10.0 million. Generally, upon conversion of a note, we must pay the conversion value of the note in cash, up to the principal amount of the note. Any excess of the conversion value over the principal amount is payable in shares of our common stock. To reduce the potential equity dilution upon conversion of the notes, we entered into a hedge transaction. See Note 8 of Notes to Consolidated Financial Statements for further discussion of the terms of the Convertible Senior Notes. Beginning January 1, 2009 the notes ceased to be convertible since the trigger for convertibility was not met during the last calendar quarter of 2008. Fluctuations in our stock price could cause the conversion feature to trigger in future quarters, resulting in an impact on our working capital.

We anticipate that our current cash and cash equivalents and income from operations will be sufficient to fund our operating needs for at least the next twelve months, barring unforeseen circumstances. Operating needs include the planned costs to operate our business, including amounts required to fund working capital and capital expenditures. At the present time, we have no material commitments for capital expenditures other than development of our additional facility in Little Chesterford, United Kingdom. The development of this facility is estimated to cost $14.5 million during 2009 although actual costs may vary significantly from our current estimate. Our future capital requirements and the adequacy of our available funds will depend on many factors, including:

- our ability to successfully evolve our sequencing and Veracode technologies and to expand our sequencing and SNP genotyping product lines;
- scientific progress in our research and development programs and the magnitude of those programs;
- competing technological and market developments; and
- the need to enter into collaborations with other companies or acquire other companies or technologies to enhance or complement our product and service offerings.

As a result of the factors listed above, we may require additional funding in the future. Our failure to raise capital on acceptable terms, when needed, could have a material adverse effect on our business.

Off-Balance Sheet Arrangements

We do not participate in any transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities (SPEs), which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. During the fiscal year ended December 28, 2008, we were not involved in any "off balance sheet arrangements" within the meaning of the rules of the Securities and Exchange Commission.

Contractual Obligations

Contractual obligations represent future cash commitments and liabilities under agreements with third parties, and exclude orders for goods and services entered into in the normal course of business that are not enforceable or legally binding. The following table represents our contractual obligations as of December 28, 2008, aggregated by type (amounts in thousands):

	Payments Due by Period (1),(2)				
Contractual Obligation	**Total**	**Less Than 1 Year**	**1 – 3 Years**	**3 – 5 Years**	**More Than 5 Years**
Long-term debt obligations(3)	$413,750	$ 2,500	$ 5,000	$ 5,000	$401,250
Operating leases	158,240	11,032	22,945	23,378	100,885
Amounts due under executive deferred compensation plan	1,348	—	—	—	—
Total	$573,338	$13,532	$27,945	$28,378	$502,135

(1) Excludes $35.0 million of contingent cash consideration we may be required to pay pursuant to our purchase agreement with Avantome based on the achievement of certain milestones. We have not included this amount in the table above because the commitment does not have a fixed funding date and is subject to certain conditions. See Note 2 of Notes to the Consolidated Financial Statements for further discussion of our acquisition of Avantome.

(2) Excludes $23.8 million of uncertain tax benefits under FIN 48. We have not included this amount in the table above because we cannot make a reasonably reliable estimate regarding the timing of settlements with taxing authorities, if any. See Note 12 of Notes to the Consolidated Financial Statements for further discussion of our uncertain tax positions.

(3) The "long-term debt obligations" in the above table include the principal amount of our Convertible Senior Notes and interest payments totaling 0.625% per annum. See Note 8 of Notes to Consolidated Financial Statements for further discussion of the terms of the Convertible Senior Notes.

Recent Accounting Pronouncements

Information with respect to recent accounting pronouncements is included in Note 1 of Notes to Consolidated Financial Statements.

Item 7A. *Quantitative and Qualitative Disclosures about Market Risk.*

Interest Rate Sensitivity

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio. The fair market value of fixed rate securities may be adversely impacted by fluctuations in interest rates while income earned on floating rate securities may decline as a result of decreases in interest rates. Under our current policies, we do not use interest rate derivative instruments to manage exposure to interest rate changes. We attempt to ensure the safety and preservation of our invested principal funds by limiting default risk, market risk and reinvestment risk. We mitigate default risk by investing in investment grade securities. We have historically maintained a relatively short average maturity for our investment portfolio, and we believe a hypothetical 100 basis point adverse move in interest rates along the entire interest rate yield curve would not

materially affect the fair value of our interest sensitive financial instruments. For example, if a 100 basis point change in overall interest rates were to occur in 2009, our interest income would change by approximately $6.4 million in relation to amounts we would expect to earn, based on our cash, cash equivalents, and short-term investments as of December 28, 2008.

Market Price Sensitive Instruments

In order to potentially reduce equity dilution, we entered into convertible note hedge transactions, entitling us to purchase up to 18,322,320 shares of our common stock at a strike price of $21.83 per share, subject to adjustment. In addition, we sold to the counterparties warrants exercisable on a net-share basis, for up to 18,322,320 shares of our common stock at a strike price of $31.435 per share, subject to adjustment. The anti-dilutive effect of the note hedge transactions, if any, could be partially or fully offset to the extent the trading price of our common stock exceeds the strike price of the warrants on the exercise dates of the warrants, which occur during 2014, assuming the warrants are exercised.

Foreign Currency Exchange Risk

We have operations in the Americas, Europe and Asia-Pacific. As a result, our financial position, results of operations and cash flows can be affected by fluctuations in foreign currency exchange rates. The functional currency for each of our subsidiaries is the U.S. dollar. Accordingly, we remeasure the monetary assets and liabilities of our foreign subsidiaries to the U.S. dollar at month-end exchange rates and remeasure the nonmonetary assets and liabilities to the U.S. dollar at historical rates. Income and expense amounts related to monetary assets and liabilities are remeasured to the U.S. dollar at the weighted average exchange rates in effect during the relevant period, and income and expense accounts related to nonmonetary assets and liabilities are remeasured to the U.S. dollar at historical exchange rates. Remeasurement gains and losses are recognized as income, or expense, in the period of occurrence.

In addition, many of our reporting entities conduct a portion of their business in currencies other than the entity's U.S. functional currency. These transactions give rise to receivables and payables that are denominated in currencies other than the entity's functional currency. The value of these receivables and payables is subject to changes in exchange rates because they may become worth more or less than they were worth at the time we entered into the transaction due to changes in exchange rates. Both realized and unrealized gains or losses on the value of these receivables and payables are included in the determination of net income. The net currency exchange gain recognized on business transactions was $1.9 million for the year ended December 28, 2008 and is included in other income and expense in the consolidated statements of operations.

Item 8. ***Financial Statements and Supplementary Data.***

The Report of Independent Registered Public Accounting Firm, Financial Statements and Notes to Financial Statements begin on page F-1 immediately following the signature page and are incorporated herein by reference.

Item 9. ***Changes In and Disagreements with Accountants on Accounting and Financial Disclosure.***

None.

Item 9A. ***Controls and Procedures.***

We design our internal controls to provide reasonable assurance that (1) our transactions are properly authorized; (2) our assets are safeguarded against unauthorized or improper use; and (3) our transactions are properly recorded and reported in conformity with U.S. generally accepted accounting principles. We also maintain internal controls and procedures to ensure that we comply with applicable laws and our established financial policies.

We have carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and

operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Securities Exchange Act), as of December 28, 2008. Based upon that evaluation, our principal executive officer and principal financial officer concluded that, as of December 28, 2008, our disclosure controls and procedures were effective to ensure that (a) the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (b) such information is accumulated and communicated to our management, including our principal executive officer and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management have concluded that the disclosure controls and procedures are effective at the reasonable assurance level. Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected.

An evaluation was also performed under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of any change in our internal control over financial reporting that occurred during the fourth quarter of 2008 and that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. The evaluation did not identify any such change.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

We conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control — Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 28, 2008. The effectiveness of our internal control over financial reporting as of December 28, 2008 has been audited by Ernst & Young LLP, an independent registered accounting firm, as stated in their report which is included herein.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of
Illumina, Inc.

We have audited Illumina, Inc.'s internal control over financial reporting as of December 28, 2008, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Illumina, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Illumina, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 28, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the accompanying consolidated balance sheets of Illumina, Inc. as of December 28, 2008 and December 30, 2007, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 28, 2008 of Illumina, Inc. and our report dated February 24, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Diego, California
February 24, 2009

Item 9B. ***Other Information.***

None.

PART III

Item 10. ***Directors, Executive Officers and Corporate Governance.***

(a) Identification of Directors. Information concerning our directors is incorporated by reference from the section entitled "Proposal One: Election of Directors" to be contained in our definitive Proxy Statement with respect to our 2009 Annual Meeting of Stockholders to be filed with the SEC no later than April 27, 2009.

(b) Identification of Executive Officers. Information concerning our executive officers is set forth under "Executive Officers" in Part I of this Annual Report on Form 10-K and is incorporated herein by reference.

(c) Compliance with Section 16(a) of the Exchange Act. Information concerning compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated by reference from the section entitled "Compliance with Section 16(a) of the Securities Exchange Act" to be contained in our definitive Proxy Statement with respect to our 2009 Annual Meeting of Stockholders to be filed with the SEC no later than April 27, 2009.

(d) Information concerning the audit committee financial expert as defined by the SEC rules adopted pursuant to the Sarbanes-Oxley Act of 2002 is incorporated by reference from our definitive Proxy Statement with respect to our 2009 Annual Meeting of Stockholders to be filed with the SEC no later than April 27, 2009.

Code of Ethics

We have adopted a code of ethics for our directors, officers and employees, which is available on our website at www.illumina.com in the Investor Information section under "Corporate." The information on, or that can be accessed from, our website is not incorporated by reference into this report.

Item 11. ***Executive Compensation.***

Information concerning executive compensation is incorporated by reference from the sections entitled "Executive Compensation and Other Information" to be contained in our definitive Proxy Statement with respect to our 2009 Annual Meeting of Stockholders to be filed with the SEC no later than April 27, 2009.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.***

Information concerning the security ownership of certain beneficial owners and management and information covering securities authorized for issuance under equity compensation plans is incorporated by reference from the sections entitled "Ownership of Securities" and "Equity Compensation Plan Information" to be contained in our definitive Proxy Statement with respect to our 2009 Annual Meeting of Stockholders to be filed with the SEC no later than April 27, 2009.

Item 13. ***Certain Relationships and Related Transactions, and Director Independence.***

Information concerning certain relationships and related transactions, and director independence is incorporated by reference from the sections entitled "Proposal One: Election of Directors," "Executive Compensation and Other Information" and "Certain Transactions" to be contained in our definitive Proxy Statement with respect to our 2009 Annual Meeting of Stockholders to be filed with the SEC no later than April 27, 2009.

Item 14. ***Principal Accountant Fees and Services.***

Information concerning principal accountant fees and services is incorporated by reference from the sections entitled "Proposal Two: Ratification of Independent Registered Public Accounting Firm" to be contained in our definitive Proxy Statement with respect to our 2009 Annual Meeting of Stockholders to be filed with the SEC no later than April 27, 2009.

PART IV

Item 15. ***Exhibits, Financial Statement Schedules.***

(a) The following documents are filed as a part of this report:

(1) *Consolidated Financial Statements:*

	Page
Index to Consolidated Financial Statements	F-1
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets as of December 28, 2008 and December 30, 2007	F-3
Consolidated Statements of Operations for the years ended December 28, 2008, December 30, 2007 and December 31, 2006	F-4
Consolidated Statements of Stockholders' Equity for the years ended December 28, 2008, December 30, 2007 and December 31, 2006	F-5
Consolidated Statements of Cash Flows for the years ended December 28, 2008, December 30, 2007 and December 31, 2006	F-6
Notes to Consolidated Financial Statements	F-7
(2) *Financial Statement Schedule:*	
Valuation and Qualifying Account and Reserves for the period from January 1, 2006 to December 28, 2008	F-36

(3) *Exhibits:*

Exhibit Number	Description of Document
3.1(2)	Amended and Restated Certificate of Incorporation.
3.2	Amended Bylaws.
3.3(5)	Certificate of Designation for Series A Junior Participating Preferred Stock (included as an exhibit to exhibit 4.3).
4.1(1)	Specimen Common Stock Certificate.
4.2(1)	Second Amended and Restated Stockholders Rights Agreement, dated November 5, 1999, by and among the Registrant and certain stockholders of the Registrant.
4.3(5)	Rights Agreement, dated as of May 3, 2001, between the Registrant and Equiserve Trust Company, N.A.
4.4(35)	Indenture related to the 0.625% Convertible Senior Notes due 2014, dated as of February 16, 2007, between the Registrant and the Bank of New York, as trustee.
4.5(36)	Registration Rights Agreement, dated as of February 16, 2007, between the Registrant and the Purchasers named therein.
+10.1(1)	Form of Indemnification Agreement between the Registrant and each of its directors and officers.
+10.2(1)	1998 Incentive Stock Plan.
+10.3(7)	2000 Employee Stock Purchase Plan, as amended and restated through July 20, 2006.
10.4(1)	Sublease Agreement dated August 1998 between Registrant and Gensia Sicor Inc. for the Registrant's principal offices.
10.5(37)	License Agreement dated May 1998 between Tufts and Registrant.
10.6(10)	Master Loan and Security Agreement, dated March 6, 2000, by and between Registrant and FINOVA Capital Corporation.
+10.7(20)	2000 Stock Plan, as amended and restated through March 21, 2002.

Exhibit Number	Description of Document
10.8(12)	Eastgate Pointe Lease, dated July 6, 2000, between Diversified Eastgate Venture and Registrant.
10.9(19)	Option Agreement and Joint Escrow Instructions, dated July 6, 2000, between Diversified Eastgate Venture and Registrant.
10.10(4)	First Amendment to Joint Development Agreement dated March 27, 2001 between Registrant and PE Corporation, now known as Applied Biosystems Group (with certain confidential portions omitted).
10.11(6)	First Amendment to Option Agreement and Escrow Instructions dated May 25, 2001 between Diversified Eastgate Venture and Registrant.
10.12(13)	Second Amendment to Option Agreement and Escrow Instructions dated July 18, 2001 between Diversified Eastgate Venture and Registrant.
10.13(14)	Third Amendment to Option Agreement and Escrow Instructions dated September 27, 2001 between Diversified Eastgate Venture and Registrant.
10.14(15)	First Amendment to Eastgate Pointe Lease dated September 27, 2001 between Diversified Eastgate Venture and Registrant.
10.15(8)	Replacement Reserve Agreement, dated as of January 10, 2002, between the Registrant and BNY Western Trust Company as Trustee for Washington Capital Joint Master Trust Mortgage Income Fund.
10.16(17)	Loan Assumption and Modification Agreement, dated as of January 10, 2002, between the Registrant, Diversified Eastgate Venture and BNY Western Trust Company as Trustee for Washington Capital Joint Master Trust Mortgage Income Fund.
10.17(18)	Tenant Improvement and Leasing Commission Reserve Agreement, dated as of January 10, 2002, between the Registrant and BNY Western Trust Company as Trustee for Washington Capital Joint Master Trust Mortgage Income Fund.
+10.18(42)	Solexa Share Option Plan for Consultants.
+10.19(43)	Solexa Enterprise Management Incentive Plan.
10.20(21)	Non-exclusive License Agreement dated January 2002 between Amersham Biosciences Corp. and Registrant (with certain confidential portions omitted).
10.21(22)	License Agreement dated June 2002 between Dade Behring Marburg GmbH and Registrant (with certain confidential portions omitted).
10.22(23)	Purchase and Sale Agreement and Escrow Instructions dated June 18, 2004 between Bernardo Property Advisors, Inc. and Registrant.
10.23(24)	Single Tenant Lease dated August 18, 2004 between BMR-9885 Towne Centre Drive LLC and Registrant.
10.24(25)	Settlement and Cross License Agreement dated August 18, 2004 between Applera Corporation and Registrant (with certain confidential portions omitted).
10.25	Amended Solexa 2005 Equity Incentive Plan
10.26	Amended Solexa 1992 Stock Option Plan
10.27(41)	Solexa Unapproved Company Share Option Plan
10.28(26)	Collaboration Agreement dated December 17, 2004 between Invitrogen Corporation and Registrant (with certain confidential portions omitted).
10.29(27)	Offer letter for Christian O. Henry dated April 26, 2005.
10.30(28)	Forms of Stock Option Agreement under 2000 Stock Plan.
10.31(29)	Secured Convertible Debenture Indenture between Genizon BioSciences Inc., Computershare Trust Company of Canada and the Registrant, dated March 24, 2006.
10.32(30)	Joint Development and Licensing Agreement dated May 15, 2006 between deCODE genetics, ehf. and Registrant (with certain confidential portions omitted).
10.33	Amended and Restated Change in Control Severance Agreement between the Registrant and Jay T Flatly.
10.34	Form of Change in Control Severance Agreement between the Registrant and its executive officers.
10.35	Form of Restricted Stock Unit Agreement for Non-Employee Directors under 2005 Stock and Incentive Plan.
10.36	[Reserved]
10.37	[Reserved]
10.38	[Reserved]
10.39(34)	Securities Purchase Agreement, dated as of November 12, 2006, between Solexa, Inc. and the Registrant.
10.40(50)	Lease between The Irvine Company LLC and the Registrant, dated September 29, 2006.
10.41(37)	Amended and Restated Lease between BMR-9885 Towne Centre Drive LLC and the Registrant for the 9885 Towne Centre Drive property, dated January 26, 2007.
10.42(37)	Lease between BMR-9885 Towne Centre Drive LLC and the Registrant for the 9865 Towne Centre Drive property, dated January 26, 2007.

Exhibit Number	Description of Document
10.43	Amended and Restated 2005 Stock and Incentive Plan.
10.44(9)	Settlement and Release Agreement between Affymetrix, Inc. and the Registrant, dated January 9, 2008.
10.45(44)	Confirmation of Convertible Bond Hedge Transaction, dated February 12, 2007, by and between the Registrant and Goldman, Sachs & Co.
10.46(45)	Confirmation of Convertible Bond Hedge Transaction, dated February 12, 2007, by and between the Registrant and Deutsche Bank AG London.
10.47(46)	Confirmation Issuer Warrant Transaction, dated February 12, 2007, by and between the Registrant and Goldman, Sachs & Co.
10.48(47)	Confirmation Issuer Warrant Transaction, dated February 12, 2007, by and between the Registrant and Deutsche Bank AG London.
10.49(48)	Amendment to the Confirmation of Issuer Warrant Transaction, dated February 13, 2007, by and between the Registrant and Goldman, Sachs & Co.
10.50(49)	Amendment to the Confirmation of Issuer Warrant Transaction, dated February 13, 2007, by and between the Registrant and Deutsche Bank AG London.
10.51(11)	New Hire Stock and Incentive Plan.
10.52(11)	Executive Transition Agreement between the Registrant and John R. Stuelpnagel, dated March 21, 2008.
10.53	[Reserved]
10.54	[Reserved]
10.55(3)	Indemnification Agreement between the Registrant and Gregory F. Heath.
10.56(3)	Indemnification Agreement between the Registrant and Joel McComb.
14	Code of Ethics.
21.1	Subsidiaries of the Registrant.
23.1	Consent of Independent Registered Public Accounting Firm.
24.1	Power of Attorney (included on the signature page).
31.1	Certification of Jay T. Flatley pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Christian O. Henry pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Jay T. Flatley pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Christian O. Henry pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

+ Management contract or corporate plan or arrangement

(1) Incorporated by reference to the same numbered exhibit filed with our Registration Statement on Form S-1 (File No. 333-33922) filed April 3, 2000, as amended.

(2) Incorporated by reference to exhibit 3.1 filed with our Form 8-K (File No. 000-30361) filed on September 23, 2008.

(3) Incorporated by reference to the same numbered exhibit filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended June 29, 2008 filed July 25, 2008.

(4) Incorporated by reference to exhibit 10.13 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended March 31, 2001 filed May 8, 2001.

(5) Incorporated by reference to the same numbered exhibit filed with our Registration Statement on Form 8-A (File No. 000-30361) filed May 14, 2001.

(6) Incorporated by reference to exhibit 10.15 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended June 30, 2001 filed August 13, 2001.

(7) Incorporated by reference to exhibit 10.3 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended October 1, 2006 filed October 30, 2006.

(8) Incorporated by reference to exhibit 10.18 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended March 31, 2002 filed May 13, 2002.

(9) Incorporated by reference to exhibit 10.44 filed with our Form 10-K (File No. 000-30361) for the fiscal year ended December 30, 2007 filed February 26, 2008.

(10) Incorporated by reference to exhibit 10.9 filed with our Registration Statement on Form S-1/A (File No. 333-33922) filed July 3, 2000.

(11) Incorporated by reference to the same numbered exhibit filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended March 30, 2008 filed April 28, 2008.

(12) Incorporated by reference to exhibit 10.11 filed with our Registration Statement on Form S-1/A (File No. 333-33922) filed July 19, 2000.

(13) Incorporated by reference to exhibit 10.16 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended September 30, 2001 filed November 14, 2001.

(14) Incorporated by reference to exhibit 10.17 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended September 30, 2001 filed November 14, 2001.

(15) Incorporated by reference to exhibit 10.18 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended September 30, 2001 filed November 14, 2001.

(16) Incorporated by reference to exhibit 2.1 filed with our Form 8-K (File No. 000-30361) filed November 13, 2006.

(17) Incorporated by reference to exhibit 10.19 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended March 31, 2002 filed May 13, 2002.

(18) Incorporated by reference to the exhibit 10.20 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended March 31, 2002 filed May 13, 2002.

(19) Incorporated by reference to exhibit 10.12 filed with our Registration Statement on Form S-1 (File No. 333-33922) filed July 19, 2000.

(20) Incorporated by reference to the exhibit 10.22 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended March 31, 2002 filed May 13, 2002.

(21) Incorporated by reference to exhibit 10.24 filed with Amendment No. 1 to our Registration Statement on Form S-3 (File No. 333-111496) filed March 2, 2004.

(22) Incorporated by reference to exhibit 10.23 filed with our Amendment No. 1 to our Registration Statement on Form S-3 (File No. 333-111496) filed March 2, 2004.

(23) Incorporated by reference to exhibit 10.25 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended June 27, 2004 filed August 6, 2004.

(24) Incorporated by reference to exhibit 10.26 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended October 3, 2004 filed November 12, 2004.

(25) Incorporated by reference to exhibit 10.27 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended October 3, 2004 filed November 12, 2004.

(26) Incorporated by reference to exhibit 10.28 filed with our Form 10-K (File No. 000-30361) for the year ended January 2, 2005 filed March 8, 2005.

(27) Incorporated by reference to exhibit 10.33 filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended July 3, 2005 filed August 8, 2005.

(28) Incorporated by reference to exhibit 10.29 filed with our Form 10-K (File No. 000-30361) for the year ended January 2, 2005 filed March 8, 2005.

(29) Incorporated by reference to the same numbered exhibit filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended April 2, 2006 filed May 8, 2006.

(30) Incorporated by reference to the same numbered exhibit filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended July 2, 2006 filed August 2, 2006.

(31) [Reserved]

(32) [Reserved]

(33) [Reserved]

(34) Incorporated by reference to exhibit 10.1 filed with our Form 8-K (File No. 000-30361) filed November 13, 2006.

(35) Incorporated by reference to exhibit 4.1 filed with our Form 8-K (File No. 000-30361) filed February 16, 2007.

(36) Incorporated by reference to exhibit 4.2 filed with our Form 8-K (File No. 000-30361) filed February 16, 2007.

(37) Incorporated by reference to the same numbered exhibit filed with our Form 10-Q (File No. 000-30361) for the quarterly period ended April 1, 2007 filed May 3, 2007.

(38) [Reserved]

(39) [Reserved]

(40) [Reserved]

(41) Incorporated by reference to exhibit 99.3 filed with our Form 8-K (File No. 000-30361) filed November 26, 2007.

(42) Incorporated by reference to exhibit 99.4 filed with our Form 8-K (File No. 000-30361) filed November 26, 2007.

(43) Incorporated by reference to exhibit 99.5 filed with our Form 8-K (File No. 000-30361) filed November 26, 2007.

(44) Incorporated by reference to exhibit 10.1 filed with our Form 8-K (File No. 000-30361) filed February 16, 2007.

(45) Incorporated by reference to exhibit 10.2 filed with our Form 8-K (File No. 000-30361) filed February 16, 2007.

(46) Incorporated by reference to exhibit 10.3 filed with our Form 8-K (File No. 000-30361) filed February 16, 2007.

(47) Incorporated by reference to exhibit 10.4 filed with our Form 8-K (File No. 000-30361) filed February 16, 2007.

(48) Incorporated by reference to exhibit 10.5 filed with our Form 8-K (File No. 000-30361) filed February 16, 2007.

(49) Incorporated by reference to exhibit 10.6 filed with our Form 8-K (File No. 000-30361) filed February 16, 2007.

(50) Incorporated by reference to the same numbered exhibit filed with our Annual Report on Form 10-K (File No. 000-30361) for the year ended December 31, 2006 filed February 28, 2007.

Supplemental Information

No Annual Report to stockholders or proxy materials has been sent to stockholders as of the date of this report. The Annual Report to stockholders and proxy material will be furnished to our stockholders subsequent to the filing of this Annual Report on Form 10-K and we will furnish such material to the SEC at that time.

SIGNATURES

Pursuant to the requirements of the Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 25, 2009.

ILLUMINA, INC.

BY /s/ JAY T. FLATLEY
Jay T. Flatley
President and Chief Executive Officer

February 25, 2009

POWER OF ATTORNEY

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ JAY T. FLATLEY Jay T. Flatley	President, Chief Executive Officer and Director (Principal Executive Officer)	February 25, 2009
/s/ CHRISTIAN O. HENRY Christian O. Henry	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	February 25, 2009
/s/ WILLIAM H. RASTETTER William H. Rastetter	Chairman of the Board of Directors	February 25, 2009
/s/ A. BLAINE BOWMAN A. Blaine Bowman	Director	February 25, 2009
/s/ DANIEL M. BRADBURY Daniel M. Bradbury	Director	February 25, 2009
/s/ KARIN EASTHAM Karin Eastham	Director	February 25, 2009

/s/ JACK GOLDSTEIN Jack Goldstein	Director	February 25, 2009
/s/ PAUL GRINT Paul Grint	Director	February 25, 2009
/s/ DAVID R. WALT David R. Walt	Director	February 25, 2009

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of
Illumina, Inc.

We have audited the accompanying consolidated balance sheets of Illumina, Inc. as of December 28, 2008 and December 30, 2007, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 28, 2008. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Illumina, Inc., at December 28, 2008 and December 30, 2007, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 28, 2008, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Illumina, Inc.'s internal control over financial reporting as of December 28, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 24, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Diego, California
February 24, 2009

ILLUMINA, INC.

CONSOLIDATED BALANCE SHEETS

	December 28, 2008	December 30, 2007
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 327,024	$ 174,941
Short-term investments	313,051	211,141
Accounts receivable, net	133,266	83,119
Inventory, net	73,431	53,980
Deferred tax assets — current portion	8,635	26,934
Prepaid expenses and other current assets	9,530	12,640
Total current assets	864,937	562,755
Property and equipment, net	89,436	46,274
Long-term investments	55,900	—
Goodwill	228,734	228,734
Intangible assets, net	47,755	58,116
Deferred tax assets — long term portion	78,321	80,245
Other assets, net	12,017	11,608
Total assets	$1,377,100	$ 987,732
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 29,204	$ 24,311
Litigation settlements payable	—	90,536
Accrued liabilities	80,355	50,852
Current portion of long-term debt	399,999	16
Total current liabilities	509,558	165,715
Long-term debt, less current portion	—	400,000
Deferred gain on sale of land and building	2,314	2,485
Other long-term liabilities	16,632	7,854
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value, 10,000,000 shares authorized, no shares issued and outstanding at December 28, 2008 and December 30, 2007	—	—
Common stock, $0.01 par value, 320,000,000 shares authorized, 138,936,582 shares issued and outstanding at December 28, 2008, 125,607,354 shares issued and outstanding at December 30, 2007	1,389	1,256
Additional paid-in capital	1,499,708	1,043,674
Accumulated other comprehensive income	2,406	1,347
Accumulated deficit	(332,500)	(382,977)
Treasury stock, at cost (17,927,983 shares at December 28, 2008 and 14,819,090 shares at December 30, 2007)	(322,407)	(251,622)
Total stockholders' equity	848,596	411,678
Total liabilities and stockholders' equity	$1,377,100	$ 987,732

See accompanying notes to consolidated financial statements

ILLUMINA, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 28, 2008	Year Ended December 30, 2007	Year Ended December 31, 2006
	(In thousands, except per share amounts)		
Revenue			
Product revenue	$532,390	$ 326,699	$155,811
Service and other revenue	40,835	40,100	28,775
Total revenue	573,225	366,799	184,586
Costs and expenses:			
Cost of product revenue (excluding impairment of manufacturing equipment and amortization of intangible assets)	192,868	119,991	51,271
Cost of service and other revenue	12,756	12,445	8,073
Research and development	99,963	73,943	33,373
Selling, general and administrative	148,014	101,256	54,057
Impairment of manufacturing equipment	4,069	—	—
Amortization of intangible assets	10,438	2,429	—
Acquired in-process research and development	24,660	303,400	—
Litigation settlements	—	54,536	—
Total costs and expenses	492,768	668,000	146,774
Income (loss) from operations	80,457	(301,201)	37,812
Interest income	12,519	16,026	5,368
Interest and other expense, net	(2,070)	(3,610)	(560)
Income (loss) before income taxes	90,906	(288,785)	42,620
Provision (benefit) for income taxes	40,429	(10,426)	2,652
Net income (loss)	$ 50,477	$(278,359)	$ 39,968
Net income (loss) per basic share	$ 0.43	$ (2.57)	$ 0.45
Net income (loss) per diluted share	$ 0.38	$ (2.57)	$ 0.41
Shares used in calculating basic net income (loss) per share	116,855	108,308	89,002
Shares used in calculating diluted net income (loss) per share	133,607	108,308	97,508

See accompanying notes to consolidated financial statements

ILLUMINA, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-In Capital	Deferred Compensation	Accumulated Other Comprehensive Income	Accumulated Deficit	Treasury Stock		Total Stockholders' Equity
	Shares	Amount					Shares	Amount	
					(In thousands)				
Balance as of January 1, 2006	82,588	$ 826	$ 216,353	$(354)	$ 258	$(144,586)	—	$ —	$ 72,497
Issuance of common stock	11,126	112	114,384	—	—	—	—	—	114,496
May 2006 offering costs	—	—	(6,530)	—	—	—	—	—	(6,530)
Stock-based compensation	—	—	14,082	354	—	—	—	—	14,436
Incremental tax benefit related to stock options exercised	—	—	1,439	—	—	—	—	—	1,439
Comprehensive income:									
Unrealized gain on available-for-sale securities, net of deferred tax	—	—	—	—	10,693	—	—	—	10,693
Unrealized loss on hedging contracts	—	—	—	—	(10)	—	—	—	(10)
Foreign currency translation adjustment	—	—	—	—	353	—	—	—	353
Net income	—	—	—	—	—	39,968	—	—	39,968
Comprehensive income									51,004
Balance as of December 31, 2006	93,714	$ 938	$ 339,728	$ —	$ 11,294	$(104,618)	—	$ —	$ 247,342
Issuance of common stock	4,654	46	30,044	—	—	—	—	—	30,090
Issuance of common stock for the acquisition of Solexa, Inc.	26,442	264	530,460	—	—	—	—	—	530,724
Fair value of options assumed from Solexa, Inc.	—	—	75,334	—	—	—	—	—	75,334
Convertible note hedge	—	—	(139,040)	—	—	—	—	—	(139,040)
Warrants issued in connection with the convertible debt issuance	—	—	92,440	—	—	—	—	—	92,440
Warrants exercised	798	8	6,067	—	—	—	—	—	6,075
Stock-based compensation	—	—	33,926	—	—	—	—	—	33,926
Incremental tax benefit related to stock options exercised	—	—	20,086	—	—	—	—	—	20,086
Incremental tax benefit related to convertible debt issuance	—	—	54,629	—	—	—	—	—	54,629
Repurchases of common stock	—	—	—	—	—	—	(14,819)	(251,622)	(251,622)
Comprehensive loss:									
Unrealized loss on available-for-sale securities, net of deferred tax	—	—	—	—	(10,529)	—	—	—	(10,529)
Foreign currency translation adjustment	—	—	—	—	582	—	—	—	582
Net loss	—	—	—	—	—	(278,359)	—	—	(278,359)
Comprehensive loss									(288,306)
Balance as of December 30, 2007	125,608	$1,256	$1,043,674	$ —	$ 1,347	$(382,977)	(14,819)	$(251,622)	$ 411,678
Issuance of common stock in conjunction with secondary offering, net of issuance costs	8,050	80	342,570	—	—	—	—	—	342,650
Issuance of common stock under employee stock plans	4,923	49	44,281	—	—	—	—	—	44,330
Warrants exercised	356	4	2,987	—	—	—	—	—	2,991
Stock-based compensation	—	—	47,695	—	—	—	—	—	47,695
Incremental tax benefit related to stock options exercised	—	—	18,501	—	—	—	—	—	18,501
Repurchases of common stock	—	—	—	—	—	—	(3,109)	(70,785)	(70,785)
Comprehensive income:									
Unrealized gain on available-for-sale securities, net of deferred tax	—	—	—	—	920	—	—	—	920
Foreign currency translation adjustment	—	—	—	—	139	—	—	—	139
Net income	—	—	—	—	—	50,477	—	—	50,477
Comprehensive income									51,552
Balance as of December 28, 2008	138,937	$1,389	$1,499,708	$ —	$ 2,406	$(332,500)	(17,928)	$(322,407)	$ 848,596

See accompanying notes to consolidated financial statements

ILLUMINA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 28, 2008	Year Ended December 30, 2007	Year Ended December 31, 2006
		(In thousands)	
Cash flows from operating activities:			
Net income (loss)	$ 50,477	$(278,359)	$ 39,968
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Acquired in-process research and development	24,660	303,400	—
Amortization of increase in inventory valuation	—	942	—
Amortization of intangible assets	10,438	2,429	—
Amortization of debt issuance costs	1,374	1,176	—
Depreciation expense	17,285	11,464	6,032
Loss on disposal of property and equipment	262	15	116
Impairment of manufacturing equipment	4,069	—	—
Stock-based compensation expense	47,688	33,746	14,304
Incremental tax benefit related to stock options exercised	(18,501)	(20,086)	(1,439)
Amortization of gain on sale of land and building	(170)	(187)	(375)
Changes in operating assets and liabilities:			
Accounts receivable	(57,672)	(37,060)	(21,733)
Inventory	(19,560)	(27,130)	(9,728)
Prepaid expenses and other current assets	2,322	(6,127)	(1,591)
Deferred income taxes	38,692	(11,408)	(548)
Other assets	(1,815)	2,612	(5,212)
Accounts payable	4,840	12,262	2,438
Litigation settlements payable	(54,536)	54,536	—
Accrued income taxes	2,377	1,586	1,809
Accrued liabilities	29,339	15,901	9,066
Other long-term liabilities	6,313	(3,418)	5,893
Net cash provided by operating activities	87,882	56,294	39,000
Cash flows from investing activities:			
Cash (paid for) obtained in acquisition, including cash paid for transaction costs	(24,666)	72,075	—
Investment in secured convertible debentures	—	—	(3,036)
Sale of secured convertible debentures	—	3,593	—
Investment in Solexa	—	—	(50,000)
Purchases of available-for-sale securities	(568,707)	(598,383)	(236,331)
Sales and maturities of available-for-sale securities	411,817	479,415	143,846
Purchase of property and equipment	(59,693)	(24,301)	(15,114)
Cash paid for intangible assets	(36,000)	(85)	(100)
Net cash used in investing activities	(277,249)	(67,686)	(160,735)
Cash flows from financing activities:			
Payments on long-term debt	(15)	(95)	(109)
Proceeds from issuance of convertible debt, net of issuance costs	—	390,269	—
Purchase of convertible note hedges	—	(139,040)	—
Proceeds from warrant exercises	2,991	98,515	—
Common stock repurchases	(70,785)	(251,622)	—
Proceeds from secondary offering, net of issuance cost	342,650	—	—
Proceeds from issuance of common stock	44,330	30,179	107,966
Incremental tax benefit related to stock options exercised	18,501	20,086	1,439
Net cash provided by financing activities	337,672	148,292	109,296
Effect of foreign currency translation on cash and cash equivalents	3,778	(345)	3
Net increase (decrease) in cash and cash equivalents	152,083	136,555	(12,436)
Cash and cash equivalents at beginning of the year	174,941	38,386	50,822
Cash and cash equivalents at end of the year	$ 327,024	$ 174,941	$ 38,386
Supplemental disclosures of cash flow information:			
Cash paid for interest	$ 2,553	$ 1,378	$ 11
Cash (refunded) paid for income taxes	$ (1,653)	$ 2,581	$ 1,392

See accompanying notes to consolidated financial statements

1. Organization and Summary of Significant Accounting Policies

Organization and Business

Illumina, Inc. (the Company) was incorporated on April 28, 1998. The Company is a leading developer, manufacturer and marketer of integrated systems for the large-scale analysis of genetic variation and biological function. Using the Company's proprietary technologies, the Company provides a comprehensive line of products and services that currently serve the sequencing, genotyping and gene expression markets. The Company also expects to enter the market for molecular diagnostics. The Company's customers include leading genomic research centers, pharmaceutical companies, academic institutions, clinical research organizations and biotechnology companies. The Company's tools provide researchers around the world with the performance, throughput, cost effectiveness and flexibility necessary to perform the billions of genetic tests needed to extract valuable medical information from advances in genomics and proteomics. The Company believes this information will enable researchers to correlate genetic variation and biological function, which will enhance drug discovery and clinical research, allow diseases to be detected earlier and permit better choices of drugs for individual patients.

Basis of Presentation

The consolidated financial statements of the Company have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) and include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Fiscal Year

The Company's fiscal year is 52 or 53 weeks ending the Sunday closest to December 31, with quarters of 13 or 14 weeks ending the Sunday closest to March 31, June 30, and September 30. The years ended December 28, 2008, December 30, 2007 and December 31, 2006 were all 52 weeks.

Use of Estimates

The preparation of financial statements requires that management make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and related disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Cash Equivalents and Investments

Cash equivalents are comprised of short-term, highly liquid investments with maturities of 90 days or less from the date of purchase.

Short-term investments consist of U.S. Treasury and U.S. government agency securities, municipal notes, corporate notes and bonds and commercial paper. All short-term investments have been designated as available-for-sale securities recorded at estimated fair value with the related unrealized gains and losses included in accumulated other comprehensive income, a component of stockholders' equity. The Company accounts for investments in debt and equity instruments in accordance with SFAS, No. 115, *Accounting for Certain Investments in Debt and Equity Securities* and FASB Staff Position, or FSP, No. 115-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, or FSP 115-1. Management determines the appropriate classification of such securities at the time of purchase and reevaluates such classification as of each balance sheet date. The Company follows the guidance provided by FSP 115-1, to assess whether investments with unrealized loss positions are other than temporarily impaired. Realized gains and losses and declines in value judged to be other than temporary are determined based on the specific identification method and are reported in Interest and other expense, net in the consolidated statements of operations.

Long-term investments are comprised of the Company's auction rate securities and a put option related to the Company's settlement agreement with UBS that gives the Company the right to sell its auction rate securities to UBS at par value at a future date. Both the auction rate securities and the put option are recorded at estimated fair value and unrealized gains and losses, if any, are recognized in Interest income on the consolidated statements of operations. Historically, the Company's auction rate securities were classified as available-for-sale securities, however, during the fourth quarter of fiscal 2008, the Company reclassified the auction rate securities from available-for-sale to trading securities. See Note 4 for further detailed discussion.

Fair Value of Financial Instruments

The carrying amounts of financial instruments such as cash equivalents, foreign cash accounts, accounts receivable, prepaid expenses and other current assets, accounts payable, accrued expenses and other current liabilities approximate the related fair values due to the short-term maturities of these instruments. The estimated fair value of the convertible senior notes is determined by using available market information as of the latest trading date prior to the Company's fiscal year-end provided by a third party financial institution. The fair value of the Company's convertible notes at December 28, 2008 and December 30, 2007 are $473.0 million and $596.3 million, respectively.

Accounts Receivable

Trade accounts receivable are recorded at the net invoice value and are not interest bearing. The Company considers receivables past due based on the contractual payment terms. The Company reviews its exposure to amounts receivable and reserves specific amounts if collectibility is no longer reasonably assured. The Company also reserves a percentage of its trade receivable balance based on collection history and current economic trends that might impact the level of future credit losses. The Company re-evaluates such reserves on a regular basis and adjusts its reserves as needed.

Concentrations of Risk

The Company operates in markets that are highly competitive and rapidly changing. Significant technological changes, shifting customer needs, the emergence of competitive products or services with new capabilities and other factors could negatively impact the Company's operating results.

The Company is also subject to risks related to its financial instruments including its cash and cash equivalents, investments and accounts receivable. Most of the Company's cash and cash equivalents as of December 28, 2008 were deposited with financial institutions in the United States and the Company's investment policy restricts the amount of credit exposure to any one issuer to 5% of the portfolio at the time of purchase and to any one industry sector, as defined by Bloomberg classifications, to 25% of the portfolio at the time of purchase. There is no limit to the percentage of the portfolio that may be maintained in securities issued by the U.S government and money market funds. The Company has historically not experienced significant credit losses from investments and accounts receivable. The Company performs a regular review of customer activity and associated credit risks.

The Company's products require customized components that currently are available from a limited number of sources. The Company obtains certain key components included in its products from single vendors.

Shipments to customers outside the United States comprised 51%, 43% and 44% of the Company's revenue for the years ended December 28, 2008, December 30, 2007 and December 31, 2006, respectively. Customers outside the United States represented 61% and 46% of the Company's net accounts receivable balance as of December 28, 2008 and December 30, 2007, respectively. Sales to territories outside of the United States are generally denominated in U.S. dollars. International sales entail a variety of risks, including

currency exchange fluctuations, longer payment cycles and greater difficulty in accounts receivable collection. The Company is also subject to general geopolitical risks, such as political, social and economic instability and changes in diplomatic and trade relations. The risks of international sales are mitigated in part by the extent to which sales are geographically distributed.

Inventories

Inventories are stated at the lower of cost (on a first in, first out basis) or market. Inventory includes raw materials and finished goods that may be used in the research and development process and such items are expensed as consumed or expired. Provisions for slow moving, excess and obsolete inventories are provided based on product life cycle and development plans, product expiration and quality issues, historical experience and inventory levels.

Property and Equipment

Property and equipment are stated at cost, subject to review of impairment, and depreciated over the estimated useful lives of the assets (generally three to seven years) using the straight-line method. Amortization of leasehold improvements is computed over the shorter of the lease term or the estimated useful life of the related assets. Maintenance and repairs are charged to operations as incurred. When assets are sold, or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is included in operating expense.

Goodwill, Intangible Assets and Other Long-Lived Assets

Goodwill represents the excess of cost over fair value of net assets acquired. Intangible assets include acquired technology, customer relationships, other license agreements and licensed technology (capitalized as part of the Affymetrix litigation). The cost of identified intangible assets is amortized on a straight-line basis over periods ranging from three to ten years unless the expected benefit pattern is declining, in which case an accelerated method is used.

The Company regularly performs reviews to determine if the carrying values of the long-lived assets are impaired. In accordance with SFAS 142, *Goodwill and Other Intangible Assets,* goodwill and other intangible assets that have indefinite useful lives are reviewed for impairment at least annually during the second fiscal quarter, or more frequently if an event occurs indicating the potential for impairment. The Company performed its annual impairment test of goodwill as of May 30, 2008, utilizing a test that begins with an estimate of the fair value of the reporting unit or intangible asset, noting no impairment and has determined there has been no impairment indicators for goodwill through December 28, 2008. A review of intangible assets that have finite useful lives and other long-lived assets is performed when an event occurs indicating the potential for impairment in accordance with SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. If indicators of impairment exist, the Company assesses the recoverability of the affected long-lived assets by determining whether the carrying value of such assets can be recovered through undiscounted future operating cash flows. If impairment is indicated, the Company measures the future discounted cash flows associated with the use of the asset and adjusts the value of the asset accordingly. Factors that would necessitate an impairment assessment include a significant decline in the Company's stock price and market capitalization compared to its net book value, significant changes in the ability of a particular asset to generate positive cash flows and significant changes in the Company's strategic business objectives and utilization of the asset.

Reserve for Product Warranties

The Company generally provides a one-year warranty on instrumentation. At the time revenue is recognized, the Company establishes an accrual for estimated warranty expenses associated with system sales. This expense is recorded as a component of cost of revenue.

Revenue Recognition

The Company's revenue is generated primarily from the sale of products and services. Product revenue consists of sales of arrays, reagents, flow cells, instrumentation, oligonucleotides (oligos) and associated freight charges. Service and other revenue consists of revenue received for performing genotyping and sequencing services, extended warranty sales and amounts earned under research agreements with government grants, which are recognized in the period during which the related costs are incurred.

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the seller's price to the buyer is fixed or determinable and collectibility is reasonably assured. In instances where final acceptance of the product or system is required, revenue is deferred until all the acceptance criteria have been met. All revenue is recorded net of any applicable allowances for returns or discounts.

Revenue for product sales is recognized generally upon shipment and transfer of title to the customer, provided no significant obligations remain and collection of the receivables is reasonably assured. Revenue from the sale of instrumentation is recognized when earned, which is generally upon shipment. Revenue for genotyping and sequencing services is recognized when earned, which is generally at the time the genotyping or sequencing analysis data is delivered to the customer.

In order to assess whether the price is fixed and determinable, the Company ensures there are no refund rights. If payment terms are based on future performance, the Company defers revenue recognition until the price becomes fixed and determinable. The Company assesses collectibility based on a number of factors, including past transaction history with the customer and the creditworthiness of the customer. If the Company determines that collection of a payment is not reasonably assured, revenue recognition is deferred until the time collection becomes reasonably assured, which is generally upon receipt of payment.

Sales of instrumentation generally include a standard one-year warranty. The Company also sells separately priced maintenance (extended warranty) contracts, which are generally for one or two years, upon the expiration of the initial warranty. Revenue for extended warranty sales is recognized ratably over the term of the extended warranty period. Reserves are provided for estimated product warranty expenses at the time the associated revenue is recognized. If the Company were to experience an increase in warranty claims or if costs of servicing its warrantied products were greater than its estimates, gross margins could be adversely affected.

While the majority of its sales agreements contain standard terms and conditions, the Company does enter into agreements that contain multiple elements or non-standard terms and conditions. Emerging Issues Task Force (EITF) No. 00-21, *Revenue Arrangements with Multiple Deliverables,* provides guidance on accounting for arrangements that involve the delivery or performance of multiple products, services, or rights to use assets within contractually binding arrangements. For arrangements with multiple elements, revenue recognition is based on the individual units of accounting determined to exist in the arrangement. A delivered item is considered a separate unit of accounting when the delivered item has value to the customer on a stand-alone basis and there is objective and reliable evidence of the fair value of the undelivered items. Items are considered to have stand-alone value when they are sold separately by any vendor or when the customer could resell the item on a stand-alone basis. The fair value of an item is generally the price charged for the product, if the item is regularly sold on a stand-alone basis. When objective and reliable evidence of fair value exists for all units of accounting in an arrangement, the arrangement consideration is generally allocated to each unit

of accounting based upon its relative fair value. In those instances when objective and reliable evidence of fair value exists for the undelivered items but not for the delivered items, the residual method is used to allocate the arrangement consideration. Under the residual method, the amount of arrangement consideration allocated to the delivered items equals the total arrangement consideration less the aggregate fair value of the undelivered items. When the Company is unable to establish stand-alone value for delivered items or when fair value of undelivered items has not been established, revenue is deferred until all elements are delivered and services have been performed, or until fair value can objectively be determined for any remaining undelivered elements. The Company recognizes revenue for delivered elements only when it determines that the fair values of undelivered elements are known and there are no uncertainties regarding customer acceptance.

Shipping and Handling Expenses

Shipping and handling expenses are included in cost of product revenue and totaled $3.7 million, $2.2 million and $1.8 million for the years ended December 28, 2008, December 30, 2007 and December 31, 2006, respectively.

Research and Development

Research and development expenses consist of costs incurred for internal and grant-sponsored research and development. Research and development expenses include salaries, contractor fees, facilities costs, utilities and allocations of benefits. Expenditures relating to research and development are expensed in the period incurred.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising costs were $3.4 million, $2.8 million and $1.9 million for the years ended December 28, 2008, December 30, 2007 and December 31, 2006, respectively.

Income Taxes

In accordance with SFAS No. 109, *Accounting for Income Taxes*, the provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for the expected future tax benefit to be derived from tax loss and credit carryforwards. Deferred tax assets and liabilities are determined using the enacted tax rates in effect for the years in which those tax assets are expected to be realized. A valuation allowance is established when it is more likely than not the future realization of all or some of the deferred tax assets will not be achieved. The evaluation of the need for a valuation allowance is performed on a jurisdiction-by-jurisdiction basis, and includes a review of all available positive and negative evidence. Factors reviewed include projections of pre-tax book income over the foreseeable future, determination of cumulative pre-tax book income after permanent differences, history of earnings, and reliability of forecasting. As of December 28, 2008, the Company maintained a valuation allowance only against certain U.S. and foreign deferred tax assets that the Company concluded did not meet the “more likely than not” threshold required under SFAS No. 109.

Due to the adoption of SFAS No. 123R, the Company recognizes excess tax benefits associated with share-based compensation to stockholders’ equity only when realized. When assessing whether excess tax benefits relating to share-based compensation have been realized, the Company follows the with-and-without approach excluding any indirect effects of the excess tax deductions. Under this approach, excess tax benefits related to share-based compensation are not deemed to be realized until after the utilization of all other tax benefits available to the Company.

Effective January 1, 2007, the Company adopted FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109*, which clarifies the accounting for uncertainty in tax positions. FIN No. 48 requires recognition of the impact of a tax position in the Company's financial statements only if that position is more likely than not of being sustained upon examination by taxing authorities, based on the technical merits of the position. Any interest and penalties related to uncertain tax positions will be reflected in income tax expense.

Functional Currency

Historically, the Company identified the local currency as the functional currency in each of its foreign subsidiaries, and the effects of translation were recorded as other comprehensive income (loss). During the third quarter of 2008, the Company reorganized its international structure to execute a more efficient relationship between product development, product manufacturing and sales. The reorganization increased the foreign subsidiaries' anticipated dependence on the U.S. entity for management decisions, financial support, production assets and inventory, thereby making the foreign subsidiaries more of a direct and integral component of the U.S. entity's operations. As a result, the Company reassessed the primary economic environment of its foreign subsidiaries and determined the subsidiaries are more U.S. dollar based, resulting in a U.S. dollar functional currency determination. As a result of this change, beginning in the third quarter of 2008, the Company remeasures its foreign subsidiaries' assets and liabilities and income and expense accounts related to nonmonetary assets and liabilities to the U.S. dollar and records the net gains or losses resulting from remeasurement in its consolidated statements of operations within interest and other expense, net.

Stock-Based Compensation

The Company accounts for share-based compensation using the fair value recognition provisions of SFAS 123(R), *Share-Based Payment* using the Black-Scholes-Merton option-pricing model to estimate the fair value of stock options granted and stock purchases under the Employee Stock Purchase Plan (ESPP). This model incorporates various assumptions including volatility, expected life, and interest rates. Historically, the Company used an expected stock-price volatility assumption that was primarily based on historical realized volatility of the underlying stock during a period of time. Beginning the third quarter of 2007, volatility was determined by equally weighing the historical and implied volatility of the Company's common stock. The historical volatility of the Company's common stock over the most recent period is generally commensurate with the estimated expected life of the Company's stock options, adjusted for the impact of unusual fluctuations not reasonably expected to recur and other relevant factors. The implied volatility is calculated from the implied market volatility of exchange-traded call options on the Company's common stock. The expected life of an award is based on historical experience and on the terms and conditions of the stock awards granted to employees.

The assumptions used for the specified reporting periods and the resulting estimates of weighted-average fair value per share of options granted and for stock purchases under the ESPP during those periods are as follows:

	Year Ended December 28, 2008	Year Ended December 30, 2007	Year Ended December 31, 2006
Interest rate — stock options	2.31 - 3.52%	3.68 - 4.90%	4.73%
Interest rate — stock purchases	1.88 - 4.71%	4.71 - 4.86%	4.08 - 4.85%
Volatility — stock options	51 - 65%	55 - 70%	76%
Volatility — stock purchases	53 - 69%	69 - 76%	76 - 90%
Expected life — stock options	5 - 6 years	6 years	6 years
Expected life — stock purchases	6 - 12 months	6 - 12 months	6 - 12 months
Expected dividend yield	0%	0%	0%
Weighted average fair value per share of options granted	$18.31	$12.86	$9.44
Weighted average fair value per share of employee stock purchases	$11.45	$7.33	$2.38

The fair value of restricted stock units granted during the years ended December 28, 2008 and December 30, 2007 was based on the market price of our common stock on the date of grant. No restricted stock units were granted during the year ended December 31, 2006.

As of December 28, 2008, $152.8 million of total unrecognized compensation cost related to stock options, restricted stock and ESPP shares issued to date is expected to be recognized over a weighted-average period of approximately 1.9 years.

Total share-based compensation expense for employee stock options and stock purchases consists of the following (in thousands, except per share data):

	Year Ended December 28, 2008	Year Ended December 30, 2007	Year Ended December 31, 2006
Cost of product revenue	$ 4,710	$ 4,045	$ 1,289
Cost of service and other revenue	400	279	235
Research and development	14,086	10,016	3,891
Selling, general and administrative	28,492	19,406	8,889
Share-based compensation expense before taxes	47,688	33,746	14,304
Related income tax benefits	(15,844)	(11,005)	—
Share-based compensation expense, net of taxes	$ 31,844	$ 22,741	$14,304
Net share-based compensation expense per share of common stock:			
Basic	$ 0.27	$ 0.21	$ 0.16
Diluted	$ 0.24	$ 0.21	$ 0.15

Net Income (Loss) per Share

On July 22, 2008, the Company announced a two-for-one stock split in the form of a 100% stock dividend with a record date of September 10, 2008 and a distribution date of September 22, 2008. Share and per share amounts have been restated to reflect the stock split for all periods presented.

Basic and diluted net income (loss) per share of common stock is presented in conformity with SFAS No. 128, *Earnings per Share,* for all periods presented. In accordance with SFAS No. 128, basic net income (loss) per share is computed using the weighted-average number of shares of common stock outstanding during the period, less shares held in treasury and shares subject to repurchase. Diluted net income (loss) per share is computed using the weighted average number of common and dilutive common equivalent shares from the Company's Convertible Senior Notes, equity awards, warrants sold in connection with the Convertible Senior Notes and warrants assumed in the acquisition of Solexa, Inc. (Solexa) using the treasury stock method. The following table presents the calculation of weighted-average shares used to calculate basic and diluted net income (loss) per share (in thousands):

	Year Ended December 28, 2008	Year Ended December 30, 2007	Year Ended December 31, 2006
Weighted-average shares outstanding	116,855	108,328	89,074
Less: Weighted-average shares of common stock subject to repurchase	—	(20)	(72)
Weighted-average shares used in calculating basic net income (loss) per share	116,855	108,308	89,002
Plus: Effect of dilutive Convertible Senior Notes	6,653	—	—
Plus: Effect of dilutive equity awards	5,373	—	8,506
Plus: Effect of dilutive warrants sold in connection with the Convertible Senior Notes	2,487	—	—
Plus: Effect of dilutive warrants assumed in the acquisition of Solexa	2,239	—	—
Weighted-average shares used in calculating diluted net income (loss) per share	133,607	108,308	97,508
Weighted average shares excluded from calculation due to anti-dilutive effect	370	42,882	401

Comprehensive Income

Comprehensive income (loss) is comprised of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on the Company's available-for-sale securities and foreign currency translation adjustments. The Company has disclosed comprehensive income as a component of stockholders' equity.

The components of accumulated other comprehensive income are as follows (in thousands):

	December 28, 2008	December 30, 2007
Foreign currency translation adjustments	$2,103	$1,183
Unrealized gain on available-for-sale securities, net of deferred tax	303	164
Total other comprehensive income	$2,406	$1,347

Recent Accounting Pronouncements

Adopted Accounting Pronouncements

During fiscal 2008, the Company adopted SFAS No. 157, "*Fair Value Measurements*". In February 2008, the FASB issued Staff Position No. FSP 157-2, "*Effective Date of FASB Statement No. 157*" (FSP 157-2), which provides a one year deferral of the effective date of SFAS No. 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. Therefore, the Company has adopted the provisions of SFAS No. 157 with respect to its financial assets and liabilities only. The adoption of this statement did not have a material impact on the Company's consolidated statements of operations or financial condition. On October 10, 2008, the FASB issued FSP No. 157-3, "*Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active*" (FSP 157-3) that clarifies the application of SFAS No. 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial assets is not active. FSP 157-3 is effective for all periods presented in accordance with SFAS No. 157. The Company considered the additional guidance with respect to the valuation of its financial assets and liabilities and their corresponding designation within the fair value hierarchy. All short-term investments were valued using quoted prices in active markets or Level 1 hierarchical inputs. Long-term investments were valued using Level 3 hierarchical inputs due to the lack of trading in the secondary market of these instruments. Refer to Notes 3 and 4.

During fiscal 2008, the Company adopted SFAS No. 159 "*The Fair Value Option for Financial Assets and Financial Liabilities*". SFAS No. 159 allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for specified financial assets and liabilities on a contract-by-contract basis. The objective of the guidance is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The adoption of SFAS No. 159 impacted the accounting for the put option recorded as a result of the signed settlement agreement with UBS AG (UBS) in November 2008. Refer to Note 4.

New Accounting Pronouncements

SFAS No. 141(R), *Business Combinations*, was issued in December of 2007. SFAS No. 141(R) establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. SFAS No. 141(R) also provides guidance for recognizing and measuring the goodwill acquired in the business combination and sets forth what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The guidance will become effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the impact the adoption of this pronouncement will have on the Company's consolidated financial statements.

SFAS No. 160, *Interests in Consolidated Financial Statements — an amendment of ARB No. 51,* which impacts the accounting for minority interest in the consolidated financial statements of filers, was also issued in December 2007. The statement requires the reclassification of minority interest to the equity section of the balance sheet and the results from operations attributed to minority interest to be included in net income. The related minority interest impact on earnings would then be disclosed in the summary of other comprehensive income. The statement is applicable for all fiscal years beginning on or after December 15, 2008 and earlier adoption is prohibited. The adoption of this standard will require prospective treatment. The Company is currently evaluating the impact, if any, the adoption of this pronouncement will have on the Company's consolidated financial statements.

In December 2007 the Financial Accounting Standards Board (FASB) ratified EITF Issue 07-1, *Accounting for Collaborative Arrangements*. EITF Issue 07-1 focuses on defining a collaborative arrangement as well as the accounting for transactions between participants in a collaborative arrangement and between the participants in the arrangement and third parties. The EITF concluded that both types of transactions should be reported in each participant's respective income statement. EITF Issue 07-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years and should be applied retrospectively to all prior periods presented for all collaborative arrangements existing as of the effective date. The Company is currently evaluating the impact, if any, the adoption of this pronouncement will have on the Company's consolidated financial statements.

In May 2008, the FASB issued FASB Staff Position (FSP) Accounting Principles Board Opinions (APB) 14-1, *Accounting for Convertible Debt Instruments that May be Settled in Cash upon Conversion (Including Partial Cash Settlement)* (FSP APB 14-1 or the FSP) that significantly impacts the accounting for convertible debt. The FSP requires issuers of convertible debt that may be settled fully or partially in cash upon conversion to account separately for the liability and equity components of the convertible debt. The liability component is measured so that the effective interest expense associated with the convertible debt reflects the issuer's borrowing rate at the date of issuance for similar debt instruments without the conversion feature. This FSP applies to our Convertible Senior Notes and will be effective for us beginning on December 29, 2009. This FSP will be applied retrospectively to all periods that will be presented in our consolidated financial statements beginning after December 29, 2009. Upon adoption, we will retrospectively record a decrease in the book value of our 0.625% Convertible Senior Notes of approximately $150.0 million as of December 28, 2008, an increase in additional paid-in capital and a cumulative effect of a change in accounting principles in our consolidated financial statements, and we will begin recording an additional non-cash interest expense ranging from approximately $20.0 million to 30.0 million per year. The additional interest expense, net of taxes, will reduce net income by a range of approximately $13.0 million to $20.0 million per year. We will continue to record this additional interest expense over the expected life of the debt. These amounts represent management's best estimates of the effects the adoption of this pronouncement will have on the Company's consolidated financial statements, however actual amounts may vary significantly from our current estimate.

In October 2008, the FASB issued FASB FSP SFAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*. The FSP clarifies the application of FASB Statement No. 157, *Fair Value Measurements*, in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. The FSP is effective upon issuance, including for prior periods for which financial statements have not been issued. Revisions resulting from a change in the valuation technique or its application should be accounted for as a change in accounting estimate following the guidance in FASB Statement No. 154, *Accounting Changes and Error Corrections*. However, the disclosure provisions in Statement 154 for a change in accounting estimate are not required for revisions resulting from a change in valuation technique or its application. The Company believes the impact of this pronouncement on the Company's consolidated financial statements to be immaterial.

2. Acquisitions

Avantome, Inc.

On August 1, 2008, the Company completed its acquisition of Avantome, Inc. (Avantome), a privately-held Delaware corporation. As consideration for the acquisition, the Company paid $25.8 million in cash, including transaction costs, and may pay up to an additional $35.0 million in contingent cash consideration based on the achievement of certain milestones. The Company assumed $1.1 million in net assets, and recorded a charge of $24.7 million for purchased in-process research and development (IPR&D) primarily associated with the development of Avantome's low-cost, long read-length sequencing technology. The amount

allocated to IPR&D was expensed upon acquisition as it was determined that the underlying project had not reached technological feasibility and had no alternative future use. The Company has assessed the contingent consideration payable in accordance with the provisions of SFAS No. 141, *Business Combinations*, and EITF 95-8, *Accounting for Contingent Consideration Paid to the Shareholders of an Acquired Enterprise in a Purchase Business Combination.* Contingent consideration of $11.0 million will be recorded as compensation expense over a three-year period as this consideration is earned by the former primary shareholders of Avantome contingent upon their employment with the Company for three years. The remaining contingent consideration of $24.0 million will be recorded as additional purchase price if and when certain milestones are achieved or the amount due is determinable beyond a reasonable doubt.

The results of Avantome's operations have been included in the Company's consolidated financial statements since the acquisition date of August 1, 2008. Pro forma results of operations have not been presented because the effects of the acquisition were not material.

Solexa, Inc.

On January 26, 2007, the Company completed its acquisition of Solexa, a Delaware corporation, in a stock-for-stock merger transaction. The Company issued 26.2 million shares of its common stock as consideration for this merger.

The purchase price of the acquisition is as follows (in thousands):

Fair market value of securities issued	$527,067
Fair market value of change of control bonuses and related taxes	8,182
Transaction costs not included in Solexa net tangible assets acquired	8,138
Fair market value of vested stock options, warrants and restricted stock assumed	75,334
Total purchase price	$618,721

Based on the estimated fair values at the acquisition date, the Company allocated $303.4 million to IPR&D, $62.2 million to tangible assets acquired and liabilities assumed and $24.4 million to intangible assets. The remaining excess of the purchase price over the fair value of net assets acquired of $228.7 million was allocated to goodwill.

The results of Solexa's operations have been included in the Company's consolidated financial statements since the acquisition date of January 26, 2007. The following unaudited pro forma information shows the results of the Company's operations for the specified reporting periods as though the acquisition had occurred as of the beginning of that period (in thousands, except per share data):

	Year Ended December 30, 2007	Year Ended December 31, 2006
Revenue	$366,854	$187,103
Net income (loss)	$ 17,388	$ (38,957)
Net income (loss) per share, basic	$ 0.16	$ (0.34)
Net income (loss) per share, diluted	$ 0.15	$ (0.34)

The pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the actual results of operations had the acquisition taken place as of the beginning of the period presented, or the results that may occur in the future. The pro forma results exclude the $303.4 million non-cash acquired IPR&D charge recorded upon the closing of the acquisition during the first quarter of 2007.

3. Balance Sheet Account Details

The following is a summary of short-term investments (in thousands):

	December 28, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities and obligations of U.S. government agencies	$218,964	$1,544	$ —	$220,508
Corporate debt securities	92,301	547	(305)	92,543
Total	$311,265	$2,091	$(305)	$313,051

	December 30, 2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities and obligations of U.S. government agencies	$ 42,648	$108	$ —	$ 42,756
Debt securities issued by the states of the United States and political subdivisions of the states	14,675	—	—	14,675
Corporate debt securities	153,547	252	(89)	153,710
Total	$210,870	$360	$(89)	$211,141

Gross realized losses on sales of available-for-sale securities were immaterial for the years ended December 28, 2008, December 30, 2007 and December 31, 2006. Gross realized gains on sales of available-for-sale securities totaled $0.6 million for the year ended December 28, 2008 and were immaterial for the years ended December 30, 2007 and December 31, 2006. As of December 28, 2008, all of the Company's investments in a gross unrealized loss position had been in such position for less than twelve months. Impairments are not considered other than temporary as the Company has the intent and ability to hold these investments until maturity.

Contractual maturities of short-term investments at December 28, 2008 were as follows (in thousands):

	Estimated Fair Value
Due within one year	$204,774
After one but within five years	108,277
Total	$313,051

Accounts receivable consist of the following (in thousands):

	December 28, 2008	December 30, 2007
Accounts receivable from product and service sales	$132,564	$82,144
Other receivables	1,840	1,515
	134,404	83,659
Allowance for doubtful accounts	(1,138)	(540)
Total	$133,266	$83,119

Inventory, net, consists of the following (in thousands):

	December 28, 2008	December 30, 2007
Raw materials	$32,501	$27,098
Work in process	34,063	20,321
Finished goods	6,867	6,561
Total	$73,431	$53,980

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

	December 28, 2008	December 30, 2007
Leasehold improvements	$ 26,637	$ 4,531
Manufacturing and laboratory equipment	83,317	50,384
Computer equipment and software	27,490	18,772
Furniture and fixtures	4,167	3,691
	141,611	77,378
Accumulated depreciation and amortization	(52,175)	(31,104)
Total	$ 89,436	$ 46,274

Depreciation expense was $17.3 million, $11.5 million and $6.0 million for the years ended December 28, 2008, December 30, 2007 and December 31, 2006, respectively.

Accrued liabilities consist of the following (in thousands):

	December 28, 2008	December 30, 2007
Compensation	$30,330	$17,410
Short-term deferred revenue	15,862	7,541
Taxes	9,456	8,298
Reserve for product warranties	8,203	3,716
Customer deposits	6,583	5,266
Accrued royalties	2,695	1,867
Legal and other professional fees	1,708	4,276
Other	5,518	2,478
Total	$80,355	$50,852

4. Long-term Investments

The Company has $55.9 million (at cost) in auction rate securities issued primarily by municipalities and universities. The auction rate securities are held in a brokerage account with UBS. These securities are debt instruments with a long-term maturity and with an interest rate that is reset in short intervals through auctions. The Company's entire auction rate portfolio is currently rated AAA or AA by a rating agency.

The markets for auction rate securities effectively ceased when the vast majority of auctions failed in February 2008, preventing investors from selling their auction rate securities. As of December 28, 2008, the securities continued to fail auction and remained illiquid. As a result, the Company recorded an unrealized loss of $8.7 million for the year ended December 28, 2008, resulting in a reduction to the fair value of the

Company's auction rate securities to $47.2 million. This unrealized loss was determined in accordance with SFAS No. 157, *Fair Value Measurements*.

As a basis for considering market participant assumptions in fair value measurements, SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels including the following:

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

The fair value hierarchy gives the highest priority to Level 1 and the lowest priority to Level 3. In determining the fair value of the Company's auction rate securities, the Company considered trades in the secondary market. However, due to the recent auction failures of the auction rate securities in the marketplace and the lack of trading in the secondary market of these instruments, there was insufficient observable auction rate security market information available to directly determine the fair value of the Company's investments. As a result, the value of these auction rate securities and resulting unrealized loss was determined using Level 3 hierarchical inputs. These inputs include management's assumptions of pricing by market participants, including assumptions about risk. In accordance with SFAS No. 157, the Company used the concepts of fair value based on estimated discounted future cash flows of interest income over a projected five year period reflective of the length of time until the Company's securities are expected to become liquid or potentially get repurchased. In preparing this model, the Company used historical data of the rates upon which a majority of the auction rate securities' contractual rates were based, such as the LIBOR and average trailing twelve-month 90-day Treasury interest rate spreads, to estimate future interest rates. The Company also considered the discount factors, taking into account the credit ratings of the auction rate securities, using a discount rate of 5%. The Company obtained information from multiple sources, including UBS, to determine a reasonable range of assumptions to use in valuing the auction rate securities. The Company's model was corroborated by a separate comparable cash flow analysis prepared by UBS. To understand the sensitivity of the Company's valuation, the liquidity factor and estimated remaining life was varied. Variations in those results were evaluated and it was determined the factors and valuation method chosen were reasonable and representative of the Company's auction rate security portfolio.

The Company classified these securities as long-term assets since the Company believes it may not be able to liquidate its investments without significant loss within the next year. As of December 30, 2007, these securities were classified as short-term since the failures of these auctions did not occur until February 2008.

As a result of the auction rate failures, various regulatory agencies initiated investigations into the sales and marketing practices of several banks and broker-dealers, including UBS, which sold auction rate securities, alleging violations of federal and state laws. Along with several other broker-dealers, UBS subsequently reached a settlement with the federal and state regulators that required them to repurchase auction rate securities from certain investors at par at some future date. In November 2008 the Company signed a settlement agreement to sell its auction rate securities at par value to UBS during the period of June 30, 2010 through July 2, 2012 (the Settlement). In accepting the Settlement, the Company released UBS from any claims relating to the marketing and sale of auction rate securities. Although the Company expects to sell its auction rates securities under the Settlement, if the Settlement is not exercised before July 2, 2012, it will expire and UBS will have no further rights or obligation to buy the Company's auction rate securities. In lieu of the acceptance of the Settlement, the auction rate securities will continue to accrue interest as

determined by the auction process or the terms outlined in the prospectus of the auction rate securities if the auction process fails. In addition to offering to repurchase the Company's auction rate securities, as part of the Settlement, UBS has agreed to provide the Company with a "no net cost" loan up to 75% of the par value of the auction rate securities until June 30, 2010. Per the terms of the Settlement, the interest rate on the loan will approximate the weighted average interest or dividend rate payable to the Company by the issuer of any auction rate securities pledged as collateral.

UBS's obligations under the Settlement are not secured by its assets and do not require UBS to obtain any financing to support its performance obligations under the Settlement. UBS has disclaimed any assurance that it will have sufficient financial resources to satisfy its obligations under the Settlement.

To account for the Settlement, the Company recorded a separate freestanding asset (put option) of $8.7 million and recognized a corresponding gain in earnings during the fourth quarter of 2008. The fair value of the put option is included in long-term investments on the balance sheet as of December 28, 2008 with the corresponding gain classified as interest income in the consolidated statement of operations for the year ended December 28, 2008. The put option does not meet the definition of a derivative instrument under SFAS No. 133, therefore, the Company elected to measure the put option at fair value under SFAS No. 159. The Company valued the put option using a discounted cash flow approach including estimates of interest rates, timing and amount of cash flow, with consideration given to UBS's financial ability to repurchase the auction rate securities beginning June 30, 2010. These assumptions are volatile and subject to change as the underlying sources of these assumptions and market conditions change.

Prior to accepting the UBS offer, the Company recorded its auction rate securities as available-for-sale investments, and therefore recorded resulting unrealized gains or losses in accumulated other comprehensive income in its statements of stockholders' equity. By signing the settlement agreement, the Company no longer had the intent of holding the auction rate securities until recovery as management now has the intent to exercise its put option during the period June 30, 2010 to July 3, 2012. As a result, the Company elected a one-time transfer of the auction rate securities from available-for-sale to trading in accordance with SFAS No. 115. Prior to its agreement with UBS, management's intent was to hold the auction rate securities until the earlier of anticipated recovery in market value or maturity. Upon transfer to trading securities, the Company immediately recognized a loss of $8.7 million, included in interest income for the amount of the unrealized loss not previously recognized in earnings. The Company will continue to recognize gains and losses in earnings approximating the changes in the fair value of the auction rate securities at each balance sheet date. These gains and losses are expected to be approximately offset by changes in the fair value of the put option.

5. Intangible Assets

The Company's intangible assets are comprised primarily of acquired core technology and customer relationships from the acquisition of Solexa and licensed technology from the Affymetrix settlement entered into on January 9, 2008. As a result of this settlement, the Company agreed, without admitting liability, to make a one-time payment to Affymetrix of $90.0 million. In return, Affymetrix agreed to dismiss with prejudice all lawsuits it had brought against the Company, and the Company agreed to dismiss with prejudice its counterclaims in the relevant lawsuits. Affymetrix also agreed not to sue the Company or its affiliates or customers for making, using or selling any of the Company's current products, evolutions of those products or services related to those products. In addition, Affymetrix agreed that, for four years, it will not sue the Company for making, using or selling the Company's products or services that are based on future technology developments. The covenant not to sue covers all fields other than photolithography, the process by which Affymetrix manufactures its arrays and a field in which the Company does not operate.

Of the total $90.0 million payment made on January 25, 2008, $36.0 million was recorded as licensed technology and classified as an intangible asset. The remaining $54.0 million was charged to expense during

the fourth quarter of 2007. This allocation was determined in accordance with SFAS No. 5, *Accounting for Contingencies*, and EITF 00-21 using the concepts of fair value based on the past and estimated future revenue streams related to the products covered by the patents previously under dispute. The value of the licensed technology is the benefit derived, calculated using estimated discounted cash flows and future revenue projections, from the perpetual covenant not to sue for damages related to the sale of the Company's current products. The Company utilized an annual discount rate of 9.25% when preparing this model. The effective life of the licensed technology extends through 2015, the final expiry date of all patents considered in valuing the intangible asset. The related amortization is based on the higher of the percentage of usage or the straight-line method. The percentage of usage was determined using actual and projected revenues generated from products covered by the patents previously under dispute.

Acquired core technology and customer relationships are being amortized on a straight-line basis over their effective useful lives of ten and three years, respectively. The amortization of the Company's intangible assets is excluded from cost of product revenue and is separately classified as amortization of intangible assets on the Company's consolidated statements of operations.

The following is a summary of the Company's amortizable intangible assets as of the respective balance sheet dates (in thousands):

	December 28, 2008			December 30, 2007		
	Gross Carrying Amount	Accumulated Amortization	Intangibles, Net	Gross Carrying Amount	Accumulated Amortization	Intangibles, Net
Licensed technology	$36,000	$ (7,788)	$28,212	$36,000	$ —	$36,000
Core technology	23,500	(4,504)	18,996	23,500	(2,154)	21,346
Customer relationships	900	(575)	325	900	(275)	625
License agreements	1,154	(932)	222	1,029	(884)	145
Total intangible assets, net	$61,554	$(13,799)	$47,755	$61,429	$(3,313)	$58,116

Amortization expense associated with the intangible assets was $10.4 million and $2.4 million for the years ended December 28, 2008 and December 30, 2007, respectively. There was no amortization of intangibles for the year ended January 1, 2006.

The estimated annual amortization of intangible assets for the next five years is shown in the following table (in thousands). Actual amortization expense to be reported in future periods could differ from these estimates as a result of acquisitions, divestitures, asset impairments and other factors.

2009	$ 6,749
2010	6,462
2011	6,425
2012	6,618
2013	6,518
Thereafter	14,983
Total	$47,755

6. Impairment of Manufacturing Equipment

During fiscal 2008, the Company implemented next-generation imaging and decoding systems to be used in manufacturing. These systems were developed to increase existing capacity and allow the Company to transition to the Infinium High-Density (HD) product line. As a result of this transition, the demand for products manufactured on the previous infrastructure was reduced and certain systems were no longer being

utilized. In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, a non-cash impairment charge of $4.1 million was recorded in the second quarter of fiscal 2008 for the excess machinery. This charge is included as a separate line item in the Company's consolidated statement of operations. There was no change to useful lives and related depreciation expense of the remaining assets as the Company believes these estimates are currently reflective of the period the assets will be used in operations.

7. Warranties

The Company generally provides a one-year warranty on sequencing, genotyping and gene expression systems. At the time revenue is recognized, the Company establishes an accrual for estimated warranty expenses associated with system sales. This expense is recorded as a component of cost of product revenue. Estimated warranty expenses associated with extended maintenance contracts are recorded as cost of revenue ratably over the term of the maintenance contract.

Changes in the Company's reserve for product warranties from January 1, 2006 through December 28, 2008 are as follows (in thousands):

Balance as of January 1, 2006	$ 751
Additions charged to cost of revenue	1,379
Repairs and replacements	(1,134)
Balance as of December 31, 2006	996
Additions charged to cost of revenue	4,939
Repairs and replacements	(2,219)
Balance as of December 30, 2007	3,716
Additions charged to cost of revenue	13,044
Repairs and replacements	(8,557)
Balance as of December 28, 2008	$ 8,203

8. Convertible Senior Notes

On February 16, 2007, the Company issued $400.0 million principal amount of 0.625% Convertible Senior Notes due 2014 (the Notes), which included the exercise of the initial purchasers' option to purchase up to an additional $50.0 million aggregate principal amount of Notes. The net proceeds from the offering, after deducting the initial purchasers' discount and offering expenses, were $390.3 million. The Company will pay 0.625% interest per annum on the principal amount of the Notes, payable semi-annually in arrears in cash on February 15 and August 15 of each year. The Company made interest payments of $1.3 million and $1.2 million on February 15, 2008 and August 15, 2008, respectively. The Notes mature on February 15, 2014.

The Notes will be convertible into cash and, if applicable, shares of the Company's common stock, $0.01 par value per share, based on a conversion rate, subject to adjustment, of 45.8058 shares per $1,000 principal amount of Notes (which represents a conversion price of $21.83 per share), only in the following circumstances and to the following extent: (1) during the five business-day period after any five consecutive trading period (the measurement period) in which the trading price per Note for each day of such measurement period was less than 97% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such day; (2) during any calendar quarter after the calendar quarter ending March 30, 2007, if the last reported sale price of the Company's common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately

preceding calendar quarter exceeds 130% of the applicable conversion price in effect on the last trading day of the immediately preceding calendar quarter; (3) upon the occurrence of specified events; and (4) the Notes will be convertible at any time on or after November 15, 2013 through the third scheduled trading day immediately preceding the maturity date. The requirements of the second condition above were satisfied during the first, second and third quarters of 2008. Accordingly, the Company's outstanding convertible notes became convertible into cash and, if applicable, shares of common stock, during the period from, and including April 1, 2008 through, and including, December 31, 2008. During the fourth quarter of 2008, the requirements of this same condition were no longer satisfied, accordingly, the Notes will no longer be convertible during the period from, and including January 1, 2009 through, and including March 31, 2009 unless another conversion condition is satisfied during this period. Generally, upon conversion of a Note, the Company will pay the conversion value of the Note in cash, up to the principal amount of the Note. Any excess of the conversion value over the principal amount is payable in shares of the Company's common stock. As of December 28, 2008, the principal amount of these Notes was classified as current liabilities as the Notes were still convertible through December 31, 2008.

In connection with the offering of the Notes in February 2007, the Company entered into convertible note hedge transactions (the hedge) with the initial purchasers and/or their affiliates (the counterparties) entitling the Company to purchase up to 18,322,320 shares of the Company's common stock at a strike price of $21.83 per share, subject to adjustment. In addition, the Company sold to these counterparties warrants (the warrants) exercisable, on a cashless basis, for up to 18,322,320 shares of the Company's common stock at a strike price of $31.435 per share, subject to adjustment. The cost of the hedge that was not covered by the proceeds from the sale of the warrants was $46.6 million and was reflected as a reduction of additional paid-in capital. The hedge is expected to reduce the potential equity dilution upon conversion of the Notes to the extent the Company exercises the note hedges to purchase shares from the counterparties to deliver to converting noteholders. However, the warrants could have a dilutive effect on the Company's earnings per share to the extent that the price of the Company's common stock exceeds the strike price of the warrants on the exercise dates of the warrants, which occur during 2014, and the warrants are exercised.

9. Commitments

Operating Leases

The Company leases office and manufacturing facilities under various noncancellable operating lease agreements. Facilities leases generally provide for periodic rent increases, and many contain escalation clauses and renewal options. Certain leases require the Company to pay property taxes and routine maintenance. The Company is headquartered in San Diego, California and leases facilities in Hayward, California, the United Kingdom, The Netherlands, Japan, Singapore, Australia and China.

Annual future minimum payments under these operating leases as of December 28, 2008 were as follows (in thousands):

2009	$ 11,032
2010	11,122
2011	11,823
2012	11,920
2013	11,458
Thereafter	100,885
Total	$158,240

Rent expense, net of amortization of the deferred gain on sale of property, was $10.7 million, $7.7 million and $4.7 million for the years ended December 28, 2008, December 30, 2007 and December 31, 2006, respectively.

10. Stockholders' Equity

Common Stock

On July 22, 2008, the Company announced a two-for-one stock split in the form of a 100% stock dividend with a record date of September 10, 2008 and a distribution date of September 22, 2008. Share and per share amounts have been restated to reflect the stock split for all periods presented.

On August 12, 2008, a total of 8,050,000 shares were sold to the public at a public offering price of $43.75 per share, raising net proceeds to the Company of $342.6 million, after deducting underwriting discounts and commissions and offering expenses.

On December 28, 2008, the Company had 121,008,599 shares of common stock outstanding.

Stock Options

In June 2005, the stockholders of the Company approved the 2005 Stock and Incentive Plan (the 2005 Stock Plan). Upon adoption of the 2005 Stock Plan, issuance of options under the Company's existing 2000 Stock Plan ceased. Additionally, in connection with the acquisition of Solexa, the Company assumed stock options granted under the 2005 Solexa Equity Incentive Plan (the 2005 Solexa Equity Plan). The 2005 Stock Plan and the 2005 Solexa Equity Plan initially provided that an aggregate of up to 24,571,238 shares of the Company's common stock be reserved and available to be issued. The 2005 Stock Plan provides for an automatic annual increase in the shares reserved for issuance by the lesser of 5% of the outstanding shares of the Company's common stock on the last day of the immediately preceding fiscal year, 2,400,000 shares or such lesser amount as determined by the Company's board of directors. Additionally, during the Company's Annual Meeting of Stockholders held on May 16, 2008, the stockholders ratified an amendment to increase the maximum number of shares of common stock authorized for issuance under the 2005 Stock Plan by 2,400,000 shares. As of December 28, 2008, options to purchase 6,777,903 shares remained available for future grant under the 2005 Stock Plan and 2005 Solexa Equity Plan.

On January 29, 2008, the Company's board of directors approved the New Hire Stock and Incentive Plan, which provides for the issuance of options and shares of restricted stock to newly hired employees. There is no set number of shares reserved for issuance under this Plan.

The Company's stock option activity under all stock option plans from January 1, 2006 through December 28, 2008 is as follows:

	Options	Weighted-Average Exercise Price
Outstanding at January 1, 2006	14,650,862	$ 3.98
Granted	5,242,100	$13.62
Exercised	(2,546,238)	$ 3.64
Cancelled	(628,484)	$ 6.22
Outstanding at December 31, 2006	16,718,240	$ 6.97
Options assumed through business combination	2,848,664	$10.69
Granted	7,569,016	$20.32
Exercised	(4,358,572)	$ 6.03
Cancelled	(1,929,480)	$11.19
Outstanding at December 30, 2007	20,847,868	$12.13
Granted	3,091,108	$34.23
Exercised	(4,571,855)	$ 8.52
Cancelled	(1,232,917)	$19.93
Outstanding at December 28, 2008	18,134,204	$16.26

The following is a further breakdown of the options outstanding as of December 28, 2008:

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price of Options Exercisable
$0.05-3.95	2,195,626	4.14	$ 2.94	1,706,512	$ 2.91
$3.97-4.85	1,813,554	5.38	$ 4.34	1,023,641	$ 4.37
$4.94-10.49	2,907,761	6.27	$ 8.44	1,496,162	$ 8.28
$10.66-16.19	1,890,491	7.35	$13.79	787,957	$13.50
$16.27-19.61	2,619,364	7.81	$18.24	893,047	$18.24
$19.71-20.04	2,227,638	7.22	$20.03	701,138	$20.04
$20.12-29.78	1,819,970	8.80	$24.51	336,421	$24.62
$30.09-33.80	1,840,600	9.12	$32.61	218,044	$32.51
$34.43-42.02	589,200	9.33	$38.51	5,000	$41.75
$44.38	230,000	9.60	$44.38	—	$ —
$0.05-44.38	18,134,204	7.06	$16.26	7,167,922	$10.94

The weighted average remaining life in years of options exercisable is 6.37 years as of December 28, 2008.

The aggregate intrinsic value of options outstanding and options exercisable as of December 28, 2008 was $192.4 million and $105.4 million, respectively. Aggregate intrinsic value represents the difference between the Company's closing stock price per share on the last trading day of the fiscal period, which was $25.36 as of December 26, 2008, and the exercise price multiplied by the number of options outstanding. Total intrinsic value of options exercised was $136.6 million, $72.1 million and $34.0 million for the years ended December 28, 2008, December 30, 2007 and December 31, 2006, respectively.

Employee Stock Purchase Plan

In February 2000, the board of directors and stockholders adopted the 2000 ESPP. A total of 15,467,426 shares of the Company's common stock have been reserved for issuance under the ESPP. The ESPP permits eligible employees to purchase common stock at a discount, but only through payroll deductions, during defined offering periods.

The price at which stock is purchased under the ESPP is equal to 85% of the fair market value of the common stock on the first or last day of the offering period, whichever is lower. The initial offering period commenced in July 2000. In addition, beginning with fiscal 2001, the ESPP provides for annual increases of shares available for issuance by the lesser of 3% of the number of outstanding shares of the Company's common stock on the last day of the immediately preceding fiscal year, 3,000,000 shares or such lesser amount as determined by the Company's board of directors. Shares totaling 276,198, 266,962 and 532,788 were issued under the ESPP during fiscal 2008, 2007 and 2006, respectively. As of December 28, 2008, there were 10,794,162 shares available for issuance under the ESPP.

Restricted Stock Units

In 2007 the Company began granting restricted stock units pursuant to its 2005 Stock and Incentive Plan as part of its periodic employee equity compensation review program. Restricted stock units are share awards that, upon vesting, will deliver to the holder shares of the Company's common stock. Restricted stock units granted during 2007 vest over four years as follows: 15% vest on the first and second anniversaries of the grant date, 30% vest on the third anniversary of the grant date and 40% vest on the fourth anniversary of the grant date. Effective January 2008, the Company changed the vesting schedule for grants of new restricted stock units. Currently, restricted stock units vest 15% on the first anniversary of the grant date, 20% on the second anniversary of the grant date, 30% on the third anniversary of the grant date and 35% on the fourth anniversary of the grant date.

A summary of the Company's restricted stock unit activity and related information in the fiscal year ended December 28, 2008 is as follows:

	Restricted Stock Units(1)
Outstanding at December 31, 2006	—
Awarded	395,500
Vested	—
Cancelled	(1,000)
Outstanding at December 30, 2007	394,500
Awarded	1,287,504
Vested	(55,638)
Cancelled	(47,090)
Outstanding at December 28, 2008	1,579,276

(1) Each stock unit represents the fair market value of one share of common stock.

The weighted average grant-date fair value per share for the restricted stock units was $34.53 and $25.69 for the years ended December 28, 2008 and December 30, 2007, respectively. No restricted stock units were outstanding as of December 31, 2006.

Based on the closing price per share of the Company's common stock of $25.36 on December 26, 2008, the total pretax intrinsic value of all outstanding restricted stock units on that date was $40.0 million.

Warrants

In conjunction with its acquisition of Solexa, Inc. on January 26, 2007, the Company assumed 4,489,686 warrants issued by Solexa prior to the acquisition. During the year ended December 28, 2008, there were 401,362 warrants exercised, resulting in cash proceeds to the Company of $3.0 million. As of December 28, 2008, 252,164 of the assumed warrants had expired.

A summary of all warrants outstanding as of December 28, 2008 is as follows:

Number of Shares	Exercise Price	Expiration Date
238,510	$ 7.27	4/25/2010
864,040	$ 7.27	7/12/2010
809,246	$10.91	11/23/2010
1,125,734	$10.91	1/19/2011
18,322,320(1)	$31.44	2/15/2014
21,359,850		

(1) Represents warrants sold in connection with the offering of the Company's Convertible Senior Notes (See Note 8).

Treasury Stock

In connection with its issuance of $400.0 million principal amount of 0.625% Convertible Senior Notes due 2014 on February 16, 2007, the Company repurchased 11.6 million shares of its outstanding common stock for $201.6 million in privately negotiated transactions concurrently with the offering.

On February 20, 2007, the Company executed a Rule 10b5-1 trading plan to repurchase up to $75.0 million of its outstanding common stock over a period of six months. The Company repurchased 3.2 million shares of its common stock under this plan for $50.0 million. As of December 30, 2007, this plan had expired.

On October 23, 2008, the board of directors authorized a $120.0 million stock repurchase program. As of December 28, 2008 the Company had repurchased 3.1 million shares for $70.8 million under the plan in open-market transactions or through privately negotiated transactions in compliance with Rule 10b-18 under the Securities Exchange Act of 1934. As of December 28, 2008, $49.2 million remains authorized for future repurchases under the program.

Stockholder Rights Plan

On May 3, 2001, the board of directors of the Company declared a dividend of one preferred share purchase right (a Right) for each outstanding share of common stock of the Company. The dividend was payable on May 14, 2001 (the Record Date) to the stockholders of record on that date. Each Right entitles the registered holder to purchase from the Company one unit consisting of one-thousandth of a share of its Series A Junior Participating Preferred Stock at a price of $100 per unit. The Rights will be exercisable if a person or group hereafter acquires beneficial ownership of 15% or more of the outstanding common stock of the Company or announces an offer for 15% or more of the outstanding common stock. If a person or group acquires 15% or more of the outstanding common stock of the Company, each Right will entitle its holder to purchase, at the exercise price of the right, a number of shares of common stock having a market value of two times the exercise price of the right. If the Company is acquired in a merger or other business combination transaction after a person acquires 15% or more of the Company's common stock, each Right will entitle its holder to purchase, at the Right's then-current exercise price, a number of common shares of the acquiring

company which at the time of such transaction have a market value of two times the exercise price of the right. The board of directors will be entitled to redeem the Rights at a price of $0.01 per Right at any time before any such person acquires beneficial ownership of 15% or more of the outstanding common stock. The rights expire on May 14, 2011 unless such date is extended or the rights are earlier redeemed or exchanged by the Company.

11. Litigation Settlements

In the recent past, the Company incurred substantial costs in defending against patent infringement claims and expects, going forward, to devote substantial financial and managerial resources to protect the Company's intellectual property and to defend against any future claims asserted against the Company. From time to time, the Company may also be parties to other litigation in the ordinary course of business. While the results of any litigation are uncertain, management does not believe the ultimate resolution of its legal matters will result in a material adverse impact to the Company.

Applied Biosystems Litigation

On December 26, 2006, Applied Biosystems Inc. (Applied Biosystems), formerly known as Applera Corporation (currently known as Applied Biosystems LLC, a wholly owned subsidiary of Life Technologies Corporation), filed suit in California Superior Court, Santa Clara County, against Solexa (which was acquired by the Company on January 26, 2007). This State Court action related to the ownership of several patents assigned in 1995 to Solexa's predecessor company (Lynx Therapeutics) by a former employee (Dr. Stephen Macevicz), who is the inventor of these patents and is named as a co-defendant in the suit. The Macevicz patents are directed to methods for sequencing DNA (US Pat. Nos. 5,750,341 and 6,306,597) using successive rounds of oligonucleotide probe ligation (sequencing-by-ligation), and to a probe (5,969,119) used in connection with these sequencing methods. Lynx was originally a unit of Applied Biosystems but was spun out in 1992. On May 31, 2007, Applied Biosystems filed a second suit, this time against the Company, in the U.S. District Court for the Northern District of California. This second suit sought a declaratory judgment of non-infringement of the Macevicz patents that were the subject of the State Court action mentioned above. Both suits were later consolidated in the U.S. District Court for the Northern District of California, San Francisco Division. By these consolidated actions, Applied Biosystems was seeking ownership of the three Macevicz patents, unspecified costs and damages, and a declaration of non-infringement and invalidity of these patents. Applied Biosystems was not asserting any claim for patent infringement against the Company.

On January 5, 2009, the case went to trial in two phases. The first phase addressed the determination of ownership of the patents-in-suit, and the second phase addressed whether these patents were infringed and valid. On January 14, 2009, at the end of the first phase, a federal jury determined that Solexa was the rightful owner of all three Macevicz patents. On January 27, 2009, the same jury found that Applied Biosystems did not infringe the '119 probe patent, and that the '119 patent was valid. In August 2008, the court had ruled that Applied Biosystems' two-base system did not infringe the '341 and '597 patents. Prior to the jury finding of non-infringement of the '119 patent, Applied Biosystems conceded that its one-base system infringed claim 1 of the '597 patent and Solexa conceded invalidity of that same claim under the court's construction of that claim. Both parties reserved the right to appeal the court's construction of claim 1 of the '597 patent, among other things.

The Company's Genome Analyzer products use a different technology, called Sequencing-by-Synthesis (SBS), which is not covered by any of the Macevicz patents. In addition, the Company has no plans to use any of the Sequencing-by-Ligation technologies covered by these patents.

12. Income Taxes

The income (loss) before income taxes summarized by region is as follows (in thousands):

	Year Ended December 28, 2008	Year Ended December 30, 2007	Year Ended December 31, 2006
United States	$64,424	$ 58,445	$42,612
Foreign	26,482	(347,230)	8
Total income (loss) before income taxes	$90,906	$(288,785)	$42,620

The provision (benefit) for income taxes consists of the following (in thousands):

	Year Ended December 28, 2008	Year Ended December 30, 2007	Year Ended December 31, 2006
Current:			
Federal	$13,868	$ 18,564	$1,125
State	2,134	4,801	1,177
Foreign	5,042	(2,172)	903
Total current provision	21,044	21,193	3,205
Deferred:			
Federal	17,656	(20,254)	—
State	2,103	(11,622)	—
Foreign	(374)	257	(553)
Total deferred provision	19,385	(31,619)	(553)
Total tax provision (benefit)	$40,429	$(10,426)	$2,652

The provision (benefit) for income taxes reconciles to the amount computed by applying the federal statutory rate to income (loss) before taxes as follows (in thousands):

	Year Ended December 28, 2008	Year Ended December 30, 2007	Year Ended December 31, 2006
Tax at federal statutory rate	$31,817	$(101,075)	$ 14,945
State, net of federal benefit	4,242	(9,672)	1,963
Alternative minimum tax	—	—	1,125
Research and other credits	(4,060)	(3,118)	(3,096)
Acquired in-process research & development	9,508	116,916	—
Adjustments to deferred tax balances	—	—	(3,258)
Change in valuation allowance	(149)	(17,125)	(10,038)
Permanent differences	1,449	653	573
Foreign rate adjustments	(2,619)	3,160	430
Other	241	(165)	8
Total tax provision (benefit)	$40,429	$ (10,426)	$ 2,652

Significant components of the Company's deferred tax assets and liabilities are as follows (in thousands):

	December 28, 2008	December 30, 2007
Deferred tax assets:		
Net operating losses	$ 18,557	$ 34,277
Tax credits	19,139	11,465
Accrued litigation settlements	—	21,427
Other accruals and reserves	11,341	6,326
Stock compensation	15,962	8,166
Convertible debt	42,456	49,137
Other	13,268	12,322
Total deferred tax assets	120,723	143,120
Valuation allowance on deferred tax assets	(15,200)	(28,343)
Net deferred tax assets	105,523	114,777
Deferred tax liabilities:		
Purchased intangible amortization	(5,985)	(7,084)
Accrued litigation settlements	(11,084)	—
Other	(1,498)	(514)
Total deferred tax liabilities	(18,567)	(7,598)
Net deferred tax assets	$ 86,956	$107,179

A valuation allowance is established when it is more likely than not the future realization of all or some of the deferred tax assets will not be achieved. The evaluation of the need for a valuation allowance is performed on a jurisdiction-by-jurisdiction basis, and includes a review of all available positive and negative evidence. Based on the available evidence as of December 28, 2008, the Company was not able to conclude it is more likely than not certain U.S. and foreign deferred tax assets will be realized. Therefore, the Company recorded a valuation allowance of $2.8 million and $12.4 million against certain U.S. and foreign deferred tax assets, respectively. At December 30, 2007, the Company had concluded that it is more likely than not that a significant portion of its deferred tax assets will be realized and, accordingly the Company released a portion of its valuation allowance, $17.1 million of which was recorded as a reduction to the tax provision.

As of December 28, 2008, the Company had net operating loss carryforwards for federal and state tax purposes of $87.7 million and $148.3 million, respectively, which begin to expire in 2025 and 2013, respectively, unless previously utilized. In addition, the Company also had U.S. federal and state research and development tax credit carryforwards of $12.6 million and $13.9 million, respectively, which begin to expire in 2018 and 2019, respectively, unless previously utilized.

As of December 28, 2008, the valuation allowance includes $14.0 million of pre-acquisition deferred tax assets of Solexa. Prior to the adoption of SFAS 141(R) to the extent any of these assets were recognized, the adjustment would have been applied first to reduce to zero any goodwill related to the acquisition, and then an a reduction to the tax provision.

Pursuant to Section 382 and 383 of the Internal Revenue Code, utilization of the Company's net operating losses and credits may be subject to annual limitations in the event of any significant future changes in its ownership structure. These annual limitations may result in the expiration of net operating losses and credits prior to utilization. Previous limitations due to Section 382 and 383 have been reflected in the deferred tax assets as of December 28, 2008.

Due to the adoption of SFAS No. 123R, the Company recognizes excess tax benefits associated with share-based compensation to stockholders' equity only when realized. When assessing whether excess tax benefits relating to share-based compensation have been realized, the Company follows the with-and-without approach excluding any indirect effects of the excess tax deductions. Under this approach, excess tax benefits related to share-based compensation are not deemed to be realized until after the utilization of all other tax benefits available to the Company. During 2008, the Company realized $18.5 million of such excess tax benefits, and accordingly recorded a corresponding credit to additional paid in capital. As of December 28, 2008, the Company has $36.5 million of unrealized excess tax benefits associated with share-based compensation. These tax benefits will be accounted for as a credit to additional paid-in capital, if and when realized, rather than a reduction of the tax provision.

The Company's manufacturing operations in Singapore operate under various tax holidays and incentives that begin to expire in 2018. For the year ended December 28, 2008, these tax holidays and incentives resulted in an approximate $1.9 million decrease to the tax provision and an increase to net income per diluted share of $0.01.

Residual U.S. income taxes have not been provided on $14.7 million of undistributed earnings of foreign subsidiaries as of December 28, 2008, since the earnings are considered to be indefinitely invested in the operations of such subsidiaries.

Effective January 1, 2007, the Company adopted FIN No. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109*, which clarifies the accounting for uncertainty in tax positions. FIN No. 48 requires recognition of the impact of a tax position in the Company's financial statements only if that position is more likely than not of being sustained upon examination by taxing authorities, based on the technical merits of the position. The adoption of FIN No. 48 did not result in an adjustment to the Company's opening stockholders' equity since there was no cumulative effect from the change in accounting principle.

The following table summarizes the gross amount of the Company's uncertain tax positions (in thousands):

Balance at December 31, 2007	$21,376
Increases related to current year tax positions	2,402
Balance at December 28, 2008	$23,778

As of December 28, 2008, $7.7 million of the Company's uncertain tax positions would reduce the Company's annual effective tax rate, if recognized.

The Company does not expect its uncertain tax positions to change significantly over the next 12 months. Any interest and penalties related to uncertain tax positions will be reflected in income tax expense. As of December 28, 2008, no interest or penalties have been accrued related to the Company's uncertain tax positions. Tax years 1992 to 2008 remain subject to future examination by the major tax jurisdictions in which the Company is subject to tax.

13. Employee Benefit Plans

Retirement Plan

The Company has a 401(k) savings plan covering substantially all of its employees. Company contributions to the plan are discretionary. During the years ended December 28, 2008, December 30, 2007 and December 31, 2006, the Company made matching contributions of $2.6 million, $1.4 million and $0.4 million, respectively.

Executive Deferred Compensation Plan

For the Company's executives and members of the board of directors, the Company adopted the Illumina, Inc. Deferred Compensation Plan (the Plan) that became effective January 1, 2008. Eligible participants can contribute up to 80% of their base salary and 100% of all other forms of compensation into the Plan, including bonus, commission and director fees. The Company has agreed to credit the participants' contributions with earnings that reflect the performance of certain independent investment funds. On a discretionary basis, the Company may also make employer contributions to participant accounts in any amount determined by the Company. The vesting schedules of employer contributions are at the sole discretion of the Compensation Committee. However, all employer contributions shall become 100% vested upon the occurrence of the participant's disability, death or retirement or a change in control of the Company. The benefits under this plan are unsecured. Participants are generally eligible to receive payment of their vested benefit at the end of their elected deferral period or after termination of their employment with the Company for any reason or at a later date to comply with the restrictions of Section 409A. As of December 28, 2008, no employer contributions were made to the Plan.

In January 2008, the Company also established a rabbi trust for the benefit of its directors and executives under the Plan. In accordance with FASB Interpretation (FIN) No. 46, *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51*, and EITF 97-14, *Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested*, the Company has included the assets of the rabbi trust in its consolidated balance sheet since the trust's inception. As of December 28, 2008, the assets of the trust and liabilities of the Company were $1.3 million. The assets and liabilities are classified as other assets and accrued liabilities, respectively, on the Company's balance sheet as of December 28, 2008. Changes in the values of the assets held by the rabbi trust accrue to the Company.

14. Segment Information, Geographic Data and Significant Customers

During the first quarter of 2008, the Company reorganized its operating structure into a newly created Life Sciences Business Unit, which includes all products and services related to the research market, namely the BeadArray, BeadXpress and Sequencing product lines. The Company also created a Diagnostics Business Unit to focus on the emerging opportunity in molecular diagnostics. For the year ended December 28, 2008, the Company had limited activity related to the Diagnostics Business Unit, and operating results were reported on an aggregate basis to the chief operating decision maker of the Company, the chief executive officer. In accordance with SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, the Company operated in one reportable segment for the year ended December 28, 2008.

The Company had revenue in the following regions for the years ended December 28, 2008, December 30, 2007 and December 31, 2006 (in thousands):

	Year Ended December 28, 2008	Year Ended December 30, 2007	Year Ended December 31, 2006
United States	$280,064	$207,692	$103,043
United Kingdom	67,973	34,196	22,840
Other European countries	127,397	75,360	32,600
Asia-Pacific	72,740	35,155	15,070
Other markets	25,051	14,396	11,033
Total	$573,225	$366,799	$184,586

Net revenues are attributable to geographic areas based on the region of destination.

The majority of our product sales consist of consumables and instruments. For the years ended December 28, 2008, December 30, 2007, and December 31, 2006, consumable sales represented 58%, 53% and 54%, respectively, of total revenues and instrument sales comprised 32%, 33% and 23%, respectively, of total revenues. Our customers include leading genomic research centers, pharmaceutical companies, academic institutions, clinical research organizations and biotechnology companies. The Company had no customers that provided more than 10% of total revenue in the years ended December 28, 2008, December 30, 2007 and December 31, 2006.

Net long-lived assets exclude goodwill and other intangible assets since they are not allocated on a geographic basis. The Company had net long-lived assets consisting of property and equipment in the following regions as of December 28, 2008 and December 30, 2007 (in thousands):

	Year Ended December 28, 2008	Year Ended December 30, 2007
United States	$65,630	$40,972
United Kingdom	9,849	4,809
Other European countries	1,055	230
Singapore	12,586	—
Other Asia-Pacific countries	316	263
Total	$89,436	$46,274

15. Quarterly Financial Information (unaudited)

The following financial information reflects all normal recurring adjustments, except as noted below, which are, in the opinion of management, necessary for a fair statement of the results and cash flows of interim periods. Summarized quarterly data for fiscal 2008 and 2007 are as follows (in thousands except per share data):

	First Quarter(1)	Second Quarter	Third Quarter	Fourth Quarter
2008:				
Total revenue	$ 121,861	$140,177	$ 150,260	$160,927
Total cost of revenue (excluding impairment of manufacturing equipment and amortization of intangible assets)	46,081	50,459	54,430	54,654
Net income (loss)	13,428	15,398	(7,288)	28,939
Net income (loss) per share, basic	0.12	0.14	(0.06)	0.24
Net income (loss) per share, diluted	0.11	0.12	(0.06)	0.22
Net cash (used in) provided by operating activities	(26,755)	37,222	27,298	50,117
Net cash used in investing activities	(44,123)	(37,384)	(164,520)	(31,222)
Net cash provided by (used in) financing activities	15,979	14,171	356,936	(49,414)
2007:				
Total revenue	$ 72,150	$ 84,535	$ 97,510	$112,604
Total cost of revenue (excluding amortization of intangible assets)	25,120	30,141	37,078	40,097
Net income (loss)	(298,076)	9,264	14,503	(4,050)
Net income (loss) per share, basic	(2.79)	0.09	0.14	(0.04)
Net income (loss) per share, diluted	(2.79)	0.08	0.12	(0.04)
Net cash provided by operating activities	14,643	24,482	5,316	11,853
Net cash used in investing activities	(34,410)	(69,514)	(32,143)	68,381
Net cash provided by financing activities	104,950	2,464	10,433	30,445

(1) The Company reclassified $36.0 million from cash provided by operating activities to cash used in investing activities in the first quarter of 2008 for the portion of the litigation payment relating to intangible assets.

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

	Allowance for Doubtful Accounts	Reserve for Inventory
	(In thousands)	
Balance as of January 1, 2006	$ 313	$ 1,095
Charged to expense	179	127
Utilizations	(154)	(372)
Balance as of December 31, 2006	338	850
Acquired through business acquisition	—	439
Charged to expense	237	1,863
Utilizations	(35)	(1,063)
Balance as of December 30, 2007	540	2,089
Charged to expense	893	7,154
Utilizations	(295)	(2,812)
Balance as of December 28, 2008	$1,138	$ 6,431

EXHIBIT 2.g

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended January 3, 2010

or

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

For the transition period from to .

Commission file number: 000-30361

Illumina, Inc.

(Exact name of Registrant as Specified in Its Charter)

Delaware	**33-0804655**
(State or other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*
9885 Towne Centre Drive, San Diego, California	**92121**
(Address of Principal Executive Offices)	*(zip code)*

Registrant's telephone number, including area code: (858) 202-4500

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

Title of Each Class	Name of Exchange on Which Registered
Common Stock, $0.01 par value (including associated Preferred Stock Purchase Rights)	The NASDAQ Global Select Market

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

None

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

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

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

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

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

As of February 5, 2010, there were 120,298,934 shares (excluding 24,068,450 shares held in treasury) of the Registrant's Common Stock outstanding. The aggregate market value of the Common Stock held by non-affiliates of the Registrant as of June 28, 2009 (the last business day of the Registrant's most recently completed second fiscal quarter), based on the closing price for the Common Stock on The NASDAQ Global Select Market on that date, was $4,649,494,956. This amount excludes an aggregate of 2,197,137 shares of Common Stock held by officers and directors and each person known by the Registrant to own 10% or more of the outstanding Common Stock. Exclusion of shares held by any person should not be construed to indicate that such person possesses the power, directly or indirectly, to direct or cause the direction of the management or policies of the Registrant, or that the Registrant is controlled by or under common control with such person.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement for the annual meeting of stockholders expected to be held on May 12, 2010 are incorporated by reference into Items 10 through 14 of Part III of this Report.

ILLUMINA, INC.

FORM 10-K
FOR THE FISCAL YEAR ENDED JANUARY 3, 2010

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Special Note Regarding Forward-Looking Statements

This annual report on Form 10-K contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements discuss our current expectations concerning future results or events, including our future financial performance. We make these forward-looking statements in reliance on the safe harbor protections provided under the Private Securities Litigation Reform Act of 1995. These statements include, among others:

- statements concerning our expectations as to our future financial performance, results of operations, or other operational results or metrics;
- statements concerning the benefits that we expect will result from our business activities and certain transactions we have completed, such as increased revenue, decreased expenses, and avoided expenses and expenditures; and
- statements of our expectations, beliefs, future plans and strategies, anticipated developments (including new products), and other matters that are not historical facts.

These statements may be made expressly in this document or may be incorporated by reference to other documents we have filed or will file with the Securities and Exchange Commission, or SEC. You can identify many of these statements by looking for words such as "anticipates," "believes," "can," "continue," "could," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "should," or "will" or the negative of these terms or other comparable terminology and similar references to future periods. These forward-looking statements are subject to numerous assumptions, risks, and uncertainties that may cause actual results or events to be materially different from any future results or events expressed or implied by us in those statements. Many of the factors that will determine or effect these results or events are beyond our ability to control or project. Specific factors that could cause actual results or events to differ from those in the forward-looking statements include:

- our ability to develop and commercialize further our Solexa®, BeadArray™, and VeraCode® technologies and to deploy new sequencing, genotyping, and gene expression products and applications for our technology platforms;
- our ability to manufacture robust instrumentation, consumables, and reagents;
- reductions in the funding levels to our primary customers, including as the result of timing and amount of funding provided by the American Recovery and Reinvestment Act of 2009; and
- other factors detailed in our filings with the SEC, including the risks, uncertainties, and assumptions described in Item 1A "Risk Factors" below, or in information disclosed in public conference calls, the date and time of which are released beforehand.

Our forward-looking statements speak only as of the date of this annual report. We undertake no obligation, and do not intend, to publicly update or revise forward-looking statements, to review or confirm analysts' expectations, or to provide interim reports or updates on the progress of any current financial quarter, whether as a result of new information, future events, or otherwise. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained in this annual report. Given these uncertainties, we caution investors not to unduly rely on our forward-looking statements.

Available Information

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports are available free of charge on our website, *www.illumina.com*. The information on our website is not incorporated by reference into this report. Such reports are made available as soon as

reasonably practicable after filing with, or furnishing to, the SEC. The SEC also maintains an Internet site at *www.sec.gov* that contains reports, proxy and information statements, and other information regarding issuers that electronically file with the SEC. Copies of our annual report on Form 10-K will be made available, free of charge, upon written request.

Illumina®, Array of Arrays™, BeadArray™, BeadXpress®, CSPro®, DASL®, Genetic Energy™, GoldenGate®, GoldenGate Indexing™, GenomeStudio®, illumina*Dx*™, HiSeq™, Infinium®, IntelliHyb®, iSelect®, Making Sense Out of Life®, Oligator®, Sentrix®, Solexa®, and VeraCode® are our trademarks. This report also contains brand names, trademarks, or service marks of companies other than Illumina, and these brand names, trademarks, and service marks are the property of their respective holders.

Unless the context requires otherwise, references in this annual report on Form 10-K to "Illumina," the "Company," "we," "us," and "our" refer to Illumina, Inc. and its subsidiaries.

PART I

ITEM 1. *Business*

Overview

We are a leading developer, manufacturer, and marketer of integrated systems for the analysis of genetic variation and biological function. We were incorporated in California in April 1998 and reincorporated in Delaware in July 2000. Our principal executive offices are located at 9885 Towne Centre Drive, San Diego, California 92121. Our telephone number is (858) 202-4500.

Using our proprietary technologies, we provide a comprehensive line of products and services that currently serve the sequencing, genotyping, and gene expression markets, and we expect to enter the market for molecular diagnostics. Our customers include leading genomic research centers, pharmaceutical companies, academic institutions, clinical research organizations, and biotechnology companies.

We develop and commercialize sequencing technologies used to perform a range of analyses, including de novo sequencing, whole genome re-sequencing, gene expression analysis, and small RNA analysis. Our product and service offerings also include leading-edge solutions for single-nucleotide polymorphism (SNP) genotyping, copy number variation (CNV), DNA methylation studies, gene expression profiling, and low-multiplex analysis of DNA, RNA, and protein. We believe we are the only company with genome-scale technology for sequencing, genotyping, and gene expression — the three cornerstones of modern genetic analysis.

Our tools provide researchers around the world with the performance, throughput, cost effectiveness, and flexibility necessary to determine and analyze the billions of bits of genetic information needed to extract valuable medical information from advances in genomics and proteomics. We believe this information will enable researchers to correlate genetic variation and biological function, which will enhance drug discovery and clinical research, allow diseases to be detected earlier, and permit better choices of drugs for individual patients.

In 2007 we acquired Solexa, Inc. As a result of that transaction, we acquired the sequencing technology utilized in our HiSeq 2000 and Genome Analyzer instrument platforms. These products perform DNA sequencing based on a proprietary reversible terminator sequencing-by-synthesis (SBS) chemistry.

During the first quarter of 2008, we reorganized our operating structure into two newly-created business segments, the Life Sciences Business Unit and the Diagnostics Business Unit. During 2009, the Diagnostics Business Unit had limited business activity and, accordingly, operating results are reported on an aggregate basis as one operating segment. In the future, at each reporting period end, we will reassess our reportable operating segments, particularly as we enter the market for molecular diagnostics.

Industry Background

DNA, RNA, and Protein

The genetic content that controls an organism's living cells is encoded in deoxyribonucleic acid, or DNA. The human body, for instance, is composed of billions of cells, each containing DNA, which encodes the basic instructions for cellular function. The complete set of an organism's DNA is called its genome. The human genome is organized into 23 pairs of chromosomes that are further divided into over 30,000 smaller regions called genes. Each gene is comprised of a string of nucleotide bases labeled A, C, G, and T, representing adenine, cytosine, guanine, and thymine, respectively. Human DNA has approximately 3 billion nucleotide bases and their precise order is known as the DNA sequence. When a gene is "expressed," a partial copy of its DNA sequence — called messenger RNA or mRNA — is used as a template to direct the synthesis of a protein. Proteins, in turn, direct all cellular function.

Genetic Variation and Biological Function

Every person inherits two copies of each gene — one from each parent. The two copies of each gene may be identical, or they may be different. These differences are referred to as genetic variation. Examples of the physical consequences of genetic variation include differences in eye and hair color. Genetic variation can also have important medical consequences. Genetic variation affects disease susceptibility, including predisposition to cancer, diabetes, cardiovascular disease, and Alzheimer's disease. In addition, genetic variation may cause people to respond differently to the same drug treatment. Some people may respond well, others may not respond at all, and still others may experience adverse side effects. A common form of genetic variation is a SNP. A SNP is a variation in a single position of a nucleotide base in a DNA sequence. It is estimated that the human genome contains over 30 million SNPs.

While in some cases a single SNP will be responsible for medically important effects, it is now believed that combinations of SNPs may contribute to the development of most common diseases. Since there are millions of SNPs, it is important to investigate many representative, well-chosen SNPs simultaneously in order to discover medically valuable information.

Another contributor to disease is the over- or under-expression of genes within an organism's cells. A very complex network of genes interacts to maintain health in complex organisms. The challenge for scientists is to delineate the associated genes' expression patterns and their relationship to disease. Historically, this problem was addressed by investigating effects on a gene-by-gene basis. This is time consuming, and difficulties exist when several pathways cannot be observed or "controlled" at the same time. With the advent of microarray technology, thousands of genes can now be tested at the same time.

There are multiple methods of studying genetic variation and biological function, including sequencing, SNP genotyping, and gene expression profiling, each of which is uniquely addressed in our breadth of products and services. Our broad portfolio of current products and services supports a range of applications, from highest multiplexing (for whole-genome discovery and profiling) to mid-and low-multiplexing options (for high-throughput targeted screening). Furthermore, our products and services support both the upstream discovery process and the downstream test development process in order to understand genetic variation at the DNA, RNA, and protein levels.

Sequencing

DNA sequencing is the process of determining the order of nucleotide bases (A, C, G, or T) in a DNA sample, which can be further divided into de novo sequencing, re-sequencing, and tag sequencing. In de novo sequencing, the goal is to determine the sequence of a representative sample from a species never before sequenced. Understanding the similarities and differences in DNA sequence between many species can help our understanding of the function of the protein structures encoded in the DNA.

In re-sequencing, the sequence of nucleotide bases is compared to a standard or reference sequence from a given species to identify changes that reflect genetic variation. Re-sequencing studies can be performed on a genome-wide basis, which is referred to as whole-genome re-sequencing, or on targeted areas of the genome (for example, regions identified by genome-wide association studies), which is known as targeted re-sequencing. This is an extremely comprehensive form of genetic analysis, in which every base is characterized for possible mutations. We believe that these underlying discoveries will likely feed the development of new array products for broader testing and biomarker validation.

In tag sequencing, short sequences, often representative of a larger molecule or genomic location, are detected and counted. In these applications, the number of times that each tag is seen provides quantification of an underlying biological process. As an example, in digital gene expression, one or more tag sequences may be analyzed for each expressed gene, and the number of copies of these tags that are detected in an experiment is a measure of how actively that gene is being expressed in the tissue sample being analyzed. Similarly, a tag sequencing approach known as ChIP sequencing is used to determine the locations and extent of protein and DNA interactions throughout the genome.

SNP Genotyping

SNP genotyping is the process of determining which nucleotide base (A, C, G, or T) is present at a particular site in the genome within any organism. The most common use of SNP genotyping is for genome-wide association studies (GWAS) to look for an association between DNA sequence variants and a specific phenotype of interest. This is commonly done by studying the DNA of individuals that are affected by a common disease or that exhibit a specific trait against the DNA of control individuals who do not have this disease or trait. The use of SNP genotyping to obtain meaningful statistics on the effect of an individual SNP or a collection of SNPs requires the analysis of millions of SNP genotypes and the testing of large populations for each disease. For example, a single large study could involve genotyping more than 1,000,000 SNPs per sample in more than 1,000 samples, thus requiring one billion assays. Using previously available technologies, this scale of SNP genotyping was both impractical and prohibitively expensive.

Large-scale SNP genotyping can be used in a variety of ways, including studies designed to understand the genetic contributions to disease (disease association studies), genomics based drug development, clinical trial analysis (responders and non-responders, and adverse event profiles), disease predisposition testing, and disease diagnosis. SNP genotyping can also be used outside of healthcare, for example in the development of plants and animals with commercially desirable characteristics. These markets will require billions of SNP genotyping assays annually.

Gene Expression Profiling

Gene expression profiling is the process of determining which genes are active in a specific cell or group of cells and is accomplished by measuring mRNA, the intermediary messenger between genes and proteins. Variation in gene expression can cause disease, or act as an important indicator of disease or predisposition to disease. By comparing gene expression patterns between cells from different environments, such as normal tissue compared to diseased tissue or in the presence or absence of a drug, specific genes or groups of genes that play a role in these processes can be identified. Studies of this type, often used in drug discovery, require monitoring thousands, and preferably tens of thousands, of mRNAs in large numbers of samples. Once a smaller set of genes of interest has been identified, researchers can then examine how these genes are expressed or suppressed across numerous samples, for example, within a clinical trial.

As gene expression patterns are correlated to specific diseases, gene expression profiling is becoming an increasingly important diagnostic tool. Diagnostic use of expression profiling tools is anticipated to grow rapidly with the combination of the sequencing of various genomes and the availability of more cost-effective technologies.

Molecular Diagnostics

Molecular diagnostics is the process of examining nucleic acids, including DNA and RNA, and protein biomarkers to detect or identify infectious diseases, genetic diseases and disorders, human cancers, and to help understand subject-to-subject, gene-based variation in the efficacy or safety of drug substances (pharmacogenics). As knowledge of the genome and its function continues to expand, new medical and diagnostic applications are being developed. Molecular diagnostic tests can be used as diagnostic tools as well as in genetic disease susceptibility testing. Molecular diagnostic tests can also be used to identify a disease, monitor its progression and response to treatment, or predict individual predisposition to a disease and individual response to treatment. By identifying small, individual genetic differences — or variants — that lie at the root of differing drug responses, molecular diagnostic tests can be used to select appropriate medication and dosage.

Our Principal Markets

From our inception, we have believed that the analysis of genetic variation and function will play an increasingly important role in molecular biology and that by empowering genetic analysis, our tools will further disease research, drug development, and the development of molecular tests. Our customers include leading genomic research centers, academic institutions, clinical research organizations, and pharmaceutical

and biotechnology companies. In addition, fundamental developments in recent years have created significant new opportunities for us in the emerging market of molecular diagnostics.

Life Sciences Research Market

The life sciences research market consists of laboratories generally associated with universities, medical research centers, government institutions such as the United States National Institutes of Health, and other research institutions as well as biotechnology and pharmaceutical companies. Researchers at these institutions are using our products and services in a broad spectrum of scientific activities, such as: next-generation sequencing, mid-to-high-complexity genotyping and gene expression (for whole-genome discovery and profiling), and low complexity genotyping and gene expression (for high-throughput targeted screening). Next-generation sequencing is the most rapidly growing of these three areas. It is fueled by private and public funding, new global initiatives to broadly characterize genetic variation, and the migration of legacy genetic applications to sequencing based technologies.

Applied Markets

We provide products and services to enable or improve activities in particular markets, which we refer to as applied markets. A current focus of our products for these markets is in the area of agricultural research, including microarrays that contain SNPs for custom and focused genotyping of seeds and crops (such as maize) and livestock (such as cattle, horses, pigs, and sheep). The applied markets may also include opportunities for our products and services in the fields of forensic analysis, veterinary diagnostics, cytogenics, retail pet genomics, and consumer genotyping and sequencing. In July 2009, we launched a service program to provide high-quality personal genome sequencing for consumers. In connection with our personal sequencing service, we collaborate with a number of partners, including 23andMe, Inc.; deCODE genetics ehf; Knome, Inc.; National Center for Genome Resources; Navigenics, Inc.; and Pathway Genomics, to encourage secondary data analysis of a personal genome, such as calculation of disease risk, ancestry, and information on traits of interest. Although we do not perform personal genotyping directly as a service, several companies use our technology and products to provide personal genotyping services.

Molecular Diagnostics Market

The primary growth drivers in the molecular diagnostics market are the continued discovery of genetic markers with proven clinical utility, the increasing adoption of genetic based diagnostic tests, and the expansion of reimbursement programs to include a greater number of approved diagnostic tests. We believe that molecular diagnostic tests will create a fundamental shift in both the practice of medicine and the economics of the pharmaceutical industry by creating an increased emphasis on preventative and predictive molecular medicine. Physicians will be able to use these tests for the early detection of disease and to treat patients on a personalized basis, allowing them to select the most effective therapy with the fewest side effects. We believe our BeadXpress instrument platform, using our VeraCode technology, is ideally suited to provide a cost-effective, high-throughput, mid- to low-multiplex solution to the molecular diagnostic market. During the third quarter of 2009, we submitted our BeadXpress instrument platform for review by the U.S. Food and Drug Administration (FDA). Assuming FDA approval of this instrument platform, we plan to develop clinical diagnostic testing panels for use on the BeadXpress instrument platform, including possible panels for multi-drug resistant organisms, herpes, and respiratory viruses, and we expect to continue research into the potential development of cancer diagnostic panels, initially focusing on ovarian cancer and gastric cancer. In addition, during the fourth quarter of 2009 we made a pre-IDE (investigational device exemption) submission with the FDA for a cytogenetics test intended to be used as an aid in the postnatal diagnosis of chromosomal abnormalities known to be associated with developmental delay and mental retardation. The pre-IDE package included our iScan instrument platform together with associated microarrays, reagents, and software. Following completion of the IDE process, we intend to seek FDA clearance for the iScan instrument platform and related reagents.

Our Principal Technologies

Sequencing Technology

Our DNA sequencing technology is based on the use of our proprietary SBS biochemistry. In SBS, single stranded DNA is extended from a priming site, one base at a time, using reversible terminator nucleotides. These are DNA bases that can be added to a growing second strand, but which initially cannot be further extended. This means that at each cycle of the chemistry, only one base can be added. Each base that is added includes a fluorescent label that is specific to the particular base (A, C, G, or T). Thus, following incorporation, the fluorescence can be imaged, its color determined, and the base itself can be inferred. Once this is done, an additional step removes both the fluorescence and the blocking group that had prevented further extension of the second strand. This allows another base to be added, and the cycle can then be repeated. Our technology is capable of generating over 100 billion bases of DNA sequence from a single experiment with a single sample preparation. The reversible terminator bases that we use are novel synthetic molecules that we manufacture. They are not well incorporated by naturally occurring polymerases, so we have also developed proprietary polymerase enzymes for this purpose. Both the nucleotides and enzymes are the subject of significant intellectual property owned by us.

In our DNA sequencing systems, we apply the SBS biochemistry on microscopic islands of DNA, referred to as DNA clusters. Each cluster starts as a single DNA molecule fragment, typically a few hundred bases long, attached to the inside surface of a flow cell. We then use a proprietary amplification biochemistry to create copies of each starting molecule. As the copies are made, they are covalently linked to the surface, so they cannot diffuse away. After a number of cycles of amplification, each cluster might have approximately 1,000 copies of the original starting molecule, but still be only about a micron (one-millionth of a meter) in diameter. By making so many copies, the fluorescent signal from each cluster is significantly increased. Because the clusters are so small, hundreds of millions of clusters can be independently formed inside a single flow cell. This large number of clusters can then be sequenced simultaneously by alternate cycles of SBS biochemistry and fluorescent imaging. Sequence reads are aligned against a reference genome and genetic differences are called using specially developed data analysis software.

BeadArray Technology

Our BeadArray technology combines microscopic beads and a substrate in a simple, proprietary manufacturing process to produce arrays that can perform many assays simultaneously, enabling large-scale analysis of genetic variation and biological function in a unique high-throughput, cost effective, and flexible manner. We achieve high-throughput with a high density of test sites per array, and we are able to format arrays in various configurations in the format of standard microscope slides. We seek to maximize cost effectiveness by reducing consumption of expensive reagents and valuable samples and through the low manufacturing costs associated with our technologies. Our ability to vary the size, shape, and format of the well patterns and to create specific bead pools, or sensors, for different applications provides the flexibility to address multiple markets and market segments. We believe that these features have enabled our BeadArray technology to become a leading platform for the high-growth market of SNP genotyping and have allowed us to be a key player in the gene expression market.

Our proprietary BeadArray technology consists of 2-micron silica beads that self-assemble into microwells etched into an array substrate. We have deployed our BeadArray technology in two different array formats, the Array Matrix and the BeadChip. Our first bead based product was the Array Matrix, which incorporates fiber optic bundles comprised of approximately 50,000 individual fibers, with 96 of these bundles placed into an aluminum plate to form an Array Matrix. In late 2009, we announced that during 2010 we would no longer sell Array Matrix products and would instead deploy our BeadArray technology only on BeadChips. BeadChips are microscope slide-size silicon wafers with varying numbers of sample sites per slide. BeadChips are chemically etched to create tens of millions of wells for each sample site.

In a separate process, we create sensors by affixing hundreds of thousands of copies of a specific type of oligonucleotide molecule to each of the billions of microscopic beads in a batch. We make different batches of

beads, with the beads in a given batch coated with one particular type of molecule. The particular molecules on a bead define that bead's function as a sensor.

To form an array, a pool of coated beads is brought into contact with the array surface where they are randomly drawn into the wells, one bead per well. The beads in the wells comprise our individual arrays. Because the beads assemble randomly into the wells, we perform a final procedure called "decoding" in order to determine which bead type occupies which well in the array. We employ several proprietary methods for decoding, which is a process that requires only a few steps to identify all the beads in the array. One beneficial by-product of the decoding process is a functional validation of each bead in the array. This quality control test characterizes the performance of each bead and can identify and eliminate use of any empty wells. We ensure that each bead type on the array is sufficiently represented by including multiple copies of each bead type. Multiple bead type copies improve the reliability and accuracy of the resulting data by allowing statistical processing of the results of identical beads.

An experiment is performed by preparing a sample, such as DNA, and introducing it to the array. The molecules in the sample bind to their matching molecules on the coated beads. The molecules in either the sample or on the bead are labeled with fluorescent dye either before or after the binding, which can be detected by shining a laser on the BeadChip. This allows the detection of the molecules resulting in a quantitative analysis of the sample.

VeraCode Technology

Our proprietary VeraCode technology platform leverages the power of digital holographic codes to provide a robust detection method for multiplex assays requiring high precision, accuracy, and speed. VeraCode enables low-cost multiplexing from 1 to 384-plex in a single well. At the heart of the VeraCode technology are cylindrical glass beads measuring 240 microns in length by 28 microns in diameter. Each VeraCode bead type is inscribed with a unique digital holographic code to designate and track the specific analyte or genotype of interest throughout the multiplex reaction. When excited by a laser, each VeraCode bead emits a unique code image, allowing for quick and specific detection by Illumina's BeadXpress Reader System. Depending on desired multiplex levels, assays are created by pooling microbeads with code diversities from one to several hundred. Unlike traditional microarrays, the VeraCode microbeads are used in solution, which takes advantage of solution-phase kinetics for more rapid hybridization times, dramatically reducing the time to achieve results. This technology enables us to serve a number of markets including research, agriculture, forensics, pharmaceuticals, and molecular diagnostics.

Our Products

Using our proprietary technologies, our products give our customers the ability to analyze the genome at any level of complexity from whole genome sequencing to low multiplex assays. This enables us to serve a number of markets, including research, agriculture, forensics, pharmaceuticals, and molecular diagnostics. The majority of our product sales consist of instruments and consumables based on these various technologies. For the fiscal years ended January 3, 2010, December 28, 2008, and December 30, 2007, instrument sales comprised 34%, 32%, and 33%, respectively, of total revenues, and consumable sales represented 59%, 58%, and 53%, respectively, of total revenues.

Our major products, which we expect to be available for shipment during the first quarter of 2010, include the following:

Instrumentation Platforms

Product	Product Description	Applications	Launch Date
HiSeq 2000	Instrument for high-throughput (up to 200 Gb per run and up to 25 GB per day) sequencing using our SBS sequencing technology	DNA sequencing, gene regulation analysis, sequencing-based transcriptome analysis, SNP discovery and structural variation analysis, cytogenetic analysis, DNA-protein interaction analysis (ChIP-seq), sequencing-based methylation analysis, and small RNA discovery and analysis	Q1 2010
Genome Analyzer IIx	Instrument for medium to high-throughput (up to 95 Gb per run) sequencing using our SBS sequencing technology	DNA sequencing, gene regulation analysis, sequencing-based transcriptome analysis, SNP discovery and structural variation analysis, cytogenetic analysis, DNA-protein interaction analysis (ChIP-seq), sequencing-based methylation analysis, and small RNA discovery and analysis	Q2 2009
Genome Analyzer IIe	Instrument for low to medium throughput (up to 40 Gb per run) sequencing using our SBS sequencing technology	DNA sequencing, gene regulation analysis, sequencing-based transcriptome analysis, SNP discovery and structural variation analysis, cytogenetic analysis, DNA-protein interaction analysis (ChIP-seq), sequencing-based methylation analysis, and small RNA discovery and analysis	Q1 2010
iScan System	High-resolution imaging instrument to rapidly scan our BeadArray based assays	SNP genotyping and CNV analysis, custom genotyping, cytogenetic analysis, focused genotyping, linkage analysis, whole-genome genotyping and copy number analysis, gene regulation and epigenetic analysis, array-based methylation analysis, gene expression analysis, array-based transcriptome analysis, FFPE sample analysis, and whole-genome gene expression analysis	Q1 2008
BeadXpress Reader	Low- to mid-multiplex, high-throughput instrument for readout of assays (e.g., biomarker validation and development of molecular diagnostics) deployed on VeraCode bead technology	Custom low- to mid-plex genotyping, custom low- to mid-plex methylation analysis, SNP screening, and protein screening	Q1 2007

Consumables

Product	Product Description	Applications	Launch Date
InfiniumHD Whole-Genome BeadChips	Multi-sample DNA Analysis microarrays that interrogate up to 1.2 million markers per sample, depending on the BeadChip. Product line includes the following BeadChips with human and agriculturally relevant genome panels: HumanOmniExpress, HumanOmni1-Quad, Human1M-Duo, and BovineHD	Array based whole-genome genotyping	Q1 2008 through Q1 2010
iSelect Custom Genotyping BeadChips	Customer designable SNP genotyping arrays for 3,000 to 200,000 markers for use with any species	Array based custom genotyping	Q2 2006 through Q1 2010
GoldenGate Assay Method	High throughput assay and genotyping system	High throughput, array based genotyping	Q3 2009
GoldenGate Universal-32 Sample BeadChip	32 sample GoldenGate genotyping arrays	Array based genotyping	Q4 2008
Paired-End Genomic DNA Sample Prep Kit	Streamlined library preparation kit to generate 200 — 500 kb insert paired-end reads	Whole-genome sequencing, targeted sequencing, gene expression discovery and profiling, and epigenomics analysis	Q2 2008
VeraCode GoldenGate	Flexible low plex GoldenGate genotyping arrays compatible with the BeadXpress System	High throughput, array based genotyping	FY 2007
Standard Sequencing Kit	Reagents used for SBS chemistry on our sequencing platforms	Whole-genome sequencing, targeted sequencing, gene expression discovery and profiling, and epigenomics analysis	Q1 2007
Infinium Assay Kit	Reagents used to perform Infinium assays on the iScan platform	Array-based genotyping	Q1 2008 through Q1 2010

Our Services

Sequencing

We have been offering sequencing services since 2007. Our services range from small sets of samples requiring as little as one run to finish, to large-scale projects, like whole-genome sequencing, necessitating multiple instruments running in parallel for extended periods of time. The breadth of applications offered

includes novel custom products as well as all released products. These applications include but are not limited to human whole exome and custom targeted re-sequencing, de novo sequencing, small RNA discovery and profiling, gene expression using random primed RNA sampling technology, ChIP SEQ, and methylome interrogation.

Genotyping

We have been offering genotyping services since 2002. Our genotyping services offer all of our genotyping products, including standard and custom GoldenGate, standard Infinium and Infinium HD, as well as iSelect Infinium. Our projects range in size from a few hundred samples to over 10,000 samples. Our customer base includes academic institutions, and biotech and pharmaceutical companies.

Intellectual Property

We have an extensive intellectual property portfolio, including, as of February 1, 2010, ownership of, or exclusive licenses to, 159 issued U.S. patents and 171 pending U.S. patent applications, including eight allowed applications that have not yet issued as patents. Our issued patents include those directed to various aspects of our arrays, assays, oligo synthesis, sequencing technology, instruments, and chemical detection technologies, and have terms that expire between 2010 and 2027. We continue to file new patent applications to protect the full range of our technologies. We have filed or have been granted counterparts for many of these patents and applications in foreign countries.

We also rely upon trade secrets, know-how, copyright, and trademark protection, as well as continuing technological innovation and licensing opportunities to develop and maintain our competitive position. Our success will depend in part on our ability to obtain patent protection for our products and processes, to preserve our trade secrets, to enforce our patents, copyrights and trademarks, to operate without infringing the proprietary rights of third parties, and to acquire licenses related to enabling technology or products.

We are party to various exclusive and non-exclusive license agreements and other arrangements with third parties that grant us rights to use key aspects of our array and sequencing technologies, assay methods, chemical detection methods, reagent kits, and scanning equipment. We have exclusive licenses from Tufts University to patents that are directed to our BeadArray technology. These patents were filed by Dr. David Walt, who is a member of our board of directors, the Chairman of our Scientific Advisory Board, and one of our founders. Our exclusive licenses expire with the termination of the underlying patents, which will occur between 2010 and 2020. We have additional nonexclusive license agreements with various third parties for other components of our products. In most cases, the agreements remain in effect over the term of the underlying patents, may be terminated at our request without further obligation, and require that we pay customary royalties while the agreement is in effect.

Research and Development

We have made substantial investments in research and development since our inception. We have assembled a team of skilled engineers and scientists who are specialists in biology, chemistry, informatics, instrumentation, optical systems, software, manufacturing, and other related areas required to complete the development of our products. Our research and development efforts have focused primarily on the tasks required to optimize our sequencing, BeadArray, VeraCode, and oligo synthesis technologies and to support commercialization of the products and services derived from these technologies.

Our research and development expenses for 2009, 2008, and 2007 were $140.6 million, $100.0 million, and $73.9 million, respectively. We expect research and development expense to increase during 2010 as we continue to expand our research and product development efforts.

Marketing and Distribution

Our current products address the genetic analysis portion of the life sciences market, in particular, experiments involving sequencing, SNP genotyping, and gene expression profiling. These experiments may be

involved in many areas of biologic research, including basic human disease research, pharmaceutical drug discovery and development, pharmacogenomics, toxicogenomics, and agricultural research. Our potential customers include pharmaceutical, biotechnology, agrichemical, diagnostics, and consumer products companies, as well as academic or private research centers. The genetic analysis market is relatively new and emerging and its size and speed of development will ultimately be driven by, among other items:

- the ability of the research community to extract medically valuable information from genomics and to apply that knowledge to multiple areas of disease-related research and treatment;
- the availability of sufficiently low cost, high-throughput research tools to enable the large amount of experimentation required to study genetic variation and biological function; and
- the availability of government and private industry funding to perform the research required to extract medically relevant information from genomic analysis.

We market and distribute our products directly to customers in North America, Europe, and the Asia-Pacific region. In each of these areas, we have dedicated sales, service, and application support personnel responsible for expanding and managing their respective customer bases. In addition, in certain markets within Europe, the Asia-Pacific region, the Middle East, and South Africa we sell our products and provide services to customers through distributors that specialize in life science products. We expect to continue to increase our sales and distribution resources during 2010 and beyond as we launch a number of new products and expand the number of customers that can use our products.

Manufacturing

We manufacture sequencing and array instrument platforms, reagent kits, scanning equipment, and oligos. Our manufacturing capacity for consumables and instruments has grown during 2009 to support our increased customer demand. We are also focused on continuing to enhance the quality and manufacturing yield of our BeadChips and flow cells. To continue to increase throughput and improve the quality and manufacturing yield as we increase the complexity of our products, we are exploring ways to continue increasing the level of automation in the manufacturing process. We adhere to access and safety standards required by federal, state, and local health ordinances, such as standards for the use, handling, and disposal of hazardous substances.

Raw Materials

Our manufacturing operations require a wide variety of raw materials, electronic and mechanical components, chemical and biochemical materials, and other supplies. We have multiple commercial sources for many of our components and supplies; however, there are some raw materials we obtain from single source suppliers. To mitigate potential risks arising from single source suppliers, we believe that we can redesign our products for alternative components or use alternative reagents. In addition, while we generally attempt to keep our inventory at minimal levels, we purchase incremental inventory as circumstances warrant to protect our supply chain.

Competition

Although we expect that our products and services will provide significant advantages over products and services currently available from other sources, we expect to encounter intense competition from other companies that offer products and services for the sequencing, SNP genotyping, gene expression, and molecular diagnostics markets. These include companies such as Affymetrix, Inc.; Agilent Technologies, Inc.; Beckman Coulter, Inc.; Complete Genomics, Inc.; General Electric Company; Helicos BioSciences Corporation; Life Technologies Corporation; Luminex Corporation; Pacific Biosciences, Inc.; Roche Diagnostics Corp.; Sequenom, Inc.; and Qiagen N.V. Some of these companies have or will have substantially greater financial, technical, research, and other resources and larger, more established marketing, sales, distribution, and service organizations than we do. In addition, they may have greater name recognition than we do in the markets we address and in some cases a larger installed base of systems. Each of these markets is very competitive and we expect new competitors to emerge and the intensity of competition to increase. In

order to effectively compete with these companies, we will need to demonstrate that our products have superior throughput, cost, and accuracy advantages over competing products.

Segment and Geographic Information

During the first quarter of 2008, we reorganized our operating structure into two newly created business segments, Life Sciences and Diagnostics. Our Life Sciences Business Unit includes all products and services that are primarily related to the research market, namely the product lines based on our sequencing, BeadArray, and VeraCode technologies, and our Diagnostics Business Unit focuses on the emerging opportunity in molecular diagnostics. During 2009, we had limited activity related to the Diagnostics Business Unit and operating results were reported on an aggregate basis to our chief operating decision maker, the chief executive officer. Accordingly, we operated in one reportable segment during 2009.

We currently sell our products to a number of customers outside the United States, including customers in other areas of North America, Europe, and the Asia-Pacific region. Shipments to customers outside the United States totaled $319.1 million, or 48% of our total revenue, during 2009, compared to $293.2 million, or 51%, and $159.1 million, or 43%, in 2008 and 2007, respectively. Sales to customers outside of the United States were generally denominated in U.S. dollars. In 2008, we reorganized our international structure to establish more efficient channels among product development, product manufacturing, and sales. The reorganization increased our foreign subsidiaries' anticipated dependence on the U.S. entity for management decisions, financial support, production assets, and inventory thereby making the foreign subsidiaries more of a direct and integral component of the U.S. entity's operations. As a result, we reassessed the primary economic environment of our foreign subsidiaries and determined the subsidiaries are more U.S. dollar based, resulting in a U.S. dollar functional currency determination. We expect that sales to international customers will continue to be an important and growing source of revenue. See Note 13 of the Notes to Consolidated Financial Statements for further information concerning our foreign and domestic operations.

Backlog

Our backlog was $227.6 million and $113.0 million at January 3, 2010 and December 28, 2008, respectively. Generally, our backlog consists of orders believed to be firm as of the balance sheet date; however, we may allow customers to make product substitutions as we launch new products. The timing of shipments depends on several factors including, agreed upon shipping schedules, which may span multiple quarters, and whether the product is catalog or custom. We reasonably expect an estimated 90% of the backlog as of January 3, 2010 to be shipped within the fiscal year ending January 2, 2011. Although we generally recognize revenue at the time of shipment and transfer of title to a customer, we may be required to defer the recognition of revenue even after shipment depending on the specific arrangement with a customer and the applicable accounting treatment. A material portion of our backlog at January 3, 2010 is associated with a large order we received from one customer for which we anticipate using operating lease accounting that will require us to recognize revenue over a period of three years with the majority of that revenue recognized in 2011 and 2012.

Seasonality

Historically, customer purchasing patterns have not shown significant seasonal variation, although demand for our products is usually lowest in the first quarter of the calendar year and highest in the third quarter of the calendar year as a result, in part, of U.S. academic customers spending unused budget allocations before the end of the U.S. government's fiscal year.

Environmental Matters

We are committed to the protection of our employees and the environment. Our operations require the use of hazardous materials that subject us to a variety of federal, state, and local environmental and safety laws and regulations. We believe we are in material compliance, in all material respects, with current applicable laws and regulations; however, we could be held liable for damages and fines should contamination

of the environment or individual exposures to hazardous substances occur. In addition, we cannot predict how changes in these laws and regulations, or the development of new laws and regulations, will affect our business operations or the cost of compliance.

Government Regulation

Our products are not currently subject to FDA clearance or approval if they are not intended to be used for the diagnosis of disease. However, as we expand our product line to encompass products that are intended to be used for the diagnosis of disease, such as molecular diagnostic products, regulation by governmental authorities in the United States and other countries will be a significant factor in the development, testing, production, and marketing of such products. Products that we develop in the molecular diagnostic markets, depending on their intended use, will be regulated as medical devices by the FDA and comparable agencies of other countries and may require either receiving clearance following a pre-market notification process, also known as a 510(k) clearance, or premarket approval (PMA), from the FDA prior to marketing. Obtaining the requisite regulatory approvals can be expensive and may involve considerable delay.

The shorter 510(k) clearance process, which generally takes from three to six months after submission, but can take significantly longer, may be utilized if it is demonstrated that the new product is "substantially equivalent" to a similar product that has already been cleared by the FDA. The longer PMA process is much more costly, uncertain, and generally takes from nine months to two years after filing. Because we cannot assure you that any molecular diagnostic products that we develop will be subject to the shorter 510(k) clearance process, or will ultimately be approved at all, the regulatory approval process for such products may be significantly delayed and may be significantly more expensive than anticipated. If we fail to obtain, or experience significant delays in obtaining, regulatory approvals for molecular diagnostic products that we develop, we may not be able to launch or successfully commercialize such products in a timely manner, or at all.

Changes to the current regulatory framework, including the imposition of additional or new regulations, could arise at any time during the development or marketing of our products, which may negatively affect our ability to obtain or maintain FDA or comparable regulatory approval of our products, if required.

In addition, the regulatory approval or clearance process required to manufacture, market, and sell our existing and future products that are intended for, and marketed and labeled as, "Research Use Only," or RUO, is uncertain if such products are used or could be used, even without our consent, for the diagnosis of disease. If the FDA or other regulatory authorities assert that any of our RUO products are subject to regulatory clearance or approval, our business, financial condition, or results of operations could be adversely affected.

Employees

As of January 3, 2010, we had a total of 1,781 employees. None of our employees are represented by a labor union. We consider our employee relations to be positive. Our success will depend in large part upon our ability to attract and retain employees. In addition, we employ a number of temporary and contract employees. We face competition in this regard from other companies, research and academic institutions, government entities, and other organizations.

ITEM 1A. ***Risk Factors***

Our business is subject to various risks, including those described below. In addition to the other information included in this Form 10-K, the following issues could adversely affect our operating results or our stock price.

We face intense competition, which could render our products obsolete, result in significant price reductions, or substantially limit the volume of products that we sell.

We compete with life sciences companies that design, manufacture, and market products for analysis of genetic variation and biological function and other applications using a wide-range of competing technologies. We anticipate that we will continue to face increased competition as existing companies develop new or

improved products and as new companies enter the market with new technologies. One or more of our competitors may render our technology obsolete or uneconomical. Some of our competitors have greater financial and personnel resources, broader product lines, a more established customer base, and more experience in research and development than we do. Furthermore, life sciences and pharmaceutical companies, which are our potential customers and strategic partners, could also develop competing products. We believe that customers in our markets display a significant amount of loyalty to their initial supplier of a particular product; therefore, it may be difficult to generate sales to potential customers who have purchased products from competitors. To the extent we are unable to be the first to develop or supply new products, our competitive position may suffer.

The market for molecular diagnostics products is currently limited and highly competitive, with several large companies already having significant market share, intellectual property portfolios, and regulatory expertise. Established diagnostic companies also have an installed base of instruments in several markets, including clinical and reference laboratories, which could deter acceptance of our products. In addition, some of these companies have formed alliances with genomics companies that provide them access to genetic information that may be incorporated into their diagnostic tests.

Our success depends upon the continued emergence and growth of markets for analysis of genetic variation and biological function.

We design our products primarily for applications in the life sciences, agricultural, and pharmaceutical industries. The usefulness of our technologies depends in part upon the availability of genetic data and its usefulness in identifying or treating disease. We are focusing on markets for analysis of genetic variation and biological function, namely sequencing, genotyping, and gene expression profiling. These markets are new and emerging, and they may not develop as quickly as we anticipate, or reach their full potential. Other methods of analysis of genetic variation and biological function may emerge and displace the methods we are developing. Also, researchers may not seek or be able to convert raw genetic data into medically valuable information through the analysis of genetic variation and biological function. For instance, demand for our microarray products may be adversely affected if researchers fail to find meaningful correlations between genetic variation, such as SNPs, and disease susceptibility through genome wide association studies. In addition, factors affecting research and development spending generally, such as changes in the regulatory environment affecting life sciences and pharmaceutical companies, and changes in government programs that provide funding to companies and research institutions, could harm our business. If useful genetic data is not available or if our target markets do not develop in a timely manner, demand for our products may grow at a slower rate than we expect, and we may not be able to sustain profitability.

If the quality of our products does not meet our customers' expectations, then our sales and operating earnings, and ultimately our reputation, could be negatively impacted.

In the course of conducting our business, we must adequately address quality issues associated with our products and services, including defects in our engineering, design, and manufacturing processes, as well as defects in third-party components included in our products. Because our instruments and reagents are highly complex, the occurrence of defects may increase as we continue to introduce new products and services. Although we have established internal procedures to minimize risks that may arise from product quality issues, there can be no assurance that we will be able to eliminate or mitigate occurrences of these issues and associated liabilities. In addition, identifying the root cause of quality issues, particularly those affecting reagents, may be difficult, which increases the time needed to address quality issues as they arise and increases the risk that similar problems could recur. Finding solutions to quality issues can be expensive and we may incur significant costs or lost revenue in connection with, for example, shipment holds, product recalls, and warranty or other service obligations. In addition, quality issues can impair our relationships with new or existing customers and adversely affect our brand image, and our reputation as a producer of high quality products could suffer, which could adversely affect our business as well as our financial results.

If we do not successfully manage the development and launch of new products or services, including product transitions, our financial results could be adversely affected.

We face risks associated with launching new products and pre-announcing products and services when the products or services have not been fully developed or tested. If our products and services are not able to deliver the performance or results expected by our target markets or are not delivered on a timely basis, our reputation and credibility may suffer. If we encounter development challenges or discover errors in our products late in our development cycle it may cause us to delay our product launch date. In addition, we may experience difficulty in managing or forecasting customer reactions, purchasing decisions, or transition requirements or programs (such as trade-in programs) with respect to newly launched products (or products in development) relative to our existing products, which could adversely affect sales of our existing products. The expenses or losses associated with unsuccessful product development or launch activities or lack of market acceptance of our new products could adversely affect our business, financial condition, or results of operations.

If we are unable to increase our manufacturing capacity and develop and maintain operation of our manufacturing capability, we may not be able to launch or support our products in a timely manner, or at all.

We continue to increase our capacity to meet the anticipated demand for our products. Although we have significantly increased our manufacturing capacity and we believe we have plans in place sufficient to ensure we have adequate capacity to meet our business plan for 2010, there are uncertainties inherent in expanding our manufacturing capabilities and we may not be able to sufficiently increase our capacity in a timely manner. For example, manufacturing and product quality issues may arise as we increase production rates at our manufacturing facilities and launch new products. Also, we may not manufacture the right product mix to meet customer demand, especially as we introduce new products. As a result, we may experience difficulties in meeting customer, collaborator, and internal demand, in which case we could lose customers or be required to delay new product introductions, and demand for our products could decline. Additionally, in the past, we have experienced variations in manufacturing conditions and quality control issues that have temporarily reduced or suspended production of certain products. Due to the intricate nature of manufacturing products that contain DNA, we may encounter similar or previously unknown manufacturing difficulties in the future that could significantly reduce production yields, impact our ability to launch or sell these products (or to produce them economically), prevent us from achieving expected performance levels, or cause us to set prices that hinder wide adoption by customers.

Additionally, we currently manufacture in a limited number of locations. Our manufacturing facilities are located in San Diego and Hayward, California; Singapore; and Little Chesterford, United Kingdom. These areas are subject to natural disasters such as earthquakes, wildfires, or floods. If a natural disaster were to damage one of our facilities significantly or if other events were to cause our operations to fail, we may be unable to manufacture our products, provide our services or develop new products.

Also, many of our manufacturing processes are automated and are controlled by our custom-designed Laboratory Information Management System (LIMS). Additionally, the decoding process in our array manufacturing requires significant network and storage infrastructure. If either our LIMS system or our networks or storage infrastructure were to fail for an extended period of time, it may adversely impact our ability to manufacture our products on a timely basis and could prevent us from achieving our expected shipments in any given period.

Our acquisitions expose us to risks that could adversely affect our business, and we may not achieve the anticipated benefits of acquisitions of businesses or technologies.

As part of our strategy to develop and identify new products, services, and technologies, we have made, and may continue to make, acquisitions of technologies, products, or businesses. Acquisitions involve

numerous risks and operational, financial, and managerial challenges, including the following, any of which could adversely affect our business, financial condition, or results of operations:

- difficulties in integrating new operations, technologies, products, and personnel;
- lack of synergies or the inability to realize expected synergies and cost-savings;
- difficulties in managing geographically dispersed operations;
- underperformance of any acquired technology, product, or business relative to our expectations and the price we paid;
- negative near-term impacts on financial results after an acquisition, including acquisition-related earnings charges;
- the potential loss of key employees, customers, and strategic partners of acquired companies;
- claims by terminated employees and shareholders of acquired companies or other third parties related to the transaction;
- the issuance of dilutive securities, assumption or incurrence of additional debt obligations or expenses, or use of substantial portions of our cash;
- diversion of management's attention and company resources from existing operations of the business;
- inconsistencies in standards, controls, procedures, and policies;
- the impairment of intangible assets as a result of technological advancements, or worse-than-expected performance of acquired companies; and
- assumption of, or exposure to, unknown contingent liabilities or liabilities that are difficult to identify or accurately quantify.

In addition, the successful integration of acquired businesses requires significant efforts and expense across all operational areas, including sales and marketing, research and development, manufacturing, finance, legal, and information technologies. We cannot assure you that any of the acquisitions we make will be successful or will be, or will remain, profitable. Our failure to successfully address the above risks may prevent us from achieving the anticipated benefits from any acquisition in a reasonable time frame, or at all.

The timing and extent of funding provided by the American Recovery and Reinvestment Act of 2009 (the Recovery Act) could adversely affect our business, financial condition, or results of operations.

The Recovery Act was enacted in February 2009 to provide stimulus to the U.S. economy in the wake of the economic downturn. As part of the Recovery Act legislation, over $10 billion in funding was provided to the National Institute of Health through September 2010 to support the advancement of scientific research. A portion of the stimulus funding may support the analysis of genetic variation and biological function and have a significant positive impact on our business. In the short-term, however, our customers may delay or reduce their purchases of our products as they wait to learn whether, and to what extent, they will receive stimulus funding. If our customers are unable to obtain stimulus money they may reduce their research and development budgets resulting in a decrease in demand for our products. In addition, it is unclear what will happen to demand for our products after the stimulus funds from the Recovery Act have been allocated and spent. A decline in demand will reduce our revenues, which would adversely affect our business, financial condition, or results of operations.

Unfavorable global economic conditions could adversely affect our business, financial condition, or results of operations.

Our results of operations could be adversely affected by general conditions in the global economy and in the global financial markets. The recent global financial crisis caused extreme volatility and disruptions in the capital and credit markets. A severe or prolonged economic downturn, such as the recent global financial

crisis, could result in a variety of risks to our business, including, in particular, reductions or delays in planned improvements to healthcare systems, research and development funding, and purchases of our products and services, or cost-containment efforts by governments and private organizations that could adversely affect our business, financial condition, or results of operations. In addition, the liquidity of our investment portfolio could be impaired such as when more than $50 million of auction rate securities that we held for investment became illiquid in February 2008 because their scheduled auctions failed. Furthermore, as is the case for almost any other business, we face the following risks from a severe or prolonged economic downturn:

- severely limited access to financing over an extended period of time, which may limit our ability to fund our growth strategy, could result in a need to delay capital expenditures, acquisitions, or research and development projects;
- losses from our investment portfolio or to a counterparty's inability to fulfill its payment obligations;
- inability to refinance existing debt at competitive rates, reasonable terms, or sufficient amounts; and
- increased volatility or adverse movements in foreign currency exchange rates.

In addition, certain of our customers may face challenges gaining timely access to sufficient credit, which could result in an impairment of their ability to make timely payments to us. If that were to occur, our allowance for doubtful accounts and our days sales outstanding could increase. Additionally, these economic conditions may cause our smaller suppliers to be unable to supply in a timely manner sufficient quantities of customized components, which would impair our ability to manufacture on schedule and at commercially reasonable costs. Suppliers may also extend lead times, limit supplies, or increase prices due to capacity constraints or other factors.

Our continued growth is dependent on continuously developing and commercializing new products.

Our target markets are characterized by rapid technological change, evolving industry standards, changes in customer needs, existing and emerging competition, strong price competition, and frequent new product introductions. Accordingly, our continued growth depends on continuously developing and commercializing new products and services, including improving our existing products and services, in order to address evolving market requirements on a timely basis. If we fail to innovate or adequately invest in new technologies, our products and services will become dated and we could lose our competitive position in the markets that we serve as customers purchase new products offered by our competitors. We believe that successfully introducing new products and technologies in our target markets on a timely basis provides a significant competitive advantage because customers make an investment of time in selecting and learning to use a new product and may be reluctant to switch once that selection is made.

To the extent that we fail to introduce new and innovative products, or such products are not accepted in the market or suffer significant delays in development, we may lose market share to our competitors, which will be difficult or impossible to regain. An inability, for technological or other reasons, to successfully develop and introduce new products could reduce our growth rate or otherwise have an adverse effect on our business. In the past, we have experienced, and are likely to experience in the future, delays in the development and introduction of new products. We cannot assure you that we will keep pace with the rapid rate of change in our markets or that our new products will adequately meet the requirements of the marketplace, achieve market acceptance, or compete successfully with competing technologies. Some of the factors affecting market acceptance of new products and services include:

- availability, quality, and price relative to competing products and services;
- the functionality of new and existing products and services;
- the timing of introduction of the new product or service relative to competing products and services;
- scientists' and customers' opinions of the utility of the new product or service;
- citation of the new product or service in published research;

- regulatory trends and approvals; and
- general trends in life sciences research and applied markets.

We depend on third-party manufacturers and suppliers for components and materials used in our products, and if shipments from these manufacturers or suppliers are delayed or interrupted, or if the quality of the components or materials supplied do not meet our requirements, we may not be able to launch, manufacture, or ship our products in a timely manner, or at all.

The nature of our products requires customized components and materials that currently are available from a limited number of sources, and, in the case of some components and materials, from only a single source. If deliveries from these vendors are delayed or interrupted for any reason, or if we are otherwise unable to secure a sufficient supply, we may not be able to obtain these components or materials timely or in sufficient quantities or qualities, or at all, in order to meet demand for our products. We may need to enter into contractual relationships with manufacturers for commercial-scale production of some of our products, or develop these capabilities internally, and we cannot assure you that we will be able to do this on a timely basis, in sufficient quantities, or on commercially reasonable terms. Accordingly, we may not be able to establish or maintain reliable, high-volume manufacturing at commercially reasonable costs. In addition, the manufacture or shipment of our products may be delayed or interrupted if the quality of the components or materials supplied by our vendors does not meet our requirements. Any delay or interruption to our manufacturing process or in shipping our products could result in lost revenue, which would adversely affect our business, financial condition, or results of operations.

An inability to manage our growth or the expansion of our operations could adversely affect our business, financial condition, or results of operations.

Our business has grown rapidly, with total revenues increasing from $73.5 million for the year ended January 1, 2006 to $666.3 million for the year ended January 3, 2010 and with the number of employees increasing from 375 to 1,781 during the same period. We expect to continue to experience rapid and substantial growth in order to achieve our operating plans. The rapid expansion of our business and addition of new personnel may place a strain on our management and operational systems. Our ability to effectively manage our operations and growth requires us to continue to expend funds to enhance our operational, financial, and management controls, reporting systems, and procedures and to attract and retain sufficient numbers of talented employees on a global basis. If we are unable to scale up and implement improvements to our manufacturing process and control systems in an efficient or timely manner, or if we encounter deficiencies in existing systems and controls, then we will not be able to make available the products required to successfully commercialize our technology. Our future operating results will depend on the ability of our management to continue to implement and improve our research, product development, manufacturing, sales and marketing, and customer support programs, enhance our operational and financial control systems, expand, train, and manage our employee base, integrate acquired businesses, and effectively address new issues related to our growth as they arise. There can be no assurance that we will be able to manage our recent or any future expansion or acquisition successfully, and any inability to do so could adversely affect our business, financial condition, or results of operations.

If we lose our key personnel or are unable to attract and retain additional personnel, we may be unable to achieve our goals.

We are highly dependent on our management and scientific personnel, including Jay Flatley, our president and chief executive officer. The loss of their services could adversely impact our ability to achieve our business objectives. In addition, we will need to hire additional qualified personnel with expertise in molecular biology, chemistry, biological information processing, sales, marketing, and technical support. We compete for qualified management and scientific personnel with other life science companies, universities, and research institutions, particularly those focusing on genomics. Competition for these individuals, particularly in the San Diego and San Francisco area, is intense, and the turnover rate can be high. Failure to attract and retain management and scientific personnel would prevent us from pursuing collaborations or developing our

products or technologies. Additionally, integration of acquired companies and businesses can be disruptive, causing key employees of the acquired business to leave. Further, we use stock options and restricted stock to provide incentives for our key personnel to remain with us and to align their interests with those of the Company by building long-term stockholder value. If our stock price decreases, the value of these equity awards decreases and therefore reduces a key employee's incentive to stay.

Doing business internationally creates operational and financial risks for our business.

Conducting and launching operations on an international scale requires close coordination of activities across multiple jurisdictions and time zones and consumes significant management resources. If we fail to coordinate and manage these activities effectively, including the risks noted below, our business, financial condition, or results of operations could be adversely affected. We are focused on expanding our international operations in key markets. We have sales offices located internationally throughout Europe and the Asia-Pacific region, as well as manufacturing facilities in the United Kingdom and Singapore. During 2009, the majority of our sales to international customers and purchases of raw materials from international suppliers were denominated in U.S. dollars. Shipments to customers outside the United States comprised 48%, 51%, and 43% of our total revenue for the years ended January 3, 2010, December 28, 2008, and December 30, 2007, respectively. We intend to continue to expand our international presence by selling to customers located outside of the United States and we expect the total amount of non-U.S. sales to continue to grow.

International sales entail a variety of risks, including:

- longer payment cycles and difficulties in collecting accounts receivable outside of the United States;
- currency exchange fluctuations;
- challenges in staffing and managing foreign operations;
- tariffs and other trade barriers;
- unexpected changes in legislative or regulatory requirements of foreign countries into which we sell our products;
- difficulties in obtaining export licenses or in overcoming other trade barriers and restrictions resulting in delivery delays; and
- significant taxes or other burdens of complying with a variety of foreign laws.

Changes in the value of the relevant currencies may affect the cost of certain items required in our operations. Changes in currency exchange rates may also affect the relative prices at which we are able sell products in the same market. Our revenues from international customers may be negatively impacted as increases in the U.S. dollar relative to our international customers local currency could make our products more expensive, impacting our ability to compete. Our costs of materials from international suppliers may increase if in order to continue doing business with us they raise their prices as the value of the U.S. dollar decreases relative to their local currency. Foreign policies and actions regarding currency valuation could result in actions by the United States and other countries to offset the effects of such fluctuations. The recent global financial downturn has led to a high level of volatility in foreign currency exchange rates and that level of volatility may continue, which could adversely affect our business, financial condition, or results of operations.

We are subject to risks related to taxation in multiple jurisdictions and the possible loss of the tax deduction on our outstanding convertible notes.

We are subject to income taxes in both the United States and numerous foreign jurisdictions. Significant judgments based on interpretations of existing tax laws or regulations are required in determining the provision for income taxes. Our effective income tax rate could be adversely affected by various factors, including, but not limited to, changes in the mix of earnings in tax jurisdictions with different statutory tax rates, changes in the valuation of deferred tax assets and liabilities, changes in existing tax laws or tax rates,

changes in the level of non-deductible expenses (including share-based compensation), changes in our future levels of research and development spending, mergers and acquisitions, or the result of examinations by various tax authorities.

In addition, we could lose some or all of the tax deduction for interest expense associated with our $400 million aggregate principal amount of convertible notes due in 2014 if these notes are not subject to the special Treasury Regulations governing contingent payment debt instruments, the notes are converted, or we invest in non-taxable investments.

Any inability to effectively protect our proprietary technologies could harm our competitive position.

Our success depends to a large extent on our ability to develop proprietary products and technologies and to obtain patents and maintain adequate protection of our intellectual property in the United States and other countries. If we do not protect our intellectual property adequately, competitors may be able to use our technologies and thereby erode our competitive advantage. The laws of some foreign countries do not protect proprietary rights to the same extent as the laws of the United States, and many companies have encountered significant challenges in establishing and enforcing their proprietary rights outside of the United States. These challenges can be caused by the absence of rules and methods for the establishment and enforcement of intellectual property rights outside of the United States.

The patent positions of companies developing tools for the life sciences, agricultural, and pharmaceutical industries, including our patent position, generally are uncertain and involve complex legal and factual questions. We will be able to protect our proprietary rights from unauthorized use by third parties only to the extent that our proprietary technologies are covered by valid and enforceable patents or are effectively maintained as trade secrets. In addition, patent applications in the United States may be maintained in secrecy until patents issue, and publication of discoveries in the scientific or patent literature tend to lag behind actual discoveries by several months. We intend to apply for patents covering our technologies and products as we deem appropriate. However, our patent applications may be challenged and may not result in issued patents or may be invalidated or narrowed in scope after they are issued. Questions as to inventorship or ownership may also arise. Any finding that our patents or applications are unenforceable could harm our ability to prevent others from practicing the related technology, and a finding that others have inventorship or ownership rights to our patents and applications could require us to obtain certain rights to practice related technologies, which may not be available on favorable terms, if at all. Furthermore, as issued patents expire, we may lose some competitive advantage as others develop competing products, and, as a result, we may lose revenue.

In addition, our existing patents and any future patents we obtain may not be sufficiently broad to prevent others from practicing our technologies or from developing competing products. There is also the risk that others may independently develop similar or alternative technologies or design around our patented technologies. Also, our patents may fail to provide us with any competitive advantage. We may need to initiate lawsuits to protect or enforce our patents, or litigate against third party claims, which would be expensive, and, if we lose, may cause us to lose some of our intellectual property rights and reduce our ability to compete in the marketplace. Furthermore, these lawsuits may divert the attention of our management and technical personnel.

We also rely upon trade secrets and proprietary know-how protection for our confidential and proprietary information, and we have taken security measures to protect this information. These measures, however, may not provide adequate protection for our trade secrets, know-how, or other confidential information. Among other things, we seek to protect our trade secrets and confidential information by entering into confidentiality agreements with employees, collaborators, and consultants. There can be no assurance that any confidentiality agreements that we have with our employees, collaborators, and consultants will provide meaningful protection for our trade secrets and confidential information or will provide adequate remedies in the event of unauthorized use or disclosure of such information. Accordingly, there also can be no assurance that our trade secrets will not otherwise become known or be independently developed by competitors.

Litigation, other proceedings, or third party claims of intellectual property infringement could require us to spend significant time and money and could prevent us from selling our products or services.

Our success depends, in part, on our non-infringement of the patents or proprietary rights of third parties. Third parties have asserted and may in the future assert that we are employing their proprietary technology without authorization. As we enter new markets, we expect that competitors will likely claim that our products infringe their intellectual property rights as part of a business strategy to impede our successful entry into those markets. In addition, third parties may have obtained and may in the future obtain patents allowing them to claim that the use of our technologies infringes these patents. We could incur substantial costs and divert the attention of our management and technical personnel in defending ourselves against any of these claims. Any adverse ruling or perception of an adverse ruling in defending ourselves against these claims could have an adverse impact on our stock price, which may be disproportionate to the actual import of the ruling itself. Furthermore, parties making claims against us may be able to obtain injunctive or other relief, which effectively could block our ability to develop further, commercialize, or sell products, and could result in the award of substantial damages against us. In the event of a successful infringement claim against us, we may be required to pay damages and obtain one or more licenses from third parties, or be prohibited from selling certain products. In addition, we may be unable to obtain these licenses at a reasonable cost, if at all. We could therefore incur substantial costs related to royalty payments for licenses obtained from third parties, which could negatively affect our gross margins. In addition, we could encounter delays in product introductions while we attempt to develop alternative methods or products. Defense of any lawsuit or failure to obtain any of these licenses on favorable terms could prevent us from commercializing products, and the prohibition of sale of any of our products could adversely affect our ability to grow or maintain profitability.

Our products, if used for the diagnosis of disease, could be subject to government regulation, and the regulatory approval and maintenance process for such products may be expensive, time-consuming, and uncertain both in timing and in outcome.

Our products are not currently subject to FDA clearance or approval if they are not intended to be used for the diagnosis of disease. However, as we expand our product line to encompass products that are intended to be used for the diagnosis of disease, certain of our products are likely to become subject to regulation by the FDA, or comparable agencies of other countries, including requirements for regulatory approval of such products before they can be marketed. Such regulatory approval processes or clearances may be expensive, time-consuming, and uncertain, and our failure to obtain or comply with such approvals and clearances could have an adverse effect on our business, financial condition, or operating results. In addition, changes to the current regulatory framework, including the imposition of additional or new regulations, could arise at any time during the development or marketing of our products, which may negatively affect our ability to obtain or maintain FDA or comparable regulatory approval of our products, if required.

Molecular diagnostic products, in particular, depending on their intended use, may be regulated as medical devices by the FDA and comparable agencies of other countries and may require either receiving clearance from the FDA following a pre-market notification process or premarket approval from the FDA, in each case prior to marketing. Obtaining the requisite regulatory approvals can be expensive and may involve considerable delay. If we fail to obtain, or experience significant delays in obtaining, regulatory approvals for molecular diagnostic products that we develop, we may not be able to launch or successfully commercialize such products in a timely manner, or at all.

In addition, the regulatory approval or clearance process required to manufacture, market, and sell our existing and future products that are intended for, and marketed and labeled as, “Research Use Only,” or RUO, is uncertain if such products are used or could be used, even without our consent, for the diagnosis of disease. If the FDA or other regulatory authorities assert that any of our RUO products are subject to regulatory clearance or approval, our business, financial condition, or results of operations could be adversely affected.

Our operating results may vary significantly from period to period, and we may not be able to sustain operating profitability.

Our revenue is subject to fluctuations due to the timing of sales of high-value products and services, the effects of new product launches and related promotions, the impact of seasonal spending patterns, the timing and size of research projects our customers perform, the timing of our customers' funding, changes in overall spending levels in the life sciences industry, and other unpredictable factors that may affect customer ordering patterns. Given the difficulty in predicting the timing and magnitude of sales for our products and services, we may experience quarter-to-quarter fluctuations in revenue resulting in the potential for a sequential decline in quarterly revenue. While we anticipate future growth, there is some uncertainty as to the timing of revenue recognition on a quarterly basis. This is because a substantial portion of our quarterly revenue is typically recognized in the last month of a quarter and because the pattern for revenue generation during that month is normally not linear, with a concentration of orders in the final week of the quarter. In light of that, our revenue cut-off and recognition procedures, together with our manufacturing and shipping operations, may experience increased pressure and demand during the time period shortly before the end of a fiscal quarter.

A large portion of our expenses is relatively fixed, including expenses for facilities, equipment, and personnel. In addition, we expect operating expenses to continue to increase significantly in absolute dollars, and we expect that our research and development and selling and marketing expenses will increase at a higher rate in the future as a result of the development and launch of new products. Accordingly, our ability to sustain profitability will depend, in part, on the rate of growth, if any, of our revenue and on the level of our expenses, and if revenue does not grow as anticipated, we may not be able to maintain annual or quarterly profitability. Any significant delays in the commercial launch of our products, unfavorable sales trends in our existing product lines, or impacts from the other factors mentioned above, could adversely affect our future revenue growth or cause a sequential decline in quarterly revenue. In addition, non-cash stock-based compensation expense and expenses related to prior and future acquisitions are also likely to continue to adversely affect our future profitability. Due to the possibility of significant fluctuations in our revenue and expenses, particularly from quarter to quarter, we believe that quarterly comparisons of our operating results are not a good indication of our future performance. If our operating results fluctuate or do not meet the expectations of stock market analysts and investors, our stock price could decline.

From time to time, we receive large orders that have a significant effect on our operating results in the period in which the order is recognized as revenue. The timing of such orders is difficult to predict, and the timing of revenue recognition from such orders may affect period to period changes in net sales. As a result, our operating results could vary materially from quarter to quarter based on the receipt of such orders and their ultimate recognition as revenue.

Changes in accounting standards and subjective assumptions, estimates, and judgments by management related to complex accounting matters could significantly affect our financial results or financial condition.

Generally accepted accounting principles and related accounting pronouncements, implementation guidelines, and interpretations with regard to a wide range of matters that are relevant to our business, such as revenue recognition, asset impairment and fair value determinations, inventories, business combinations and intangible asset valuations, and litigation, are highly complex and involve many subjective assumptions, estimates, and judgments. Changes in these rules or their interpretation or changes in underlying assumptions, estimates, or judgments could significantly change our reported or expected financial performance or financial condition. In addition, the timing of large orders can have a significant effect on our business and operating results from quarter to quarter.

Ethical, legal, and social concerns related to the use of genetic information could reduce demand for our products or services.

Genetic testing has raised ethical, legal, and social issues regarding privacy and the appropriate uses of the resulting information. Governmental authorities could, for social or other purposes, call for limits on or

regulation of the use of genetic testing or prohibit testing for genetic predisposition to certain conditions, particularly for those that have no known cure. Similarly, such concerns may lead individuals to refuse to use genetics tests even if permissible. These and other ethical, legal, and social concerns about genetic testing may limit market acceptance of our technology for certain applications or reduce the potential markets for our technology, either of which could have an adverse effect on our business, financial condition, or results of operations.

Item 1B. ***Unresolved Staff Comments.***

None.

Item 2. ***Properties.***

The following chart indicates the facilities we lease as of January 3, 2010, the location and size of each facility, and their designated use. We believe our facilities are adequate for our current and near-term needs, and that we will be able to locate additional facilities as needed.

Location	Approximate Square Feet	Operation	Lease Expiration Dates
San Diego, CA	272,000	R&D, Manufacturing, Storage, Distribution and Administrative	2012 – 2023
Hayward, CA	105,000	R&D, Manufacturing and Administrative	2010 – 2014
Little Chesterford, United Kingdom	49,000	R&D, Manufacturing and Administrative	2010 – 2024
Singapore	36,000	Manufacturing and Administrative	2010 – 2013
Eindhoven, the Netherlands	11,500	Distribution and Administrative	2011
Tokyo, Japan	6,500	Sales and Administrative	2014
Melbourne, Australia	4,000	Sales and Administrative	2013
China	3,000	Sales and Administrative	2010 – 2012

Item 3. ***Legal Proceedings.***

From time to time, we are party to litigation and other legal proceedings in the ordinary course, and incidental to the conduct, of our business. While the results of any litigation or other legal proceedings are uncertain, management does not believe the ultimate resolution of any pending legal matters is likely to have a material adverse effect on our financial position or results of operations.

Item 4. ***Submission of Matters to a Vote of Security Holders.***

No matters were submitted to a vote of security holders during the fourth quarter of fiscal 2009.

PART II

Item 5. ***Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.***

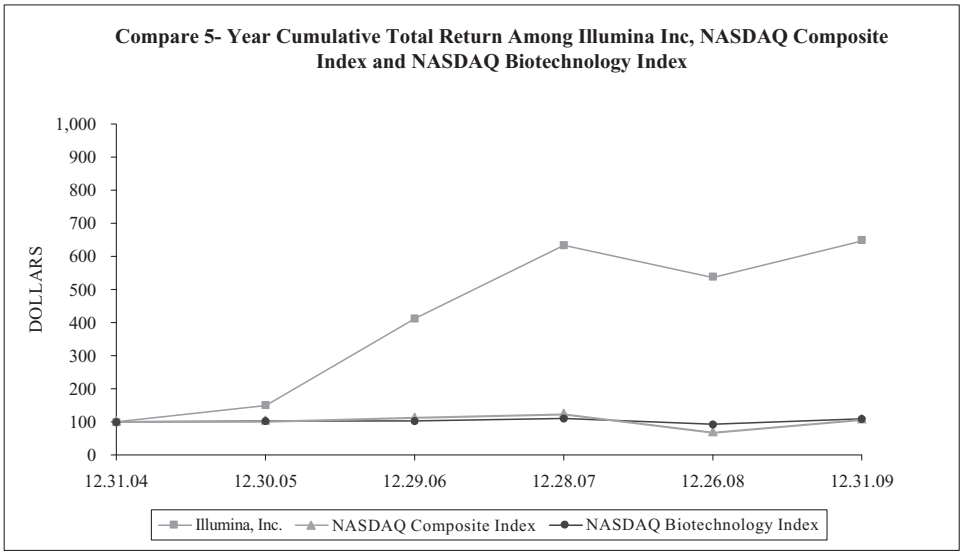
Market Information

Our common stock has been quoted on The NASDAQ Global Select Market under the symbol "ILMN" since July 28, 2000. Prior to that time, there was no public market for our common stock. The following table sets forth, for the periods indicated, the quarterly high and low sales prices per share of our common stock as reported on The NASDAQ Global Select Market.

	2009		2008	
	High	Low	High	Low
First Quarter	$38.87	$23.43	$38.30	$27.89
Second Quarter	39.53	34.27	43.50	34.90
Third Quarter	41.23	31.10	47.88	36.97
Fourth Quarter	43.74	26.50	42.32	18.82

Stock Performance Graph

The graph below compares the cumulative total stockholder returns on our common stock for the last five fiscal years with the cumulative total stockholder returns on the NASDAQ Composite Index and the NASDAQ Biotechnology Index for the same period. The graph assumes that $100 was invested on December 31, 2004 in our common stock and in each index and that all dividends were reinvested. No cash dividends have been declared on our common stock. Stockholder returns over the indicated period should not be considered indicative of future stockholder returns.



Holders

As of February 5, 2010 we had 400 record holders of our common stock.

Dividends

We have never paid cash dividends and have no present intention to pay cash dividends in the foreseeable future. In addition, the indenture for our convertible senior notes due 2014, which are convertible into cash

and, in certain circumstances, shares of our common stock, requires us to increase the conversion rate applicable to the notes if we pay any cash dividends.

Purchases of Equity Securities by the Issuer

In July 2009, our board of directors authorized a $75 million stock repurchase program and concurrently terminated a $120 million stock repurchase program authorized by our board of directors in October 2008, under which we had purchased stock totaling $70.8 million in 2008. In November 2009, upon the completion of the repurchase plan authorized in July 2009, our board of directors authorized an additional $100 million stock repurchase program, which was completed in December 2009. The following table summarizes shares repurchased pursuant to these programs during the quarter ended January 3, 2010:

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share(1)	Total Number of Shares Purchased as Part of Publicly Announced Programs(1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Programs(1)
September 28 – October 25, 2009	—	$ —	—	$75,000,000
October 26 – November 22, 2009	1,289,331	30.87	1,289,331	35,197,269
November 23, 2009 – January 3, 2010	4,766,696	28.36	4,766,696	—
Total	6,056,027	$28.90	6,056,027	$ —

(1) All shares purchased during the quarter ended January 3, 2010 were in connection with our stock repurchase programs authorized by our board of directors in July 2009 and November 2009. All stock repurchases were made in open-market transactions or under a 10b5-1 trading program.

Sales of Unregistered Securities

None during the fourth quarter of fiscal 2009.

Item 6. ***Selected Financial Data.***

The following table sets forth selected historical consolidated financial data for each of our last five fiscal years during the period ended January 3, 2010.

Statement of Operations Data

	Year Ended_				
	January 3, 2010 (53 weeks)	December 28, 2008 (52 weeks)(1)	December 30, 2007 (52 weeks)(1)	December 31 2006 (52 weeks)	January 1, 2006 (52 weeks)
	(In thousands, except per share data)				
Total revenue	$666,324	$573,225	$ 366,799	$184,586	$ 73,501
Income (loss) from operations(2),(3),(4)	125,597	80,457	(301,201)	37,812	(21,447)
Net income (loss)	72,281	39,416	(287,305)	39,968	(20,874)
Net income (loss) per share:					
Basic	0.59	0.34	(2.65)	0.45	(0.26)
Diluted	0.53	0.30	(2.65)	0.41	(0.26)
Shares used in calculating net income (loss) per share:					
Basic	123,154	116,855	108,308	89,002	80,294
Diluted	137,096	133,607	108,308	97,508	80,294

Balance Sheet Data

	January 3, 2010	December 28, 2008(1)	December 30, 2007(1)	December 31, 2006	January 1, 2006
			(In thousands)		
Cash, cash equivalents and short-term investments(4),(5),(6),(7)	$ 693,527	$ 640,075	$386,082	$130,804	$ 50,822
Working capital	540,354	483,113	397,040	159,950	57,992
Total assets	1,429,937	1,327,171	929,981	300,584	100,610
Long-term debt, current portion(7)	290,202	276,889	16	—	—
Long-term debt, less current portion(7)	—	—	258,007	—	54
Total stockholders' equity(2),(3),(4),(5),(6)	864,248	798,667	353,927	247,342	72,497

In addition to the following notes, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 8, "Financial Statements and Supplementary Data" for further information regarding our consolidated results of operations and financial position for periods reported therein and for known factors that will impact comparability of future results.

(1) Adjusted for required retroactive adoption of authoritative accounting guidance for convertible debt instruments that may be settled in cash upon conversion effective December 29, 2008. See Note 7 of Notes to Consolidated Financial Statements for further information.

(2) The consolidated financial statements include results of operations of acquired companies commencing on their respective acquisition dates. We completed acquisitions of Avantome, Inc., Solexa, Inc., and Cyvera Corporation in August 2008, January 2007 and April 2005, respectively. As part of the accounting for these acquisitions, we recorded charges to write-off acquired in-process research and development, or IPR&D, of $11.3 million, $24.7 million, $303.4 million and $15.8 million during the fiscal years ended January 3, 2010, December 28, 2008, December 30, 2007 and January 1, 2006, respectively. See Note 1 of Notes to Consolidated Financial Statements for further information.

(3) On January 2, 2006 we adopted authoritative guidance related to share-based payments using the modified prospective transition method. Because we elected to use the modified prospective transition method, results for prior periods have not been restated to include share-based compensation expense. See Note 1 and Note 9 of Notes to Consolidated Financial Statements for further information.

(4) For the year ended December 30, 2007, we recorded a $54.0 million charge for the settlement of our litigation with Affymetrix. In January 2008, we paid $90.0 million related to the Affymetrix settlement. See Note 4 of Notes to Consolidated Financial Statements.

(5) In August 2008, a total of 8,050,000 shares were sold to the public at a public offering price of $43.75 per share, raising net proceeds to us of $342.7 million. See Note 9 of Notes to Consolidated Financial Statements.

(6) For the years ended January 3, 2010, December 28, 2008 and December 30, 2007, we repurchased 6.1 million, 3.1 million and 14.8 million shares, respectively, of common stock for $175.1 million, $70.8 million and $251.6 million, respectively. See Note 9 of Notes to Consolidated Financial Statements.

(7) In February 2007, we issued $400.0 million principal amount of 0.625% Convertible Senior Notes due 2014. During the third quarter of 2008, the conditions to convertibility were satisfied resulting in a change in the classification of the principal amount of the notes from long-term to current. See Note 7 of Notes to Consolidated Financial Statements for further information.

Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operations.***

Certain statements set forth below constitute forward-looking statements. See "Special Note Regarding Forward-Looking Statements" for additional factors relating to such statements, and see "Risk Factors" in

Item 1A of this report for a discussion of certain risk factors applicable to our business, financial condition and results of operations.

Business Overview

We are a leading developer, manufacturer, and marketer of integrated systems for the analysis of genetic variation and biological function. Using our proprietary technologies, we provide a comprehensive line of products and services that currently serve the sequencing, genotyping, and gene expression markets, and we expect to enter the market for molecular diagnostics. Our customers include leading genomic research centers, pharmaceutical companies, academic institutions, clinical research organizations, and biotechnology companies.

We develop and commercialize sequencing technologies used to perform a range of analyses, including de novo sequencing, whole genome re-sequencing, gene expression analysis, and small RNA analysis. Our product and service offerings also include leading-edge solutions for single-nucleotide polymorphism (SNP) genotyping, copy number variation (CNV), DNA methylation studies, gene expression profiling, and low-multiplex analysis of DNA, RNA, and protein. We believe we are the only company with genome-scale technology for sequencing, genotyping, and gene expression — the three cornerstones of modern genetic analysis.

Our tools provide researchers around the world with the performance, throughput, cost effectiveness, and flexibility necessary to determine and analyze the billions of bits of genetic information needed to extract valuable medical information from advances in genomics and proteomics. We believe this information will enable researchers to correlate genetic variation and biological function, which will enhance drug discovery and clinical research, allow diseases to be detected earlier, and permit better choices of drugs for individual patients.

During the first quarter of 2008, we reorganized our operating structure into a newly created Life Sciences Business Unit, which includes all products and services that are primarily related to the research market, namely those based on our sequencing, BeadArray and Veracode technologies. We also created a Diagnostics Business Unit to focus on the emerging opportunity in molecular diagnostics. For the year ended January 3, 2010, we had limited activity related to the Diagnostics Business Unit and operating results were reported on an aggregate basis to the chief operating decision maker, the chief executive officer. Accordingly, we operated in one segment for the year ended January 3, 2010. We will begin reporting in two segments once revenues, operating profit or loss, or assets of the Diagnostics Business Unit exceed 10% of the consolidated amounts.

Our analysis presented below is organized to provide the information we believe will be useful for understanding the relevant trends going forward. However, this discussion should be read in conjunction with our consolidated financial statements and the notes thereto in Item 15 of this report.

Business Trends and Outlook

Our financial results have been, and will continue to be, impacted by several significant trends, which are described below:

Next Generation Sequencing

Strong demand for next generation sequencing applications continues to drive both sequencing instrument and consumable sales. In 2009 we made advances to our sequencing technology, including enhanced chemistry, algorithms, and hardware which substantially improved accuracy, read length, data density, and ease of use. The combination of these advances increased the output and decreased the cost of sequencing and expanded the number of applications that researchers can perform on our sequencing systems. In early 2010 we expect to begin customer shipments of our recently announced HiSeq 2000 next generation sequencing instrument, which we believe will allow customers to sequence whole human genomes for less than $10,000 in reagent costs. We anticipate our revenue for 2010 will have higher growth in the second half of the year

compared to the first half due to the timing of the manufacturing scale-up of the HiSeq 2000 and other significant product launches scheduled for later in the year. We believe that as the cost of next generation sequencing continues to decline, the number of samples available for sequencing will significantly increase.

Genome Wide Association Studies (GWAS)

We experienced a slowdown in the sales of our microarray products during 2009 that was largely attributable to researchers reducing or suspending the initiation of new studies as they waited for rare variant content emerging from the 1000 Genomes Project, an international research effort launched in 2008 to establish the most detailed catalog of human genetic variation. Despite advances in sequencing technology, we believe microarrays remain a cheaper, faster and materially more accurate technology for use when genetic content is known. The information content of specific microarrays is fixed and reproducible; as such, specific microarrays provide repeatable, standardized assays for certain subsets of bases within the overall genome. During 2010, as part of our previously announced GWAS roadmap, we plan to launch arrays that will feature millions of more markers per BeadChip and new rare variant content from the 1000 Genomes Project. As these arrays become available, we believe activity in the microarray market will increase relative to 2009.

American Recovery and Reinvestment Act of 2009 (the Recovery Act)

The Recovery Act was enacted in February 2009 to provide stimulus to the U.S. economy in the wake of the economic downturn. As part of the Recovery Act legislation, over $10 billion in funding was provided to the National Institute of Health (NIH) through September 2010 to support the advancement of scientific research. In the second and third quarters of 2009 we experienced negative unintended consequences of the Recovery Act as customers delayed orders while they waited to receive stimulus funds. During the fourth quarter of 2009, we believe we saw an increase in the distribution of Recovery Act funds and received an estimated $16 million in orders directly related to Recovery Act grants. We believe a significant portion of Recovery Act awards may be distributed in 2010, which may create a pipeline of opportunity in the upcoming year.

Life Science Research Funding Across Regional Markets

We have developed a broad sales and distribution network with a sales presence in more than 40 countries. Our financial results will continue to be impacted by significant regional trends in life science research funding as described below:

- *United States.* A significant increase to the NIH budget in addition to Recovery Act stimulus funds has made for a strong funding environment in the United States that we expect to continue into 2010.
- *Asia-Pacific.* Strong funding in China was partially offset by a funding decrease in Japan due to a change in government that resulted in the suspension of supplemental life science research funding during the second and third quarters of 2009. During the fourth quarter of 2009, we saw an increase in activity in the Japanese market as funds began to be released, which we expect to continue into 2010.
- *Europe.* Central and southern European markets had a strong year driven by the establishment and expansion of genome centers. However, there was a decrease in funding in northern European countries, primarily due to reduced institutional funding in areas like the United Kingdom and the financial crisis in Iceland. We saw some positive signs during the fourth quarter of 2009 in Northern Europe, and, although we expect funding to stabilize, we do not expect a material increase in activity in this region in 2010.

Cost of Revenue

Our cost of revenue as a percentage of revenue declined during 2009 due to cost efficiencies in our manufacturing process and an improved mix of sequencing consumables driven by growth in the installed base of our sequencing systems. We expect changes in our product mix to continue to affect our cost of revenue as a percentage of revenue, particularly in the latter half of the year. We anticipate cost of revenue as a

percentage of revenue to be lower in the first half of the year and then increase as the mix shifts to newer products and the effects of our trade-in promotions associated with the launch of the HiSeq 2000 are realized. Additionally, we expect price competition to continue in our market causing added variability in our cost of revenue as a percentage of revenue on a quarterly and annual basis.

Operating Expense

We expect to incur additional operating costs to support the expected growth in our business. As a result of revenues growing faster in the second half of 2010, we expect operating expenses as a percentage of revenue to be higher in the first half of the year compared with the second half. We believe a substantial investment in research and development is essential to remaining competitive and expanding into additional markets. Accordingly, we expect our research and development expenses to increase in absolute dollars as we expand our product base. Selling, general and administrative expenses are also expected to increase in absolute dollars as we continue to expand our staff and add sales and marketing infrastructure.

While these trends are important to understanding and evaluating our financial results, the other transactions, events and trends discussed in "Risk Factors" in Item 1A of this report may also materially impact our business operations and financial results.

Results of Operations

To enhance comparability, the following table sets forth audited consolidated statement of operations data for the years ended January 3, 2010, December 28, 2008 and December 30, 2007 stated as a percentage of total revenue.

	Year Ended		
	January 3, 2010	December 28, 2008	December 30, 2007
Revenue:			
Product revenue	94%	93%	89%
Service and other revenue	6	7	11
Total revenue	100	100	100
Costs and expenses:			
Cost of product revenue (excluding impairment of manufacturing equipment and amortization of intangible assets)	29	34	33
Cost of service and other revenue	2	2	3
Research and development	21	17	20
Selling, general and administrative	26	26	27
Impairment of manufacturing equipment	—	1	—
Amortization of intangible assets	1	2	1
Acquired in-process research and development	2	4	83
Litigation settlements	—	—	15
Total costs and expenses	81	86	182
Income (loss) from operations	19	14	(82)
Other income (expense):			
Interest income	2	2	4
Interest expense	(4)	(4)	(5)
Other income (expense), net	—	1	—
Total other expense, net	(2)	(1)	(1)
Income (loss) before income taxes	17	13	(83)
Provision (benefit) for income taxes	6	6	(4)
Net income (loss)	11%	7%	(79)%

Comparison of Years Ended January 3, 2010 and December 28, 2008

Our fiscal year is the 52 or 53 weeks ending the Sunday closest to December 31, with quarters of 13 or 14 weeks ending the Sunday closest to March 31, June 30, and September 30. The year ended January 3, 2010 was 53 weeks and the year end December 28, 2008 was 52 weeks.

Revenue

	Year Ended			
	January 3, 2010	December 28, 2008	Change	Percentage Change
	(In thousands)			
Product revenue	$627,240	$532,390	$94,850	18%
Service and other revenue	39,084	40,835	(1,751)	(4)
Total revenue	$666,324	$573,225	$93,099	16%

Product revenue consists primarily of revenue from the sale of consumables and instruments.

Consumable revenue increased $57.6 million, or 17%, to $391.3 million for the year ended January 3, 2010 compared to $333.7 million for the year ended December 28, 2008. Microarray consumable revenue, which constituted more than half of our consumable revenue, declined $11.4 million, or 4%, primarily attributable to lower sales of whole-genome genotyping arrays partially offset by growth in focused content arrays. The decline was driven by customers delaying the start of new GWAS in anticipation of new and rare variant content from the 1000 Genome Project, order delays directly related to stimulus funding under the Recovery Act and the impact of reduced foundation funding at a few key customers. Sales volume for our Infinium BeadChip product lines, which constitute a majority of our microarray consumable sales, was relatively flat on a sample basis during 2009 compared to 2008. The average selling price per sample, however, declined due to a change in product mix attributable to growth in the sales of our focused content arrays coupled with lower sales of whole-genome genotyping arrays and an increase in the average number of samples per BeadChip.

Revenue from sequencing consumables increased $68.9 million, or 144%, driven by growth in the installed base of our Genome Analyzer systems and the progression of customer labs ramping to production scale. The increase was partially offset by a loss of sales related to a quality issue affecting our paired-end cluster kits that arose in September 2009 when some of our larger sequencing customers began experiencing higher than average error rates on the second read of their paired-end analysis. During the fourth quarter, we began shipping reformulated paired-end cluster kits at full capacity and cleared the related shipping backlog.

Revenue from the sale of instruments increased $40.0 million, or 22%, to $225.7 million for the year ended January 3, 2010 compared to $185.7 million for the year ended December 28, 2008 primarily due to a $56.4 million, or 43%, increase in sales of our sequencing systems. During 2009 as compared to 2008 both units sold and average selling prices increased for our Genome Analyzer systems, which constitute a majority of sequencing instrument revenue. The increase in units sold was driven by increased demand for next generation sequencing and our sequencing-by-synthesis technology. The increase in average selling prices was attributable to the product transition from the Genome Analyzer I to the Genome Analyzer II in the second quarter of 2008 and technological improvements leading to the launch of the Genome Analyzer IIx in the second quarter of 2009. The increase in sequencing instrument revenue was partially offset by a $16.4 million, or 30%, decrease in the sales of our microarray systems, which declined primarily due to customers delaying the start of new GWAS in anticipation of new and rare variant content from the 1000 Genomes Project, order delays directly related to stimulus funding under the Recovery Act and the impact of reduced foundation funding at a few key customers.

Cost of Product and Service and Other Revenue

	Year Ended			
	January 3, 2010	December 28, 2008	Change	Percentage Change
	(In thousands)			
Cost of product revenue	$190,714	$192,868	$(2,154)	(1)%
Cost of service and other revenue	15,055	12,756	2,299	18
Total cost of revenue	$205,769	$205,624	$ 145	—%

Total cost of revenue, which excludes the impairment of manufacturing equipment and the amortization of intangible assets, remained flat despite higher sales, primarily due to a decrease in manufacturing costs and improved efficiencies.

Cost of product revenue as a percentage of related revenue was 30% for the year ended January 3, 2010, compared to 36% for the year ended December 28, 2008. The decrease was primarily due to lower costs for our sequencing consumables and instrumentation. The cost of sequencing consumables decreased as a percentage of related revenue due to improved overhead absorption from increased volumes and the benefit of decreased costs associated with the reformulation of our sequencing kits launched at the end of the third quarter of 2008. The cost of sequencing instruments decreased as a percentage of related revenue due to production efficiencies and reduced material costs coupled with higher average selling prices.

Operating Expenses

	Year Ended			
	January 3, 2010	December 28, 2008	Change	Percentage Change
	(In thousands)			
Research and development	$140,616	$ 99,963	$40,653	41%
Selling, general and administrative	176,337	148,014	28,323	19
Total operating expenses	$316,953	$247,977	$68,976	28%

The increase in research and development was driven primarily by a $22.9 million increase in personnel-related expenses, including salaries, non-cash stock-based compensation and benefits, a $10.4 million increase to non-personnel related expenses and an increase in outside services of $3.2 million attributable to consulting fees. These increases are primarily related to the growth in our efforts to optimize and commercialize our sequencing and BeadArray technologies.

The increase in selling, general and administrative expenses was driven by an increase of $26.6 million in personnel-related expenses associated with the growth of our business, including salaries, non-cash stock-based compensation and benefits.

Acquired In-Process Research and Development (IPR&D)

	Year Ended			
	January 3, 2010	December 28, 2008	Change	Percentage Change
	(In thousands)			
Acquired in-process research and development	$11,325	$24,660	$(13,335)	(54)%

During the year ended December 28, 2008, we recorded acquired IPR&D charges of $24.7 million as a result of the Avantome, Inc. acquisition in August 2008. During the year ended January 3, 2010, we recorded additional IPR&D charges of $11.3 million related to milestone payments made to Avantome Inc.'s former shareholders.

Other Income (Expense), Net

	Year Ended			
	January 3, 2010	December 28, 2008	Change	Percentage Change
	(In thousands)			
Interest income	$ 11,029	$ 12,519	$(1,490)	(12)%
Interest expense	(23,718)	(22,210)	(1,508)	7
Other income, net	1,217	1,921	(704)	(37)
Total other expense, net	$(11,472)	$ (7,770)	$(3,702)	48%

Interest income decreased despite an increase in our average cash and investment balance due to an overall decline in interest rates during 2009. Interest expense increased due to the amortization of the discount on our convertible senior notes. Other income, net decreased due to a decrease of $1.5 million in gains on net foreign currency transactions, which was partially offset by a gain of $0.8 million on the conversion of a portion of our debt during the first quarter of 2009.

Provision for Income Taxes

	Year Ended			
	January 3, 2010	December 28, 2008	Change	Percentage Change
	(In thousands)			
Provision for income taxes	$41,844	$33,271	$8,573	26%

The increase in the provision for income taxes was attributable to the increase in the consolidated income before income taxes. The effective tax rate decreased from 45.8% in 2008 to 36.7% in 2009 predominately because the amount of nondeductible acquired IPR&D recognized for financial reporting purposes was lower by $13.3 million. Additionally, the percentage of consolidated income before income taxes earned in foreign jurisdictions, which primarily have lower statutory tax rates than the U.S. statutory tax rate, increased from 36% in 2008 to 43% in 2009.

Comparison of Years Ended December 28, 2008 and December 30, 2007

Our fiscal year is 52 or 53 weeks ending the Sunday closest to December 31, with quarters of 13 or 14 weeks ending the Sunday closest to March 31, June 30, and September 30. The years ended December 28, 2008 and December 30, 2007 were both 52 weeks.

Revenue

	Year Ended			
	December 28, 2008	December 30, 2007	Change	Percentage Change
	(In thousands)			
Product revenue	$532,390	$326,699	$205,691	63%
Service and other revenue	40,835	40,100	735	2
Total revenue	$573,225	$366,799	$206,426	56%

Product revenue consists primarily of revenue from the sale of consumables and instruments.

Revenue from the sale of consumables increased $140.2 million, or 72%, to $333.7 million for the year ended December 28, 2008 compared to $193.5 million for the year ended December 30, 2007. Growth in consumable revenue was primarily attributable to strong demand for our Infinium and sequencing products, which led to increased sales of $104.8 million and $35.4 million, respectively. The increase in revenue associated with our Infinium products was attributable to the strong demand for our Infinium High-Density BeadChips, particularly the Human610-Quad, which we began shipping during the first quarter of 2008. Of the overall increase in Infinium BeadChip sales, approximately 79% was due to new product introductions with higher average selling prices, while the remaining 21% can be attributed to increased volume. The increase in sequencing consumables was primarily attributable to the growth of our installed base of instruments and the progression of customer labs ramping to production scale.

Revenue from the sale of instruments increased $64.8 million, or 54%, to $185.7 million for the year ended December 28, 2008 compared to $120.9 million for the year ended December 30, 2007. The increase was primarily attributable to a $63.0 million increase in sales of our Genome Analyzer driven by both an increase in sales volume and average selling prices. Additionally, during the second quarter of 2008, we launched the iScan System, our next-generation BeadChip scanner to replace the BeadArray Reader. Any increase in revenue resulting from shipments of this new system was offset by a reduction in sales of our BeadArray Reader as we stopped manufacturing this product upon the launch of our iScan System.

Cost of Product and Service and Other Revenue

	Year Ended			
	December 28, 2008	December 30, 2007	Change	Percentage Change
	(In thousands)			
Cost of product revenue	$192,868	$119,991	$72,877	61%
Cost of service and other revenue	12,756	12,445	311	2
Total cost of product and service and other revenue	$205,624	$132,436	$73,188	55%

Total cost of revenue, which excludes the impairment of manufacturing equipment and the amortization of intangible assets, increased primarily due to higher instrument and consumable sales.

Cost of product revenue as a percentage of related revenue was 36% for the year ended December 28, 2008 compared to 37% for the year ended December 30, 2007. The decrease was primarily due to favorable product mix driven by increased sales of our new High-Density Infinium Beadchips, with higher average selling prices as compared to the Infinium Beadchips sold in the prior year. This was partially offset by increased provisions for inventory obsolescence of $7.2 million for the year ended December 28, 2008 compared to $1.9 million for the year ended December 30, 2007. The increase in the inventory reserve was primarily associated with product transitions. During the year, we recorded reserves for product obsolescence associated with the launch of our new Infinium Beadchips and the launch of a new sequencing kit. Instrument cost of sales as a percentage of related revenue increased slightly over the prior year due to lower average selling prices mainly associated with promotional campaigns as we launched our next generation Beadarray Reader, the iScan in the first half of 2008.

Operating Expenses

	Year Ended			
	December 28, 2008	December 30, 2007	Change	Percentage Change
	(In thousands)			
Research and development	$ 99,963	$ 73,943	$26,020	35%
Selling, general and administrative	148,014	101,256	46,758	46
Total operating expenses	$247,977	$175,199	$72,778	42%

The increase in research and development was driven by a $17.4 million increase in personnel-related expenses associated with increased headcount, including salaries, non-cash stock-based compensation and benefits, an $11.6 million increase to non-personnel related expenses associated with the growth of our business and a $1.5 million increase to accrued compensation expense associated with contingent consideration for the Avantome acquisition completed on August 1, 2008. These increases were partially offset by a decrease in outside services of $4.5 million primarily related to a decrease in consulting fees.

The increase in selling, general and administrative expenses was driven primarily by an increase of $42.8 million in personnel-related expenses, including salaries, non-cash stock-based compensation and benefits and a $4.0 million increase to non-personnel related expenses. These increases were primarily associated with the growth of our business.

Acquired In-Process Research and Development (IPR&D)

	Year Ended			
	December 28, 2008	December 30, 2007	Change	Percentage Change
	(In thousands)			
Acquired in-process research and development	$24,660	$303,400	$(278,740)	(92)%

As a result of the Avantome, Inc. acquisition in August 2008 and the Solexa Inc. acquisition in January 2007, we recorded acquired IPR&D charges of $24.7 million and $303.4 million, respectively.

Litigation Settlements

	Year Ended			
	December 28, 2008	December 30, 2007	Change	Percentage Change
	(In thousands)			
Litigation settlements	$ —	$54,536	$(54,536)	(100)%

During the year ended December 30, 2007, we recorded a charge of $54.5 million associated with two settlement agreements. The total charge is comprised primarily of $54.0 million related to a $90.0 million settlement with Affymetrix entered into on January 9, 2008 for certain patent litigation between the parties. See Note 4 of Notes to Consolidated Financial Statements for further information regarding the Affymetrix settlement.

Other Income (Expense), Net

	Year Ended			
	December 28, 2008	December 30, 2007	Change	Percentage Change
	(In thousands)			
Interest income	$ 12,519	$ 16,025	$(3,506)	(22)%
Interest expense	(22,210)	(18,297)	(3,913)	21
Other income (expense), net	1,921	(47)	1,968	(4,187)
Total other expense, net	$ (7,770)	$ (2,319)	$(5,451)	(235)%

Interest income decreased due to a change in our cash and investment portfolio to a mix of shorter duration maturities and an increased number of agency-rated investments coupled with the overall decline in interest rates due to market conditions. Interest expense increased due to the amortization of the discount on our convertible senior notes and an additional month and a half of interest expense recorded in the year ended December 28, 2008 compared to the year ended December 30, 2007. Other income (expense), net increased primarily due to $1.9 million in net foreign currency transaction gains for the year ended December 28, 2008 compared to immaterial losses recorded in the year ended December 30, 2007.

Provision (benefit) for Income Taxes

	Year Ended			
	December 28, 2008	December 30, 2007	Change	Percentage Change
	(In thousands)			
Provision (benefit) for income taxes	$33,271	$(16,215)	$49,486	(305)%

The provision (benefit) for income taxes in 2008 was different than in 2007 primarily because the amount of nondeductible acquired IPR&D recognized for financial reporting purposes was lower by $278.7 million. In addition, for the year ended December 30, 2007, the provision for income taxes was reduced by $17.1 million as a result of the release of the valuation allowance against a significant portion of our U.S. deferred tax assets.

Liquidity and Capital Resources

Cash flow summary

	Year Ended January 3, 2010	Year Ended December 28, 2008	Year Ended December 30, 2007
		(In thousands)	
Net cash provided by operating activities	$ 174,496	$ 87,882	$ 56,294
Net cash used in investing activities	(255,718)	(277,249)	(67,686)
Net cash (used in) provided by financing activities	(98,862)	337,672	148,292
Effect of foreign currency translation	(2,307)	3,778	(345)
Net (decrease) increase in cash and cash equivalents	$(182,391)	$ 152,083	$136,555

Operating Activities

Cash provided by operating activities for the year ended January 3, 2010 consists of net income of $72.3 million plus net non-cash adjustments of $113.5 million and an $11.3 million increase in net operating assets. The primary non-cash expenses added back to net income included share based compensation of $60.8 million and depreciation and amortization expense related to property and equipment, intangibles and the debt discount on our convertible notes totaling $51.5 million. The main drivers in the change in net operating assets included increases in accounts receivable, inventory, accounts payable and accrued liabilities. These increases were primarily related to the growth of our business.

Investing Activities

Cash used in investing activities totaled $255.7 million for the year ended January 3, 2010. We purchased and sold available-for-sale securities totaling $694.5 million and $515.2 million, respectively. We incurred $51.8 million in capital expenditures primarily associated with the expansion of our facilities and infrastructure at our San Diego, Hayward and UK locations. Additionally, in January 2009, we executed a strategic alliance with Oxford Nanopore Technologies, which consisted of a commercialization agreement and an $18.0 million equity investment. We also agreed to make an additional equity investment upon the achievement of a specific technical milestone.

In August 2008, we completed our acquisition of Avantome, Inc. As consideration for the acquisition, we paid $25.8 million in cash, including transaction costs, at the closing of the acquisition, and have subsequently paid $15.0 million as of February 1, 2010 based on the achievement of, or amendments relating to, certain milestones. We may pay up to an additional $20.0 million in contingent cash consideration to Avantome's former shareholders based on the achievement of certain remaining milestones.

In January 2008, as part of our Affymetrix settlement, we recorded a $36.0 million intangible asset for licensed technology obtained in the settlement. See Note 4 of Notes to Consolidated Financial Statements for further information regarding intangible assets.

In January of 2007, we completed our acquisition of Solexa, Inc. in a stock-for-stock merger transaction. The Company issued approximately 26.2 million shares of its common stock as consideration for this merger. The acquisition resulted in net cash acquired of $72.1 million.

Financing Activities

Cash used in financing activities totaled $98.9 million for the year ended January 3, 2010. During the year we repurchased approximately 6.1 million shares of our common stock for $175.1 million, which was partially offset by $39.4 million in proceeds received from the exercise of stock options and the sale of shares under our Employee Stock Purchase Plan and $39.3 million of incremental tax benefits related to stock options exercised.

In August 2008, we issued a total of 8.1 million shares at a public offering price of $43.75 per share, raising net proceeds to the Company of $342.7 million, after deducting underwriting discounts and commissions and offering expenses. During the year ended December 28, 2008, we also repurchased approximately 3.1 million shares of our common stock for $70.8 million.

In February 2007, we issued $400.0 million principal amount of 0.625% convertible senior notes due 2014. The net proceeds from the offering, after deducting the initial purchasers' discount and offering expenses, were approximately $390.3 million. We used $201.6 million of the net proceeds to purchase approximately 11.6 million shares of our common stock in privately negotiated transactions concurrently with the offering. We used $46.6 million of the net proceeds of this offering to pay the net cost of convertible note hedge and warrant transactions, which are designed to reduce the potential dilution upon conversion of the notes. See Note 7 of Notes to Consolidated Financial Statements for further information regarding our convertible senior notes.

Liquidity

We manage our business to maximize operating cash flows as the primary source of our liquidity. Our ability to generate cash from operations provides us with the financial flexibility we need to meet operating, investing and financing needs. Historically, we have issued debt and equity securities to finance our requirements to the extent that cash provided by operating activities was not sufficient to fund our needs. We may require additional funding in the future and our failure to raise capital on acceptable terms, when needed, could have a material adverse effect on our business.

At January 3, 2010, we had approximately $693.5 million in cash and short-term investments. Short-term investments include marketable securities and auction rate securities totaling $494.0 million and $54.9 million, respectively. Our marketable securities consist of debt securities in government sponsored entities, corporate debt securities and U.S treasury notes. We do not hold securities backed by mortgages. Our auction rate securities were issued primarily by municipalities and universities. The markets for auction rate securities effectively ceased when the vast majority of auctions failed in February 2008, preventing investors from selling their auction rate securities. As of January 3, 2010, the securities continued to fail auction and remained illiquid. In November 2008, we signed a settlement agreement allowing us to sell our auction rate securities at par value to UBS AG (UBS) at our discretion during the period of June 30, 2010 through July 2, 2012. Because we intend to exercise this right when it becomes available, we have classified our auction rate securities as short-term on the balance sheet. See Note 3 of Notes to Consolidated Financial Statements for further information regarding our auction rate securities.

Our outstanding convertible senior notes were convertible into cash and, if applicable, shares of our common stock for the period from April 1, 2008 through December 31, 2008 and became convertible again beginning April 1, 2009 through December 31, 2009. On December 29, 2008, a noteholder converted notes in an aggregate principal amount of $10.0 million. On February 4, 2009, the settlement date, we paid the noteholder the conversion value of the notes in cash, up to the principal amount of the notes. The excess of the conversion value over the principal amount, totaling $2.9 million, was paid in shares of common stock. This equity dilution upon conversion of the notes was offset by the reacquisition of the shares under the convertible note hedge transactions entered into in connection with the offering of the notes. See Note 7 of Notes to Consolidated Financial Statements for further discussion of the terms of the convertible senior notes.

Our primary short-term needs for capital, which are subject to change, include expenditures related to:

- potential strategic acquisitions and investments;
- support of our commercialization efforts related to our current and future products, including expansion of our direct sales force and field support resources both in the United States and abroad;
- the continued advancement of research and development efforts;
- the acquisition of equipment and other fixed assets for use in our current and future manufacturing and research and development facilities;

- improvements in our manufacturing capacity and efficiency; and
- the expansion needs of our facilities, including costs of leasing additional facilities.

We expect that our product revenue and the resulting operating income, as well as the status of each of our new product development programs, will significantly impact our cash management decisions.

We anticipate that our current cash and cash equivalents and income from operations will be sufficient to fund our operating needs in 2010, barring unforeseen circumstances. Operating needs include the planned costs to operate our business, including amounts required to fund working capital and capital expenditures. At the present time, we have no material commitments for capital expenditures. Our future capital requirements and the adequacy of our available funds will depend on many factors, including:

- our ability to successfully commercialize and further develop our technologies and create innovative products in our markets;
- scientific progress in our research and development programs and the magnitude of those programs;
- competing technological and market developments; and
- the need to enter into collaborations with other companies or acquire other companies or technologies to enhance or complement our product and service offerings.

Off-Balance Sheet Arrangements

We do not participate in any transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. During the fiscal year ended January 3, 2010, we were not involved in any "off balance sheet arrangements" within the meaning of the rules of the Securities and Exchange Commission.

Contractual Obligations

Contractual obligations represent future cash commitments and liabilities under agreements with third parties, and exclude orders for goods and services entered into in the normal course of business that are not enforceable or legally binding. The following table represents our contractual obligations as of January 3, 2010, aggregated by type (amounts in thousands):

	Payments Due by Period(1)				
Contractual Obligation	**Total**	**Less Than 1 Year**	**1 – 3 Years**	**3 – 5 Years**	**More Than 5 Years**
Debt obligations(2)	$400,968	$ 2,437	$ 4,875	$393,656	$ —
Operating leases	148,415	11,668	24,870	22,310	89,567
Contingent consideration(3)	10,000	10,000	—	—	—
Amounts due under executive deferred compensation plan	4,007	4,007	—	—	—
Total	$563,390	$28,112	$29,745	$415,966	$89,567

(1) Excludes $11.8 million of uncertain tax benefits. We have not included this amount in the table because we cannot make a reasonably reliable estimate regarding the timing of settlements with taxing authorities, if any. See Note 11 of Notes to the Consolidated Financial Statements for further discussion of our uncertain tax positions.

(2) Debt obligations include the principal amount of our convertible senior notes and interest payments totaling 0.625% per annum. Although these notes mature in 2014, we classify the notes as current liabilities because the conditions to convertibility were satisfied during the last three fiscal quarters of

2009 and may be satisfied during certain quarters in 2010. See Note 7 of Notes to Consolidated Financial Statements for further discussion of the terms of the convertible senior notes.

(3) The $10.0 million included within contingent consideration is the amount owed to the former shareholders of Avantome, Inc. for the achievement of a certain date-specific milestones. The table excludes $20.0 million in additional contingent cash consideration we may be required to pay based on the achievement of certain additional milestones that do not have a fixed funding date and are subject to certain conditions that may or may not occur.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes. Management bases its estimates on historical experience, market and other conditions and various other assumptions it believes to be reasonable. Although these estimates are based on management's best knowledge of current events and actions that may impact us in the future, the estimation process is by its nature uncertain given that estimates depend on events over which we may not have control. If market and other conditions change from those that we anticipate, our consolidated financial statements may be materially affected. In addition, if our assumptions change, we may need to revise our estimates, or take other corrective actions, either of which may also have a material effect on our consolidated financial statements.

We believe that the following critical accounting policies and estimates have a higher degree of inherent uncertainty and require our most significant judgments. In addition, had we used estimates different from any of these, our consolidated financial statements could have been materially different from those presented. Members of our senior management have discussed the development and selection of our critical accounting policies and estimates, and our disclosure regarding them, with the audit committee of our board of directors. Our accounting policies are more fully described in Note 1 of the Consolidated Financial Statements.

Revenue Recognition

Our revenue is generated primarily from the sale of products and services. Product revenue primarily consists of sales of arrays, reagents, flow cells and instrumentation. Service and other revenue consists of revenue received for performing genotyping and sequencing services, extended warranty sales and amounts earned under research agreements with government grants, which are recognized in the period during which the related costs are incurred. The timing of revenue recognition and the amount of revenue actually recognized in each case depends upon a variety of factors, including the specific terms of each arrangement and the nature of our deliverables and obligations. Determination of the appropriate amount of revenue recognized involves significant judgments and estimates and actual results may differ from our estimates.

We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the seller's price to the buyer is fixed or determinable and collectibility is reasonably assured. In instances where final acceptance of the product or system is required, revenue is deferred until all the acceptance criteria have been met. All revenue is recorded net of any discounts.

Revenue for product sales is recognized generally upon shipment and transfer of title to the customer, provided no significant obligations remain and collection of the receivable is reasonably assured. Revenue for genotyping and sequencing services is recognized when earned, which is generally at the time the genotyping or sequencing analysis data is delivered to the customer or agreed-to milestones are reached.

In order to assess whether the price is fixed or determinable, we ensure there are no refund rights. If payment terms are based on future performance, we defer revenue recognition until the price becomes fixed or determinable. We assess collectibility based on a number of factors, including past transaction history with the customer and the creditworthiness of the customer. If we determine that collection of a payment is not reasonably assured, revenue recognition is deferred until the time collection becomes reasonably assured, which is generally upon receipt of payment.

Sales of instrumentation generally include a standard one-year warranty. We also sell separately priced maintenance (extended warranty) contracts, which are generally for one year, starting upon the expiration of the initial warranty. Revenue for extended warranty sales is recognized ratably over the term of the extended warranty period. Reserves are provided for estimated product warranty expenses at the time the associated revenue is recognized. If we were to experience an increase in warranty claims or if costs of servicing its products under warranty were greater than its estimates, gross margins could be adversely affected.

We regularly enter into contracts where revenue is derived from multiple deliverables including any mix of products and/or services. These products and/or services are generally delivered within a short time frame, approximately three to six months, of the contract execution date. Revenue recognition for contracts with multiple deliverables is based on the individual units of accounting determined to exist in the contract. A delivered item is considered a separate unit of accounting when the delivered item has value to the customer on a stand-alone basis. Items are considered to have stand-alone value when they are sold separately by any vendor or when the customer could resell the item on a stand-alone basis.

For transactions entered into in 2009, consideration is allocated at the inception of the contract to all deliverables based on their relative selling price. The relative selling price for each deliverable is determined using vendor specific objective evidence (VSOE) of selling price or third-party evidence of selling price if VSOE does not exist. If neither VSOE nor third-party evidence exists, we use best estimate of the selling price for the deliverable. See *Recent Accounting Pronouncements* in Note 1 of Notes to Consolidated Financial Statements for further information related to our change in authoritative accounting guidance for revenue recognition.

For transactions entered into prior to 2009, consideration was generally allocated to each unit of accounting based upon its relative fair value when objective and reliable evidence of fair value existed for all units of accounting in an arrangement. The fair value of an item was generally the price charged for the product, if the item was regularly sold on a stand-alone basis. In those instances when objective and reliable evidence of fair value existed for the undelivered items but not for the delivered items, the residual method was used to allocate the arrangement consideration. Under the residual method, the amount of arrangement consideration allocated to the delivered items equaled the total arrangement consideration less the aggregate fair value of the undelivered items. When we were unable to establish stand-alone value for delivered items or when fair value of undelivered items had not been established, revenue was deferred until all elements were delivered and services had been performed, or until fair value could objectively be determined for any remaining undelivered elements.

In order to establish VSOE of selling price, we must regularly sell the product and/or service on a standalone basis with a substantial majority priced within a relatively narrow range. VSOE of selling price is usually the midpoint of that range. If there is not a sufficient number of standalone sales and VSOE of selling price cannot be determined, then we consider whether third party evidence can be used to establish selling price. Due to the lack of similar products and services sold by other companies within the industry, we have rarely established selling price using third-party evidence. If neither VSOE nor third party evidence of selling price exists, we determine its best estimate of selling price using average selling prices over a rolling 12 month period as well as market conditions. If the product or service has no history of sales, we rely upon prices set by our pricing committee adjusted for applicable discounts.

We recognize revenue for delivered elements only when we determine there are no uncertainties regarding customer acceptance.

Investments

We determine the fair value of our assets and liabilities based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value maximize the use of observable inputs and minimize the use

of unobservable inputs. We use a fair value hierarchy with three levels of inputs, of which the first two are considered observable and the last unobservable, to measure fair value:

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

In using this fair value hierarchy, management may be required to make assumptions of pricing by market participants and assumptions about risk, specifically when using unobservable inputs to determine fair value. These assumptions are judgmental in nature and may significantly affect our results of operations.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We evaluate the collectibility of our accounts receivable based on a combination of factors. We regularly analyze customer accounts, review the length of time receivables are outstanding, review historical loss rates and assess current economic trends that may impact the level of credit losses in the future. Our allowance for doubtful accounts has generally been adequate to cover our actual credit losses. However, since we cannot reliably predict future changes in the financial stability of our customers, we cannot guarantee that our reserves will continue to be adequate.

Inventory Valuation

We record adjustments to inventory for potentially excess, obsolete or impaired goods in order to state inventory at net realizable value. We must make assumptions about future demand, market conditions and the release of new products that will supersede old ones. We regularly review inventory for excess and obsolete products and components, taking into account product life cycle and development plans, product expiration and quality issues, historical experience and our current inventory levels. If actual market conditions are less favorable than anticipated, additional inventory adjustments could be required.

Contingencies

We are subject to legal proceedings primarily related to intellectual property matters. We routinely assess the likelihood of adverse judgments or outcomes to these matters, as well as ranges of probable losses, to the extent losses are reasonably estimable. If losses are probable and reasonably estimable, we will record a liability and an expense for the estimated loss. Disclosure for specific legal contingencies is provided if the likelihood of occurrence is probable and the exposure is considered material to the consolidated financial statements. In making determinations of likely outcomes of litigation matters, management considers many factors. These factors include, but are not limited to, past history, scientific and other evidence, and the specifics and status of each matter. We may change our estimates if our assessment of the various factors changes, which may result in the recording of an accrual or a change in a previously recorded accrual. Predicting the outcome of claims and litigation, and estimating related costs and exposure involves substantial uncertainties that could cause actual costs to vary materially from estimates and accruals.

Business Combinations and Intangible Asset Valuation

Under the purchase method of accounting, we allocate the purchase price of acquired companies to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values. We record the excess of purchase price over the aggregate fair values as goodwill. We engage third-party appraisal firms to assist us in determining the fair values of assets acquired and liabilities assumed. These

valuations require us to make significant estimates and assumptions, especially with respect to intangible assets.

The Company's intangible assets are comprised primarily of licensed technology from the Affymetrix settlement entered into on January 9, 2008 and acquired core technology and customer relationships from the Solexa acquisition. Management uses a discounted cash flow method to value our intangible assets. This method requires significant management judgment to forecast future operating results and establish residual growth rates and discount factors. The estimates we use to value and amortize intangible assets are consistent with the plans and estimates that we use to manage our business and are based on available historical information and industry estimates and averages. If the subsequent actual results and updated projections of the underlying business activity change compared with the assumptions and projections used to develop these values, we could experience impairment charges. In addition, we have estimated the economic lives of certain acquired assets and these lives are used to calculate depreciation and amortization expense. If our estimates of the economic lives change, depreciation or amortization expenses could be accelerated or slowed.

Goodwill, Intangible Assets and Other Long-Lived Assets — Impairment Assessments

We estimate the fair value of intangible assets and other long-lived assets that have finite useful lives whenever an event or change in circumstances indicates that the carrying value of the asset may not be recovered through undiscounted future operating cash flows. We test for potential impairment of goodwill annually in our second fiscal quarter or whenever indicators of impairment arise.

In order to estimate the fair value of purchased intangible assets and other long-lived assets that have finite useful lives, we estimate the present value of future cash flows from those assets. The key assumptions that we use in our discounted cash flow model are the amount and timing of estimated future cash flows to be generated by the asset over an extended period of time and a rate of return that considers the relative risk of achieving the cash flows and the time value of money. Significant judgment is required to estimate the amount and timing of future cash flows and the relative risk of achieving those cash flows. We had a total of $213.4 million in goodwill, $117.2 million in net property and equipment and $43.8 million in net intangible assets on our balance sheet at January 3, 2010.

In order to estimate the fair value of goodwill, we use a weighted combination of a discounted cash flow model (known as the income approach) and comparisons to publicly traded companies engaged in similar businesses (known as the market approach). The income approach requires us to use a number of assumptions, including market factors specific to the business, the amount and timing of estimated future cash flows to be generated by the business over an extended period of time, long-term growth rates for the business, and a rate of return that considers the relative risk of achieving the cash flows and the time value of money. Although the assumptions we use in our discounted cash flow model are consistent with the assumptions we use to generate our internal strategic plans and forecasts, significant judgment is required to estimate the amount and timing of future cash flows and the relative risk of achieving those cash flows. When using the market approach, we make judgments about the comparability of publicly traded companies engaged in similar businesses. We base our judgments on factors such as size, growth rates, profitability, risk, and return on investment. We also make judgments when adjusting market multiples of revenue, operating income, and earnings for these companies to reflect their relative similarity to our own businesses.

Assumptions and estimates about future values and remaining useful lives are complex and often subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy and our internal forecasts. For example, if our future operating results do not meet current forecasts or if we experience a sustained decline in our market capitalization that is determined to be indicative of a reduction in fair value of one or more of our reporting units, we may be required to record future impairment charges for purchased intangible assets and goodwill. Impairment charges could materially decrease our future net income and result in lower asset values on our balance sheet.

Convertible Senior Notes

During the first quarter of 2009, we adopted new authoritative guidance that significantly impacts the accounting for our convertible senior notes by requiring us to account separately for the liability and equity components of the notes. The liability component is measured so the effective interest expense associated with the notes reflects the issuer's borrowing rate at the date of issuance for similar debt instruments without the conversion feature. The difference between the cash proceeds associated with the notes and this estimated fair value is recorded as a debt discount and amortized to interest expense over the life of the notes.

Determining the fair value of the liability component requires the use of accounting estimates and assumptions. These estimates and assumptions are judgmental in nature and could have a significant impact on the determination of the liability component and, in effect, the associated interest expense. According to the guidance, the carrying amount of the liability component is determined by measuring the fair value of a similar liability that does not have an associated equity component. If no similar liabilities exist, estimates of fair value are primarily determined using assumptions that market participants would use in pricing the liability component, including market interest rates, credit standing, yield curves and volatilities.

Stock-Based Compensation

We are required to measure and recognize compensation expense for all stock-based payment awards made to employees and directors based on estimated fair value. We estimate the fair value of stock options granted and stock purchases under our employee stock purchase plan using the Black-Scholes-Merton (BSM) option-pricing model. The fair value of our restricted stock units is based on the market price of our common stock on the date of grant.

The determination of fair value of stock-based awards using the BSM model requires the use of certain estimates and highly judgmental assumptions that affect the amount of stock-based compensation expense recognized in our Consolidated Statements of Operations. These include estimates of the expected volatility of our stock price, expected option life, expected dividends and the risk-free interest rate. We determine the volatility of our stock price by equally weighing the historical and implied volatility of our common stock. The historical volatility of our common stock over the most recent period is generally commensurate with the estimated expected life of our stock options, adjusted for the impact of unusual fluctuations not reasonably expected to recur and other relevant factors. Implied volatility is calculated from the implied market volatility of exchange-traded call options on our common stock. The expected option life of an award is based on historical forfeiture experience, exercise activity and on the terms and conditions of the stock awards granted to employees. We determined expected dividend yield to be 0% given we have never declared or paid any cash dividends on our common stock and we currently do not anticipate paying such cash dividends. The risk-free interest rate is based upon U.S. Treasury securities with remaining terms similar to the expected term of the share-based awards. If any of the assumptions used in the BSM model change significantly, stock-based compensation expense may differ materially from what we have recorded in the current period.

Income Taxes

Our provision for income taxes, deferred tax assets and liabilities, and reserves for unrecognized tax benefits reflect our best assessment of estimated future taxes to be paid. Significant judgments and estimates based on interpretations of existing tax laws or regulations in the U.S. and the numerous foreign jurisdictions where we are subject to income tax are required in determining our provision for income taxes. Changes in tax laws, statutory tax rates and estimates of the company's future taxable income could impact the deferred tax assets and liabilities provided for in the consolidated financial statements and would require an adjustment to the provision for income taxes.

Deferred tax assets are regularly assessed to determine the likelihood they will be recovered from future taxable income. A valuation allowance is established when we believe it is more likely than not the future realization of all or some of a deferred tax asset will not be achieved. In evaluating our ability to recover deferred tax assets within the jurisdiction which they arise we consider all available positive and negative evidence. Factors reviewed include the cumulative pre-tax book income for the past three years, scheduled

reversals of deferred tax liabilities, our history of earnings and reliable forecasting, projections of pre-tax book income over the foreseeable future, and the impact of any feasible and prudent tax planning strategies. Based on the available evidence as of January 3, 2010, we were not able to conclude it is more likely than not certain U.S. and foreign deferred tax assets will be realized. Therefore, we recorded a valuation allowance of $2.8 million and $12.1 million against certain U.S. and foreign deferred tax assets, respectively.

We recognize the impact of a tax position in our financial statements only if that position is more likely than not of being sustained upon examination by taxing authorities, based on the technical merits of the position. Tax authorities regularly examine our returns in the jurisdictions in which we do business and we regularly assess the tax risk of the company's return filing positions. Due to the complexity of some of the uncertainties, the ultimate resolution may result in payments that are materially different from our current estimate of the tax liability. These differences, as well as any interest and penalties, will be reflected in the provision for income taxes in the period in which they are determined.

Recent Accounting Pronouncements

Information with respect to recent accounting pronouncements is included in Note 1 of Notes to Consolidated Financial Statements.

Item 7A. ***Quantitative and Qualitative Disclosures about Market Risk.***

Interest Rate Sensitivity

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio. The fair market value of fixed rate securities may be adversely impacted by fluctuations in interest rates while income earned on floating rate securities may decline as a result of decreases in interest rates. Under our current policies, we do not use interest rate derivative instruments to manage exposure to interest rate changes. We attempt to ensure the safety and preservation of our invested principal funds by limiting default risk, market risk and reinvestment risk. We mitigate default risk by investing in investment grade securities. We have historically maintained a relatively short average maturity for our investment portfolio, and we believe a hypothetical 100 basis point adverse move in interest rates along the entire interest rate yield curve would not materially affect the fair value of our interest sensitive financial instruments. For example, if a 100 basis point change in overall interest rates were to occur in 2010, our interest income would change by approximately $6.9 million in relation to amounts we would expect to earn, based on our cash, cash equivalents, and short-term investments as of January 3, 2010.

Market Price Sensitive Instruments

In order to reduce potential equity dilution, in connection with the issuance (and potential conversion) of our convertible notes, we entered into convertible note hedge transactions, entitling us to purchase up to 18,322,320 shares of our common stock at a strike price of $21.83 per share, subject to adjustment. In addition, we sold to the hedge transaction counterparties warrants exercisable on a net-share basis, for up to 18,322,320 shares of our common stock at a strike price of $31.435 per share, subject to adjustment. The anti-dilutive effect of the note hedge transactions, if any, could be partially or fully offset to the extent the trading price of our common stock exceeds the strike price of the warrants on the exercise dates of the warrants, which occur during 2014, assuming the warrants are exercised.

Foreign Currency Exchange Risk

Many of our reporting entities conduct a portion of their business in currencies other than the entity's U.S. dollar functional currency. These transactions give rise to monetary assets and liabilities that are denominated in currencies other than the entity's functional currency. The value of these monetary assets and liabilities are subject to changes in currency exchange rates from the time the transactions are originated until settlement in cash. Our foreign currency exposures are primarily concentrated in the Euro, Yen, British pound sterling, Australian dollar and Singapore dollar. Both realized and unrealized gains or losses on the value of these monetary assets and liabilities are included in the determination of net income (loss). We recognized a

net currency exchange gain on business transactions, net of hedging transactions, of $0.4 million and $1.9 million for the years ended January 3, 2010 and December 28, 2008, respectively, which are included in other income (expense), net, in the consolidated statements of operations.

During 2009, we began using forward exchange contracts to manage a portion of the foreign currency exposure risk for foreign subsidiaries with monetary assets and liabilities denominated in currencies other than the entity's functional currency. We only use derivative financial instruments to reduce foreign currency exchange rate risks; we do not hold any derivative financial instruments for trading or speculative purposes. We primarily use forward exchange contracts to hedge foreign currency exposures, and they generally have terms of one month or less. Realized and unrealized gains or losses on the value of financial contracts entered into to hedge the exchange rate exposure of these monetary assets and liabilities are also included in the determination of net income (loss), as they have not been designated for hedge accounting. These contracts, which settle monthly, effectively fix the exchange rate at which these specific monetary assets and liabilities will be settled, so that gains or losses on the forward contracts offset the losses or gains from changes in the value of the underlying monetary assets and liabilities. At January 3, 2010, we had an immaterial amount of foreign currency forward contracts outstanding to hedge foreign currency risk.

Item 8. ***Financial Statements and Supplementary Data.***

The Report of Independent Registered Public Accounting Firm, Financial Statements and Notes to Financial Statements begin on page F-1 immediately following the signature page and are incorporated herein by reference.

Item 9. ***Changes In and Disagreements with Accountants on Accounting and Financial Disclosure.***

None.

Item 9A. ***Controls and Procedures.***

We design our internal controls to provide reasonable assurance that (1) our transactions are properly authorized; (2) our assets are safeguarded against unauthorized or improper use; and (3) our transactions are properly recorded and reported in conformity with U.S. generally accepted accounting principles. We also maintain internal controls and procedures to ensure that we comply with applicable laws and our established financial policies.

We have carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Securities Exchange Act), as of January 3, 2010. Based upon that evaluation, our principal executive officer and principal financial officer concluded that, as of January 3, 2010, our disclosure controls and procedures were effective to ensure that (a) the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (b) such information is accumulated and communicated to our management, including our principal executive officer and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management have concluded that the disclosure controls and procedures are effective at the reasonable assurance level. Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected.

An evaluation was also performed under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of any change in our internal control over financial reporting that occurred during the fourth quarter of 2009 and that has materially affected, or is

reasonably likely to materially affect, our internal control over financial reporting. The evaluation did not identify any such change.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

We conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control — Integrated Framework, our management concluded that our internal control over financial reporting was effective as of January 3, 2010. The effectiveness of our internal control over financial reporting as of January 3, 2010 has been audited by Ernst & Young LLP, an independent registered accounting firm, as stated in their report which is included herein.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of
Illumina, Inc.

We have audited Illumina, Inc.'s internal control over financial reporting as of January 3, 2010, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Illumina, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Illumina, Inc. maintained, in all material respects, effective internal control over financial reporting as of January 3, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the accompanying consolidated balance sheets of Illumina, Inc. as of January 3, 2010 and December 28, 2008, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended January 3, 2010 of Illumina, Inc. and our report dated February 26, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Diego, California
February 26, 2010

Item 9B. ***Other Information.***

None.

PART III

Item 10. ***Directors, Executive Officers and Corporate Governance.***

(a) Identification of Directors. Information concerning our directors is incorporated by reference from the section entitled "Proposal One: Election of Directors," "Information About Directors," "Director Compensation" and "Board of Directors and Corporate Governance" to be contained in our definitive Proxy Statement with respect to our 2010 Annual Meeting of Stockholders to be filed with the SEC no later than April 7, 2010.

(b) Identification of Executive Officers. Information concerning our executive officers is incorporated by reference from the section entitled "Executive Officers" to be contained in our definitive Proxy Statement with respect to our 2010 Annual Meeting of Stockholders to be filed with the SEC no later than April 7, 2010.

(c) Compliance with Section 16(a) of the Exchange Act. Information concerning compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated by reference from the section entitled "Compliance with Section 16(a) of the Securities Exchange Act" to be contained in our definitive Proxy Statement with respect to our 2010 Annual Meeting of Stockholders to be filed with the SEC no later than April 7, 2010.

(d) Information concerning the audit committee financial expert as defined by the SEC rules adopted pursuant to the Sarbanes-Oxley Act of 2002 is incorporated by reference from the section entitled "Board of Directors and Corporate Governance" to be contained in our definitive Proxy Statement with respect to our 2010 Annual Meeting of Stockholders to be filed with the SEC no later than April 7, 2010.

Code of Ethics

We have adopted a code of ethics for our directors, officers and employees, which is available on our website at www.illumina.com in the Corporate Governance portal of the Investor Relations section under "Company." A copy of the Code of Ethics is available in print free of charge to any stockholder who requests a copy. Interested parties may address a written request for a printed copy of the Code of Ethics to: Corporate Secretary, Illumina, Inc., 9885 Towne Centre Dr., San Diego, California 92121. We intend to satisfy the disclosure requirement regarding any amendment to, or a waiver from, a provision of the Code of Ethics for our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, by posting such information on our website. The information on, or that can be accessed from, our website is not incorporated by reference into this report.

Item 11. ***Executive Compensation.***

Information concerning executive compensation is incorporated by reference from the sections entitled "Compensation Discussion and Analysis," "Director Compensation" and "Executive Compensation" to be contained in our definitive Proxy Statement with respect to our 2010 Annual Meeting of Stockholders to be filed with the SEC no later than April 7, 2010.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.***

Information concerning the security ownership of certain beneficial owners and management and information covering securities authorized for issuance under equity compensation plans is incorporated by reference from the sections entitled "Stock Ownership of Principal Stockholders and Management," "Executive Compensation" and "Equity Compensation Plan Information" to be contained in our definitive Proxy

Statement with respect to our 2010 Annual Meeting of Stockholders to be filed with the SEC no later than April 7, 2010.

Item 13. ***Certain Relationships and Related Transactions, and Director Independence.***

Information concerning certain relationships and related transactions, and director independence is incorporated by reference from the sections entitled "Proposal One: Election of Directors," "Information About Directors," "Director Compensation," "Executive Compensation" and "Certain Relationships and Related Party Transactions" to be contained in our definitive Proxy Statement with respect to our 2010 Annual Meeting of Stockholders to be filed with the SEC no later than April 7, 2010.

Item 14. ***Principal Accountant Fees and Services.***

Information concerning principal accountant fees and services is incorporated by reference from the sections entitled "Proposal Two: Ratification of Independent Registered Public Accounting Firm" and "Independent Registered Public Accountants" to be contained in our definitive Proxy Statement with respect to our 2010 Annual Meeting of Stockholders to be filed with the SEC no later than April 7, 2010.

PART IV

Item 15. ***Exhibits, Financial Statement Schedules.***

(a) The following documents are filed as a part of this report:

(1) *Consolidated Financial Statements:*

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(2) *Financial Statement Schedule:*	
Valuation and Qualifying Account and Reserves for the period from January 1, 2007 to January 3, 2010	F-39

(3) *Exhibits:*

		Incorporated by Reference				
Exhibit Number	Exhibit Description	Form	File Number	Exhibit	Filing Date	Filed Herewith
3.1	Amended and Restated Certificate of Incorporation	8-K	000-30361	3.1	09/23/08	
3.2	Amended and Restated Bylaws	8-K	000-30361	3.2	04/29/09	
3.3	Certificate of Designation for Series A Junior Participating Preferred Stock (included as Exhibit A to exhibit 4.3)	8-A	000-30361	4.3	05/14/01	
4.1	Specimen Common Stock Certificate	S-1/A	333-33922	4.1	07/03/00	
4.2	Rights Agreement, dated as of May 3, 2001, between Illumina and Equiserve Trust Company, N.A.	8-A	000-30361	4.3	05/14/01	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File Number	Exhibit	Filing Date	
4.3	Indenture related to the 0.625% Convertible Senior Notes due 2014, dated as of February 16, 2007, between Illumina and The Bank of New York, as trustee	8-K	000-30361	4.1	02/16/07	
+10.1	Form of Indemnification Agreement between Illumina and each of its directors and officers	S-1/A	333-33922	10.1	07/03/00	
+10.2	1998 Incentive Stock Plan	S-1/A	333-33922	10.2	07/03/00	
+10.3	2000 Employee Stock Purchase Plan, as amended and restated through October 28, 2009					X
+10.4	2000 Stock Plan, as amended and restated through March 21, 2002	10-Q	000-30361	10.22	05/13/02	
+10.5	2005 Stock and Incentive Plan, as amended and restated through October 28, 2009					X
+10.6	Form of Restricted Stock Unit Agreement for Non-Employee Directors under 2005 Stock and Incentive Plan	10-K	000-30361	10.35	02/26/09	
+10.7	New Hire Stock and Incentive Plan, as amended and restated through October 28, 2009					X
10.8	License Agreement, effective as of May 6, 1998, between Tufts University and Illumina	10-Q	000-30361	10.5	05/03/07	
+10.9	The Solexa Unapproved Company Share Option Plan	8-K	000-30361	99.3	11/26/07	
+10.10	The Solexa Share Option Plan for Consultants	8-K	000-30361	99.4	11/26/07	
+10.11	Solexa Limited Enterprise Management Incentive Plan	8-K	000-30361	99.5	11/26/07	
+10.12	Amended and Restated Solexa 2005 Equity Incentive Plan	10-K	000-30361	10.25	02/26/09	
+10.13	Amended and Restated Solexa 1992 Stock Option Plan	10-K	000-30361	10.26	02/26/09	
10.14	License Agreement, dated June 24, 2002, between Dade Behring Marburg GmbH and Illumina (with certain confidential portions omitted)	S-3/A	333-111496	10.23	03/02/04	
10.15	Non-exclusive License Agreement, dated January 24, 2002, between Amersham Biosciences Corp. and Illumina (with certain confidential portions omitted)	S-3/A	333-111496	10.24	03/02/04	
10.16	Amended and Restated Lease between BMR-9885 Towne Centre Drive LLC and Illumina for the 9885 Towne Centre Drive property, dated January 26, 2007	10-Q	000-30361	10.41	05/03/07	
10.17	Settlement and Cross License Agreement dated August 18, 2004 between Applera Corporation and Illumina (with certain confidential portions omitted)	10-Q	000-30361	10.27	11/12/04	
10.18	Collaboration Agreement, dated December 17, 2004, between Invitrogen Corporation and Illumina (with certain confidential portions omitted)	10-K	000-30361	10.28	03/08/05	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File Number	Exhibit	Filing Date	
+10.19	Offer letter for Christian O. Henry dated April 26, 2005	10-Q	000-30361	10.33	08/08/05	
10.20	Joint Development and Licensing Agreement, dated May 15, 2006, between deCODE genetics, ehf. and Illumina (with certain confidential portions omitted)	10-Q	000-30361	10.32	08/02/06	
+10.21	Amended and Restated Change in Control Severance Agreement between Illumina and Jay T Flatley, dated October 22, 2008	10-K	000-30361	10.33	02/26/09	
+10.22	Form of Amended and Restated Change in Control Severance Agreement between Illumina and its executive officers	10-K	000-30361	10.34	02/26/09	
+10.23	Form of Restricted Stock Unit Agreement for Non-Employee Directors under Illumina's 2005 Stock and Incentive Plan	10-K	000-30361	10.35	02/26/09	
10.24	Lease between BMR-9885 Towne Centre Drive LLC and Illumina for the 9865 Towne Centre Drive property, dated January 26, 2007	10-Q	000-30361	10.42	05/03/07	
10.25	Settlement and Release Agreement between Affymetrix, Inc. and Illumina, dated January 9, 2008	10-K	000-30361	10.44	02/26/08	
10.26	Confirmation of Convertible Bond Hedge Transaction, dated February 12, 2007, by and between Illumina and Goldman, Sachs & Co.	8-K	000-30361	10.1	02/16/07	
10.27	Confirmation of Convertible Bond Hedge Transaction, dated February 12, 2007, by and between Illumina and Deutsche Bank AG London	8-K	000-30361	10.2	02/16/07	
10.28	Confirmation Issuer Warrant Transaction, dated February 12, 2007, by and between Illumina and Goldman, Sachs & Co.	8-K	000-30361	10.3	02/16/07	
10.29	Confirmation Issuer Warrant Transaction, dated February 12, 2007, by and between Illumina and Deutsche Bank AG London	8-K	000-30361	10.4	02/16/07	
10.30	Amendment to the Confirmation of Issuer Warrant Transaction, dated February 13, 2007, by and between Illumina and Goldman, Sachs & Co.	8-K	000-30361	10.5	02/16/07	
10.31	Amendment to the Confirmation of Issuer Warrant Transaction, dated February 13, 2007, by and between Illumina and Deutsche Bank AG London	8-K	000-30361	10.6	02/16/07	
+10.32	Indemnification Agreement between Illumina and Gregory F. Heath	10-Q	000-30361	10.55	07/25/08	
+10.33	Indemnification Agreement between Illumina and Joel McComb	10-Q	000-30361	10.56	07/25/08	
+10.34	Severance and Release Agreement, dated February 22, 2010, between Joel McComb and Illumina					X
21.1	Subsidiaries of Illumina					X
23.1	Consent of Independent Registered Public Accounting Firm					X
24.1	Power of Attorney (included on the signature page)					X

Exhibit Number	Exhibit Description	Incorporated by Reference			Filing Date	Filed Herewith
		Form	File Number	Exhibit		
31.1	Certification of Jay T. Flatley pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
31.2	Certification of Christian O. Henry pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
32.1	Certification of Jay T. Flatley pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
32.2	Certification of Christian O. Henry pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X

+ Management contract or corporate plan or arrangement

Supplemental Information

No Annual Report to stockholders or proxy materials has been sent to stockholders as of the date of this report. The Annual Report to stockholders and proxy material will be furnished to our stockholders subsequent to the filing of this Annual Report on Form 10-K and we will furnish such material to the SEC at that time.

SIGNATURES

Pursuant to the requirements of the Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 26, 2010.

ILLUMINA, INC.

By /s/ JAY T. FLATLEY
Jay T. Flatley
President and Chief Executive Officer

February 26, 2010

POWER OF ATTORNEY

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ JAY T. FLATLEY Jay T. Flatley	President, Chief Executive Officer and Director (Principal Executive Officer)	February 26, 2010
/s/ CHRISTIAN O. HENRY Christian O. Henry	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	February 26, 2010
/s/ WILLIAM H. RASTETTER William H. Rastetter	Chairman of the Board of Directors	February 26, 2010
/s/ A. BLAINE BOWMAN A. Blaine Bowman	Director	February 26, 2010
/s/ DANIEL M. BRADBURY Daniel M. Bradbury	Director	February 26, 2010
/s/ KARIN EASTHAM Karin Eastham	Director	February 26, 2010

/s/ JACK GOLDSTEIN Jack Goldstein	Director	February 26, 2010
/s/ PAUL GRINT Paul Grint	Director	February 26, 2010
/s/ DAVID R. WALT David R. Walt	Director	February 26, 2010
/s/ ROY WHITFIELD Roy Whitfield	Director	February 26, 2010

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of
Illumina, Inc.

We have audited the accompanying consolidated balance sheets of Illumina, Inc. as of January 3, 2010 and December 28, 2008, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended January 3, 2010. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Illumina, Inc., at January 3, 2010 and December 28, 2008, and the consolidated results of its operations and its cash flows for each of the three years in the period ended January 3, 2010, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Company adopted Financial Accounting Standards Board Staff Position No. APB 14-1, *Accounting For Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)* (Codified in FASB ASC Topic 470, *Debt Conversions and Other Options)* effective as of December 29, 2008 and retroactively adjusted all periods presented in the consolidated financial statements for this change. Also described in Note 1 is the Company's 2009 change in its method of accounting for revenue recognition with the adoption of amendments to the Financial Accounting Standards Board Accounting Standards Codification resulting from Accounting Standards Update No. 2009-13, *Multiple-Deliverable Revenue Arrangements*, and Accounting Standards Update No. 2009-14, *Certain Revenue Arrangements That Include Software Elements*, both adopted effective December 29, 2008.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Illumina, Inc.'s internal control over financial reporting as of January 3, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Diego, California
February 26, 2010

ILLUMINA, INC.

CONSOLIDATED BALANCE SHEETS

	January 3, 2010	December 28, 2008(1)
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 144,633	$ 327,024
Short-term investments	548,894	313,051
Accounts receivable, net	157,751	133,266
Inventory, net	92,776	73,431
Deferred tax assets, current portion	20,021	8,635
Prepaid expenses and other current assets	17,515	14,154
Total current assets	981,590	869,561
Property and equipment, net	117,188	89,436
Long-term investments	—	55,900
Goodwill	213,452	213,452
Intangible assets, net	43,788	47,755
Deferred tax assets, long-term portion	47,371	46,242
Other assets	26,548	4,825
Total assets	$1,429,937	$1,327,171
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 52,781	$ 29,204
Accrued liabilities	98,253	80,355
Long-term debt, current portion	290,202	276,889
Total current liabilities	441,236	386,448
Other long-term liabilities	24,656	18,946
Commitments and contingencies		
Conversion option subject to cash settlement	99,797	123,110
Stockholders' equity:		
Preferred stock, $0.01 par value, 10,000,000 shares authorized, no shares issued at January 3, 2010 and December 28, 2008	—	—
Common stock, $0.01 par value, 320,000,000 shares authorized, 143,544,265 shares issued at January 3, 2010, 138,936,582 shares issued at December 28, 2008	1,436	1,389
Additional paid-in capital	1,637,751	1,469,770
Accumulated other comprehensive income	2,830	2,422
Accumulated deficit	(280,226)	(352,507)
Treasury stock, at cost (24,068,450 shares at January 3, 2010 and 17,927,983 shares at December 28, 2008)	(497,543)	(322,407)
Total stockholders' equity	864,248	798,667
Total liabilities and stockholders' equity	$1,429,937	$1,327,171

(1) Adjusted for required retroactive adoption of authoritative accounting guidance for convertible debt instruments that may be settled in cash upon conversion effective December 29, 2008.

See accompanying notes to consolidated financial statements

ILLUMINA, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended_		
	January 3, 2010	December 28, 2008(1)	December 30, 2007(1)
	(In thousands, except per share amounts)		
Revenue:			
Product revenue	$627,240	$532,390	$ 326,699
Service and other revenue	39,084	40,835	40,100
Total revenue	666,324	573,225	366,799
Costs and expenses:			
Cost of product revenue (excluding impairment of manufacturing equipment and amortization of intangible assets)	190,714	192,868	119,991
Cost of service and other revenue	15,055	12,756	12,445
Research and development	140,616	99,963	73,943
Selling, general and administrative	176,337	148,014	101,256
Impairment of manufacturing equipment	—	4,069	—
Amortization of intangible assets	6,680	10,438	2,429
Acquired in-process research and development	11,325	24,660	303,400
Litigation settlements	—	—	54,536
Total costs and expenses	540,727	492,768	668,000
Income (loss) from operations	125,597	80,457	(301,201)
Other income (expense), net:			
Interest income	11,029	12,519	16,025
Interest expense	(23,718)	(22,210)	(18,297)
Other income (expense), net	1,217	1,921	(47)
Total other expense, net	(11,472)	(7,770)	(2,319)
Income (loss) before income taxes	114,125	72,687	(303,520)
Provision (benefit) for income taxes	41,844	33,271	(16,215)
Net income (loss)	$ 72,281	$ 39,416	$(287,305)
Net income (loss) per basic share	$ 0.59	$ 0.34	$ (2.65)
Net income (loss) per diluted share	$ 0.53	$ 0.30	$ (2.65)
Shares used in calculating basic net income (loss) per share	123,154	116,855	108,308
Shares used in calculating diluted net income (loss) per share	137,096	133,607	108,308

(1) Adjusted for required retroactive adoption of authoritative accounting guidance for convertible debt instruments that may be settled in cash upon conversion effective December 29, 2008.

See accompanying notes to consolidated financial statements

ILLUMINA, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Treasury Stock		Total Stockholders' Equity
	Shares	Amount				Shares	Amount	
	(In thousands)							
Balance as of January 1, 2007	93,714	$ 938	$ 339,728	$ 11,294	$(104,618)	—	$ —	$ 247,342
Components of comprehensive loss:								
Net loss(1)	—	—	—	—	(287,305)	—	—	(287,305)
Unrealized loss on available-for-sale securities, net of deferred tax	—	—	—	(10,529)	—	—	—	(10,529)
Foreign currency translation adjustment	—	—	—	582	—	—	—	582
Comprehensive loss								(297,252)
Issuance of common stock	4,654	46	30,044	—	—	—	—	30,090
Issuance of common stock for the acquisition of Solexa, Inc.	26,442	264	530,460	—	—	—	—	530,724
Fair value of options assumed from Solexa, Inc.	—	—	75,334	—	—	—	—	75,334
Convertible note hedge	—	—	(139,040)	—	—	—	—	(139,040)
Warrants issued in connection with the convertible debt issuance	—	—	92,440	—	—	—	—	92,440
Warrants exercised	798	8	6,067	—	—	—	—	6,075
Stock-based compensation	—	—	33,926	—	—	—	—	33,926
Incremental tax benefit related to stock options exercised	—	—	20,086	—	—	—	—	20,086
Incremental tax benefit related to convertible debt issuance	—	—	54,629	—	—	—	—	54,629
Repurchases of common stock	—	—	—	—	—	(14,819)	(251,622)	(251,622)
Impact of convertible debt(1)	—	—	(48,805)	—	—	—	—	(48,805)
Balance as of December 30, 2007(1)	125,608	1,256	994,869	1,347	(391,923)	(14,819)	(251,622)	353,927
Components of comprehensive income:								
Net income(1)	—	—	—	—	39,416	—	—	39,416
Unrealized gain on available-for-sale securities, net of deferred tax	—	—	—	920	—	—	—	920
Foreign currency translation adjustment	—	—	(16)	155	—	—	—	139
Comprehensive income								40,475
Issuance of common stock in conjunction with secondary offering, net of issuance costs	8,050	80	342,570	—	—	—	—	342,650
Issuance of common stock under employee stock plans	4,923	49	44,281	—	—	—	—	44,330
Warrants exercised	356	4	2,987	—	—	—	—	2,991
Stock-based compensation	—	—	47,695	—	—	—	—	47,695
Incremental tax benefit related to stock options exercised	—	—	18,501	—	—	—	—	18,501
Repurchases of common stock	—	—	—	—	—	(3,109)	(70,785)	(70,785)
Impact of convertible debt(1)	—	—	18,883	—	—	—	—	18,883
Balance as of December 28, 2008(1)	138,937	1,389	1,469,770	2,422	(352,507)	(17,928)	(322,407)	798,667
Components of comprehensive income:								
Net income	—	—	—	—	72,281	—	—	72,281
Unrealized gain on available-for-sale securities, net of deferred tax	—	—		408	—	—	—	408
Comprehensive income								72,689
Issuance of common stock	3,569	36	39,343	—	—	—	—	39,379
Warrants exercised	954	10	7,566	—	—	—	—	7,576
Stock-based compensation	—	—	60,813	—	—	—	—	60,813
Incremental tax benefit related to stock options exercised	—	—	39,319	—	—	—	—	39,319
Repurchases of common stock	—	—	—	—	—	(6,140)	(175,136)	(175,136)
Impact of convertible debt	84	1	20,940	—	—	—	—	20,941
Balance as of January 3, 2010	143,544	$1,436	$1,637,751	$ 2,830	$(280,226)	(24,068)	$(497,543)	$ 864,248

(1) Adjusted for required retroactive adoption of authoritative accounting guidance for convertible debt instruments that may be settled in cash upon conversion effective December 29, 2008.

See accompanying notes to consolidated financial statements

ILLUMINA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended		
	January 3, 2010	December 28, 2008(1)	December 30, 2007(1)
		(In thousands)	
Cash flows from operating activities:			
Net income (loss)	$ 72,281	$ 39,416	$(287,305)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Acquired in-process research and development	11,325	24,660	303,400
Amortization of intangible assets	6,680	10,438	2,429
Amortization of debt discount	20,286	18,883	15,335
Depreciation expense	24,504	17,285	11,464
Impairment of manufacturing equipment	—	4,069	—
Stock-based compensation expense	60,811	47,688	33,746
Incremental tax benefit related to stock options exercised	(39,319)	(18,501)	(20,086)
Deferred income taxes	29,704	31,533	(17,197)
Other non-cash adjustments	(487)	803	1,347
Changes in operating assets and liabilities:			
Accounts receivable	(18,578)	(57,672)	(37,060)
Inventory	(19,201)	(19,560)	(27,130)
Prepaid expenses and other current assets	(3,429)	2,322	(6,128)
Other assets	(2,670)	(1,815)	2,612
Accounts payable	11,778	4,840	12,262
Litigation settlements payable	—	(54,536)	54,536
Accrued income taxes	2,378	2,377	1,586
Accrued liabilities	17,619	29,339	15,901
Other long-term liabilities	814	6,313	(3,418)
Net cash provided by operating activities	174,496	87,882	56,294
Cash flows from investing activities:			
Cash (paid for) obtained in acquisition, including cash paid for transaction costs	(1,325)	(24,666)	72,075
Sale of secured convertible debentures	—	—	3,593
Purchases of available-for-sale securities	(694,487)	(568,707)	(598,383)
Sales and maturities of available-for-sale securities	515,216	411,817	479,415
Purchase of property and equipment	(51,822)	(59,693)	(24,301)
Investments in other entities	(19,900)	—	—
Cash paid for intangible assets	(3,400)	(36,000)	(85)
Net cash used in investing activities	(255,718)	(277,249)	(67,686)
Cash flows from financing activities:			
Payments on current portion of long-term debt	(10,000)	(15)	(95)
Proceeds from issuance of convertible debt, net of issuance costs	—	—	390,269
Purchase of convertible note hedges	—	—	(139,040)
Proceeds from the exercise of warrants	7,576	2,991	98,515
Common stock repurchases	(175,136)	(70,785)	(251,622)
Proceeds from secondary offering, net of issuance cost	—	342,650	—
Proceeds from issuance of common stock	39,379	44,330	30,179
Incremental tax benefit related to stock options exercised	39,319	18,501	20,086
Net cash (used in) provided by financing activities	(98,862)	337,672	148,292
Effect of foreign currency translation on cash and cash equivalents	(2,307)	3,778	(345)
Net (decrease) increase in cash and cash equivalents	(182,391)	152,083	136,555
Cash and cash equivalents at beginning of period	327,024	174,941	38,386
Cash and cash equivalents at end of period	$ 144,633	$ 327,024	$ 174,941
Supplemental disclosures of cash flow information:			
Cash paid for interest	$ 2,437	$ 2,553	$ 1,378
Cash paid (refunded) for income taxes	$ 10,361	$ (1,653)	$ 2,581

(1) Adjusted for required retroactive adoption of authoritative accounting guidance for convertible debt instruments that may be settled in cash upon conversion effective December 29, 2008.

See accompanying notes to consolidated financial statements

Unless the context requires otherwise, references in this report to "Illumina," "we," "us," the "Company," and "our" refer to Illumina, Inc. and its consolidated subsidiaries.

1. Organization and Summary of Significant Accounting Policies

Organization and Business

Illumina, Inc. (the Company) is a leading developer, manufacturer and marketer of integrated systems for the analysis of genetic variation and biological function. Using the Company's proprietary technologies, Illumina provides a comprehensive line of products and services that currently serve the sequencing, genotyping and gene expression markets and the Company expects to enter the market for molecular diagnostics. The Company's customers include leading genomic research centers, pharmaceutical companies, academic institutions, clinical research organizations and biotechnology companies.

Acquisitions

On August 1, 2008, the Company completed its acquisition of Avantome, Inc., a development-stage company creating a low cost, long-read sequencing technology. At the time of the acquisition, the Company paid $25.8 million in cash, including transaction costs, and recorded a charge of $24.7 million for purchased in-process research and development (IPR&D). As part of the acquisition agreement, Illumina agreed to pay Avantome's former shareholders up to an additional $35.0 million in contingent cash consideration based on the achievement of certain milestones. For the year ended January 3, 2010, the Company recorded IPR&D of $11.3 million and compensation expense of $3.7 million associated with these milestones. For the year ended December 28, 2008, compensation expense of $1.5 million was recorded associated with these milestones. Compensation expense associated with the Avantome acquisition is included in research and development in the consolidated statements of operations.

On January 26, 2007, the Company completed its acquisition of Solexa, Inc., in a stock-for-stock merger transaction. The Company issued 26.2 million shares of its common stock as consideration for this merger. Based on the estimated fair values at the acquisition date, the Company allocated $303.4 million to IPR&D, $62.2 million to tangible assets acquired and liabilities assumed and $24.4 million to intangible assets. The remaining excess of the purchase price over the fair value of net assets acquired of $213.4 million was allocated to goodwill.

Basis of Presentation

The consolidated financial statements of the Company have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) and include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Fiscal Year

The Company's fiscal year is 52 or 53 weeks ending the Sunday closest to December 31, with quarters of 13 or 14 weeks ending the Sunday closest to March 31, June 30, and September 30. The year ended January 3, 2010 was 53 weeks; the years ended December 28, 2008 and December 30, 2007 were 52 weeks.

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation. During the fourth quarter of 2009, the Company determined that pre-acquisition net operating loss carryforwards of Solexa that were included in goodwill could be utilized by the Company. Therefore, the Company has updated the Consolidated Financial Statements and related disclosures to reclassify $15.3 million from goodwill to

long-term deferred tax assets to correctly reflect the tax effect of Solexa's pre-acquisition net operating losses that can be utilized by the Company.

Use of Estimates

The preparation of financial statements requires that management make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and related disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Segment Information

During the first quarter of 2008, the Company reorganized its operating structure into a newly created Life Sciences Business Unit, which includes all products and services that are primarily related to the research market, namely the sequencing, BeadArray, and VeraCode product lines. The Company also created a Diagnostics Business Unit to focus on the emerging opportunity in molecular diagnostics. For the year ended January 3, 2010, the Company had limited activity related to the Diagnostics Business Unit and operating results were reported on an aggregate basis to the chief operating decision maker of the Company, the chief executive officer. Accordingly, the Company operated in one segment for the year ended January 3, 2010. The Company will begin reporting in two segments once revenues, operating profit or loss, or assets of the Diagnostics Business Unit exceed 10% of the consolidated amounts.

Cash Equivalents and Investments

Cash equivalents are comprised of short-term, highly liquid investments with maturities of 90 days or less from the date of purchase.

Short-term investments consist of U.S. Treasury and U.S. government agency securities, municipal notes, corporate notes and bonds and commercial paper. Management classifies short-term investments as available-for-sale or trading at the time of purchase and reevaluates such classification as of each balance sheet date. All short-term investments are recorded at estimated fair value. Unrealized gains and losses for available-for-sale and trading securities are included in accumulated other comprehensive income, a component of stockholders' equity, and other income, net, respectively. The Company evaluates its investments to assess whether those with unrealized loss positions are other than temporarily impaired. Impairments are considered to be other than temporary if it is likely that the Company will have to sell the securities before the recovery of their cost basis and it is the Company's intent to do so. Realized gains and losses and declines in value judged to be other than temporary are determined based on the specific identification method and are reported in other income (expense), net in the consolidated statements of operations.

Included in short-term investments are the Company's auction rate securities and a put option related to the Company's settlement agreement with UBS that gives the Company the right to sell its auction rate securities to UBS AG (UBS) at par value during the period of June 30, 2010 through July 2, 2012 (the Settlement). These securities had previously been classified as long-term investments; however, they were reclassified to short-term investments in fiscal 2009 as the Company intends to exercise its right to sell the securities back to UBS during the Settlement period. The auction rate securities are classified as trading securities and both the put option and the auction rate securities are recorded at estimated fair value, with unrealized gains and losses, if any, recognized in other income (expense), net on the consolidated statements of operations. See Note 3 for further detailed discussion.

Fair Value of Financial Instruments

The carrying amounts of financial instruments such as cash equivalents, foreign cash accounts, accounts receivable, prepaid expenses and other current assets, accounts payable, accrued expenses and other current liabilities approximate the related fair values due to the short-term maturities of these instruments. The estimated fair value of the convertible senior notes is determined by using available market information as of the latest trading date prior to the Company's fiscal year-end provided by a third party financial institution. The par value and fair value of the Company's convertible notes was $390.0 million and $553.2 million, respectively, at January 3, 2010 and $400.0 million and $473.0 million, respectively, at December 28, 2008.

Accounts Receivable

Trade accounts receivable are recorded at the net invoice value and are not interest bearing. The Company considers receivables past due based on the contractual payment terms. The Company reviews its exposure to amounts receivable and reserves specific amounts if collectibility is no longer reasonably assured. The Company also reserves a percentage of its trade receivable balance based on collection history and current economic trends that might impact the level of future credit losses. The Company re-evaluates such reserves on a regular basis and adjusts its reserves as needed.

Concentrations of Risk

The Company operates in markets that are highly competitive and rapidly changing. Significant technological changes, shifting customer needs, the emergence of competitive products or services with new capabilities and other factors could negatively impact the Company's operating results.

The Company is also subject to risks related to its financial instruments including its cash and cash equivalents, investments and accounts receivable. Most of the Company's cash and cash equivalents as of January 3, 2010 were deposited with financial institutions in the United States. The Company's investment policy restricts the amount of credit exposure to any one issuer to 5% of the portfolio at the time of purchase and to any one industry sector, as defined by Bloomberg classifications, to 25% of the portfolio at the time of purchase. There is no limit to the percentage of the portfolio that may be maintained in securities issued by the U.S government and money market funds. The Company has historically not experienced significant credit losses from investments and accounts receivable. The Company performs a regular review of customer activity and associated credit risks.

The Company's products require customized components that currently are available from a limited number of sources. The Company obtains certain key components included in its products from single vendors.

Shipments to customers outside the United States comprised 48%, 51% and 43% of the Company's revenue for the years ended January 3, 2010, December 28, 2008 and December 30, 2007, respectively. Customers outside the United States represented 46% and 61% of the Company's net accounts receivable balance as of January 3, 2010 and December 28, 2008, respectively. Sales to territories outside of the United States are generally denominated in U.S. dollars. International sales entail a variety of risks, including currency exchange fluctuations, longer payment cycles and greater difficulty in accounts receivable collection. The Company is also subject to general geopolitical risks, such as political, social and economic instability and changes in diplomatic and trade relations. The risks of international sales are mitigated in part by the extent to which sales are geographically distributed.

Aggregated accounts receivable from one customer comprised more than 10% of gross customer receivable at January 3, 2010.

Inventories

Inventories are stated at the lower of cost (on a first in, first out basis) or market. Inventory includes raw materials and finished goods that may be used in the research and development process and such items are expensed as consumed or expired. Provisions for slow moving, excess and obsolete inventories are provided based on product life cycle and development plans, product expiration and quality issues, historical experience and inventory levels.

Property and Equipment

Property and equipment are stated at cost, subject to review of impairment, and depreciated over the estimated useful lives of the assets (generally three to seven years) using the straight-line method. Amortization of leasehold improvements is computed over the shorter of the lease term or the estimated useful life of the related assets. Maintenance and repairs are charged to operations as incurred. When assets are sold, or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is included in operating expense.

Goodwill, Intangible Assets and Other Long-Lived Assets

Goodwill represents the excess of cost over fair value of net assets acquired. Intangible assets include acquired technology, customer relationships, other license agreements and licensed technology (capitalized as part of the Affymetrix litigation). The cost of identified intangible assets is amortized on a straight-line basis over periods ranging from three to ten years unless the expected benefit pattern is declining, in which case an accelerated method is used.

The Company regularly performs reviews to determine if the carrying values of the long-lived assets are impaired. Goodwill and other intangible assets that have indefinite useful lives are reviewed for impairment at least annually during the second fiscal quarter, or more frequently if an event occurs indicating the potential for impairment. The Company performed its annual impairment test of goodwill in May of 2009, utilizing a test that begins with an estimate of the fair value of the reporting unit or intangible asset, noting no impairment and has determined there have been no impairment indicators for goodwill through January 3, 2010. A review of intangible assets that have finite useful lives and other long-lived assets is performed when an event occurs indicating the potential for impairment. If indicators of impairment exist, the Company assesses the recoverability of the affected long-lived assets by determining whether the carrying amount of such assets exceeds its estimated fair value. If impairment is indicated, the Company compares the carrying amount to the estimated fair value of the asset and adjusts the value of the asset accordingly. Factors that would necessitate an impairment assessment include a significant decline in the Company's stock price and market capitalization compared to its net book value, significant changes in the ability of a particular asset to generate positive cash flows and significant changes in the Company's strategic business objectives and utilization of the asset.

Reserve for Product Warranties

The Company generally provides a one-year warranty on genotyping, gene expression and sequencing systems. Additionally, the Company provides a warranty on its consumable sales through the expiry date, which generally ranges from six to twelve months after the manufacture date. At the time revenue is recognized, the Company establishes an accrual for estimated warranty expenses based on historical experience as well as anticipated product performance. This expense is recorded as a component of cost of product revenue. Estimated warranty expenses associated with extended maintenance contracts for systems are recorded as a cost of service and other revenue ratably over the term of the maintenance contract. See Note 6 for further detailed discussion.

Revenue Recognition

The Company's revenue is generated primarily from the sale of products and services. Product revenue primarily consists of sales of arrays, reagents, flow cells and instrumentation. Service and other revenue consists of revenue received for performing genotyping and sequencing services, extended warranty sales and amounts earned under research agreements with government grants, which are recognized in the period during which the related costs are incurred.

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the seller's price to the buyer is fixed or determinable and collectibility is reasonably assured. In instances where final acceptance of the product or system is required, revenue is deferred until all the acceptance criteria have been met. All revenue is recorded net of any discounts.

Revenue for product sales is recognized generally upon shipment and transfer of title to the customer, provided no significant obligations remain and collection of the receivable is reasonably assured. Revenue for genotyping and sequencing services is recognized when earned, which is generally at the time the genotyping or sequencing analysis data is made available to the customer or agreed upon milestones are reached.

In order to assess whether the price is fixed or determinable, the Company ensures there are no refund rights. If payment terms are based on future performance, the Company defers revenue recognition until the price becomes fixed or determinable. The Company assesses collectibility based on a number of factors, including past transaction history with the customer and the creditworthiness of the customer. If the Company determines that collection of a payment is not reasonably assured, revenue recognition is deferred until the time collection becomes reasonably assured, which is generally upon receipt of payment.

Sales of instrumentation generally include a standard one-year warranty. The Company also sells separately priced maintenance (extended warranty) contracts, which are generally for one year, upon the expiration of the initial warranty. Revenue for extended warranty sales is recognized ratably over the term of the extended warranty period. Reserves are provided for estimated product warranty expenses at the time the associated revenue is recognized. If the Company were to experience an increase in warranty claims or if costs of servicing its products under warranty were greater than its estimates, gross margins could be adversely affected.

The Company regularly enters into contracts where revenue is derived from multiple deliverables including any mix of products and/or services. These products and/or services are generally delivered within a short time frame, approximately three to six months, of the contract execution date. Revenue recognition for contracts with multiple deliverables is based on the individual units of accounting determined to exist in the contract. A delivered item is considered a separate unit of accounting when the delivered item has value to the customer on a stand-alone basis. Items are considered to have stand-alone value when they are sold separately by any vendor or when the customer could resell the item on a stand-alone basis.

For transactions entered into during 2009, consideration is allocated at the inception of the contract to all deliverables based on their relative selling price. The relative selling price for each deliverable is determined using vendor specific objective evidence (VSOE) of selling price or third-party evidence of selling price if VSOE does not exist. If neither VSOE nor third-party evidence exists, the Company uses its best estimate of the selling price for the deliverable. See *Recent Accounting Pronouncements* in Note 1 for further information related to the Company's change in authoritative accounting guidance for revenue recognition.

For transactions entered into prior to 2009, consideration was generally allocated to each unit of accounting based upon its relative fair value when objective and reliable evidence of fair value existed for all units of accounting in an arrangement. The fair value of an item was generally the price charged for the product, if the item was regularly sold on a stand-alone basis. In those instances when objective and reliable

evidence of fair value existed for the undelivered items but not for the delivered items, the residual method was used to allocate the arrangement consideration. Under the residual method, the amount of arrangement consideration allocated to the delivered items equaled the total arrangement consideration less the aggregate fair value of the undelivered items. When the Company was unable to establish stand-alone value for delivered items or when fair value of undelivered items had not been established, revenue was deferred until all elements were delivered and services had been performed, or until fair value could objectively be determined for any remaining undelivered elements.

In order to establish VSOE of selling price, the Company must regularly sell the product and/or service on a standalone basis with a substantial majority priced within a relatively narrow range. VSOE of selling price is usually the midpoint of that range. If there is not a sufficient number of standalone sales and VSOE of selling price cannot be determined, then the Company considers whether third party evidence can be used to establish selling price. Due to the lack of similar products and services sold by other companies within the industry, the Company has rarely established selling price using third-party evidence. If neither VSOE nor third party evidence of selling price exists, the Company determines its best estimate of selling price using average selling prices over a rolling 12 month period as well as market conditions. If the product or service has no history of sales, the Company relies upon prices set by the Company's pricing committee adjusted for applicable discounts.

The Company recognizes revenue for delivered elements only when it determines there are no uncertainties regarding customer acceptance. Changes in the allocation of the sales price between delivered and undelivered elements can impact the timing of revenue recognition but do not change the total revenue recognized on any arrangement.

Fair Value Measurements

The Company determines the fair value of its assets and liabilities based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs. The Company uses a fair value hierarchy with three levels of inputs, of which the first two are considered observable and the last unobservable, to measure fair value:

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

The following table presents the Company's fair value hierarchy for assets measured at fair value on a recurring basis as of January 3, 2010 (in thousands):

	Level 1	Level 2	Level 3	Total
Debt securities in government sponsored entities	$289,701	$—	$ —	$289,701
Corporate debt securities	192,821	—	—	192,821
Auction rate securities	—	—	54,900	54,900
U.S. Treasury securities	11,472	—	—	11,472
Total assets measured at fair value	$493,994	$—	$54,900	$548,894

Shipping and Handling Expenses

Shipping and handling expenses are included in cost of product revenue and totaled $4.8 million, $3.7 million and $2.2 million for the years ended January 3, 2010, December 28, 2008 and December 30, 2007, respectively.

Research and Development

Research and development expenses consist of costs incurred for internal and grant-sponsored research and development. Research and development expenses include salaries, contractor fees, facilities costs, utilities and allocations of benefits. Expenditures relating to research and development are expensed in the period incurred.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising costs were $4.2 million, $3.4 million and $2.8 million for the years ended January 3, 2010, December 28, 2008 and December 30, 2007, respectively.

Leases

Leases are reviewed and classified as capital or operating at their inception. For leases that contain rent escalations, the Company records the total rent payable on a straight-line basis over the term of the lease, which includes the construction build-out period but excludes lease extension periods. The difference between rent payments and straight-line rent expense is recorded in other long-term liabilities. Landlord allowances are also recorded in other long-term liabilities, which are amortized on a straight-line basis over the lease term as a reduction to rent expense.

Income Taxes

The provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for the expected future tax benefit to be derived from tax loss and credit carryforwards. Deferred tax assets and liabilities are determined using the enacted tax rates in effect for the years in which those tax assets are expected to be realized. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the provision for income taxes in the period that includes the enactment date.

Deferred tax assets are regularly assessed to determine the likelihood they will be recovered from future taxable income. A valuation allowance is established when the Company believes it is more likely than not the future realization of all or some of a deferred tax asset will not be achieved. In evaluating the ability to recover deferred tax assets within the jurisdiction which they arise the Company considers all available positive and negative evidence. Factors reviewed include the cumulative pre-tax book income for the past three years, scheduled reversals of deferred tax liabilities, history of earnings and reliable forecasting, projections of pre-tax book income over the foreseeable future, and the impact of any feasible and prudent tax planning strategies.

The Company recognizes excess tax benefits associated with share-based compensation to stockholders' equity only when realized. When assessing whether excess tax benefits relating to share-based compensation have been realized, the Company follows the with-and-without approach excluding any indirect effects of the excess tax deductions. Under this approach, excess tax benefits related to share-based compensation are not deemed to be realized until after the utilization of all other tax benefits available to the Company.

The Company recognizes the impact of a tax position in the financial statements only if that position is more likely than not of being sustained upon examination by taxing authorities, based on the technical merits of the position. Any interest and penalties related to uncertain tax positions will be reflected in income tax expense.

Functional Currency

Prior to the third quarter of 2008, the Company identified the local currency as the functional currency in each of its foreign subsidiaries, with all translation adjustments recorded as part of other comprehensive income. Beginning in the third quarter of 2008, the Company reorganized its international structure to execute a more efficient relationship between product development, product manufacturing and sales. This reorganization increased the foreign subsidiaries' dependence on the U.S. entity for management decisions, financial support, production assets and inventory, thereby making the foreign subsidiaries a direct and integral component of the U.S. entity's operations. As a result, the Company reassessed the primary economic environment of its foreign subsidiaries, resulting in a U.S. dollar functional currency determination. Beginning in the third quarter of 2008, the Company remeasures its foreign subsidiaries' assets and liabilities and revenue and expense accounts related to monetary assets and liabilities to the U.S. dollar and records the net gains or losses resulting from remeasurement in other income (expense), net in the consolidated statements of operations. Gains resulting from remeasurement were $0.4 million and $1.9 million for the years ended January 3, 2010 and December 28, 2008, respectively. There were no gains or losses resulting from remeasurement in the year ended December 30, 2007.

Derivatives

The Company is exposed to foreign exchange rate risks in the normal course of business. To manage a portion of the accounting exposure resulting from changes in foreign currency exchange rates, the Company enters into foreign exchange contracts to hedge monetary assets and liabilities that are denominated in currencies other than the functional currency of its subsidiaries. These foreign exchange contracts are carried at fair value and do not qualify for hedge accounting treatment and are not designated as hedging instruments. Changes in the value of the derivative are recognized in other income (expense), net, in the consolidated statements of operations for the current period, along with an offsetting gain or loss on the underlying assets or liabilities.

Stock-Based Compensation

The Company uses the Black-Scholes-Merton option-pricing model to estimate the fair value of stock options granted and stock purchases under the Employee Stock Purchase Plan (ESPP). This model incorporates various assumptions including expected volatility, expected option life, expected dividends, and the risk-free interest rates. The Company determines volatility by equally weighing the historical and implied volatility of the Company's common stock. The historical volatility of the Company's common stock over the most recent period is generally commensurate with the estimated expected life of the Company's stock options, adjusted for the impact of unusual fluctuations not reasonably expected to recur and other relevant factors. The implied volatility is calculated from the implied market volatility of exchange-traded call options on the Company's common stock. The expected life of an award is based on historical forfeiture experience, exercise activity, and on the terms and conditions of the stock awards granted to employees.

The assumptions used for the specified reporting periods and the resulting estimates of weighted-average fair value per share of options granted and for stock purchases under the ESPP during those periods are as follows:

	Year Ended		
	January 3, 2010	December 28, 2008	December 30, 2007
Interest rate — stock options	1.69 - 1.97%	2.31 - 3.52%	3.68 - 4.90%
Interest rate — stock purchases	0.28 - 2.90%	1.88 - 4.71%	4.71 - 4.86%
Volatility — stock options	55 - 58%	51 - 65%	55-70%
Volatility — stock purchases	48 - 58%	53 - 69%	69 - 76%
Expected life — stock options	5 years	5 - 6 years	6 years
Expected life — stock purchases	6 - 12 months	6 - 12 months	6 - 12 months
Expected dividend yield	0%	0%	0%
Weighted average fair value per share of options granted	$14.79	$18.31	$12.86
Weighted average fair value per share of employee stock purchases	$9.24	$11.45	$7.33

The fair value of restricted stock units granted during the years ended January 3, 2010 and December 28, 2008 was based on the market price of our common stock on the date of grant.

As of January 3, 2010, $153.1 million of total unrecognized compensation cost related to stock options, restricted stock and ESPP shares issued to date is expected to be recognized over a weighted-average period of approximately 1.67 years.

Total share-based compensation expense for employee stock options and stock purchases consists of the following (in thousands, except per share data):

	Year Ended		
	January 3, 2010	December 28, 2008	December 30, 2007
Cost of product revenue	$ 4,776	$ 4,710	$ 4,045
Cost of service and other revenue	514	400	279
Research and development	19,960	14,086	10,016
Selling, general and administrative	35,561	28,492	19,406
Share-based compensation expense before taxes	60,811	47,688	33,746
Related income tax benefits	(20,121)	(15,844)	(11,005)
Share-based compensation expense, net of taxes	$ 40,690	$ 31,844	$ 22,741
Net share-based compensation expense per share of common stock:			
Basic	$ 0.33	$ 0.27	$ 0.21
Diluted	$ 0.30	$ 0.24	$ 0.21

Net Income (Loss) per Share

On July 22, 2008, the Company announced a two-for-one stock split in the form of a 100% stock dividend with a record date of September 10, 2008 and a distribution date of September 22, 2008. Share and per share amounts have been restated to reflect the stock split for all periods presented.

Basic net income or loss per share is computed by dividing net income or loss by the weighted-average number of common shares outstanding during the reporting period. Diluted net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the reporting period increased to include dilutive potential common shares using the treasury stock method. Dilutive potential common shares consist of stock options with combined exercise prices and unrecognized compensation expense that are less than the average market price of the Company's common stock, restricted stock units with unrecognized compensation expense, convertible debt when the average market price of the Company's common stock is above the conversion price of $21.83 and warrants with exercise prices that are less than the average market price of the Company's common stock. Under the treasury stock method, the amount that must be paid to exercise stock options and warrants, the amount of compensation expense for future services that the Company has not yet recognized for stock options and restricted stock units and the amount of tax benefits that will be recorded in additional paid-in capital when the awards become deductible are assumed to be used to repurchase shares. In loss periods, basic net loss per share and diluted net loss per share are identical since the effect of dilutive potential common shares is anti-dilutive and therefore excluded.

The following table presents the calculation of weighted-average shares used to calculate basic and diluted net income (loss) per share (in thousands):

	Year Ended		
	January 3, 2010	December 28, 2008	December 30, 2007
Weighted-average shares outstanding	123,154	116,855	108,328
Less: Weighted-average shares of common stock subject to repurchase	—	—	(20)
Weighted-average shares used in calculating basic net income (loss) per share	123,154	116,855	108,308
Plus: Effect of dilutive Convertible Senior Notes	6,497	6,653	—
Plus: Effect of dilutive equity awards	4,335	5,373	—
Plus: Effect of dilutive warrants sold in connection with the Convertible Senior Notes	1,566	2,487	—
Plus: Effect of dilutive warrants assumed in the acquisition of Solexa	1,544	2,239	—
Weighted-average shares used in calculating diluted net income (loss) per share	137,096	133,607	108,308
Weighted average shares excluded from calculation due to anti-dilutive effect	924	370	42,882

Comprehensive Income

Comprehensive income (loss) is comprised of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on the Company's available-for-sale securities and foreign currency translation adjustments. The Company has disclosed comprehensive income as a component of stockholders' equity.

The components of accumulated other comprehensive income are as follows (in thousands):

	January 3, 2010	December 28, 2008
Foreign currency translation adjustments	$1,338	$1,338
Unrealized gain on available-for-sale securities, net of deferred tax	1,492	1,084
Total other comprehensive income	$2,830	$2,422

Recent Accounting Pronouncements

Adopted Accounting Pronouncements

Convertible Debt Instruments

In May 2008, the Financial Accounting Standards Board (FASB) issued authoritative guidance for convertible debt instruments that may be settled in cash upon conversion. The Company adopted the guidance effective December 29, 2008, impacting the accounting for the Company's convertible senior notes by requiring the Company to account separately for the liability and equity components of the convertible debt. The liability component is measured at its estimated fair value such that the effective interest expense associated with the convertible debt reflects the issuer's borrowing rate at the date of issuance for similar debt instruments without the conversion feature. The difference between the cash proceeds associated with the convertible debt and this estimated fair value is recorded as a debt discount and amortized to interest expense over the life of the convertible debt using the effective interest rate method. Upon application of this guidance, the only change to diluted earnings per share resulted from the effects of increased interest expense and the associated tax effects. The guidance requires retrospective application to the terms of instruments as they existed for all periods presented. See Note 7 for information on the impact of our adoption of the guidance and the assumptions we used to estimate the fair value of the liability component.

Derivatives

In June 2008, the FASB ratified authoritative guidance addressing the accounting for certain instruments (or embedded features) determined to be indexed to an entity's own stock. This guidance provides that an entity should use a two-step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock, including evaluating the instrument's contingent exercise and settlement provisions. The Company adopted this guidance effective December 29, 2008, requiring the Company to perform additional analyses on both its freestanding equity derivatives and embedded equity derivative features. However, the adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

Fair Value of Financial Instruments

In April 2009, the FASB issued additional authoritative guidance on the fair value of financial instruments, which provides:

- further provisions on estimating fair value when the markets become inactive and quoted prices reflect distressed transactions;
- extended disclosure requirements for interim financial statements regarding the fair value of financial instruments; and
- new criteria for recording impairment charges on investments in debt instruments.

The Company adopted the guidance on a prospective basis in the interim period ended June 28, 2009 without material impact on the Company's consolidated financial statements. Refer to Note 3 for further detailed discussion on the fair value of financial instruments.

Accounting for Subsequent Events

In May 2009, the FASB issued authoritative guidance related to general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Company adopted this guidance in the interim period ended June 28, 2009 without material impact on the Company's consolidated financial statements.

FASB Codification

In June 2009, the FASB issued authoritative guidance for the FASB Codification to become the source of authoritative, nongovernmental GAAP. The Codification did not change GAAP but reorganizes the literature. The Company adopted this guidance in the interim period ended September 27, 2009 without material impact on the Company's consolidated financial statements.

Revenue Recognition

In September 2009, the FASB ratified authoritative accounting guidance regarding revenue recognition for arrangements with multiple deliverables. The guidance affects the determination of separate units of accounting in arrangements with multiple deliverables and the allocation of transaction consideration to each of the identified units of accounting. Previously, a delivered item was considered a separate unit of accounting when it had value to the customer on a stand-alone basis and there was objective and reliable evidence of the fair value of the undelivered items. The new guidance eliminates the requirement for objective and reliable evidence of fair value to exist for the undelivered items in order for a delivered item to be treated as a separate unit of accounting. The guidance also requires arrangement consideration to be allocated at the inception of the arrangement to all deliverables using the relative-selling-price method and eliminates the use of the residual method of allocation. Under the relative-selling-price method, the selling price for each deliverable is determined using VSOE of selling price or third-party evidence of selling price if VSOE does not exist. If neither VSOE nor third-party evidence of selling price exists for a deliverable, the guidance requires an entity to determine the best estimate of the selling price.

The Company adopted the guidance on a prospective basis in the interim period ended September 27, 2009. Prospective application required the Company to apply the guidance to all revenue arrangements entered into or materially modified since the beginning of fiscal 2009. This prospective application had no impact on the Company's consolidated financial statements for the interim periods ended March 29, 2009 and June 28, 2009. During the third and fourth quarter of 2009, the Company recorded additional revenue of $2.3 million and $5.7 million respectively, which would have been deferred under previous accounting guidance. In future interim and fiscal year periods, the adoption of this guidance may have a material impact on the Company's financial results to the extent the Company enters into arrangements with multiple deliverables and does not have VSOE or third party evidence of selling price for material undelivered elements. Refer to the *Summary of Significant Accounting Principles* in Note 1 for further information on the Company's revenue recognition policies.

In September 2009, the FASB also ratified authoritative accounting guidance requiring the sales of all tangible products containing both software and non-software components that function together to deliver the product's essential functionality to be excluded from the scope of the software revenue guidance. The Company adopted the guidance on a prospective basis during the three months ended September 27, 2009 effective for all periods in 2009. Prior to the adoption of this guidance, the Company assessed all software items included in the Company's product offerings to be incidental to the product itself and, therefore,

excluded all sales from the scope of the related software revenue guidance. As a result, the adoption of this guidance had no impact on the Company's consolidated financial statements.

Definition of a Business

During 2009, the FASB revised guidance related to business combinations, which changed the definition of a business. Previously, a business was defined as having three elements: (i) inputs, (ii) processes applied to those inputs, and (iii) outputs. The new guidance broadens the definition and no longer requires the third element to be present for a set of activities and assets to be considered a business. The Company has adopted this guidance for the interim period ending January 3, 2010. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

Fair Value of Liabilities

In August 2009, the FASB issued authoritative guidance related to measuring liabilities at fair value when a quoted price in an active market is not available. This guidance is effective for reporting periods beginning after August 28, 2009. The Company has adopted this guidance in the interim period ending January 3, 2010. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

New Accounting Pronouncements

Variable Interest Entities

In June 2009, the FASB issued authoritative guidance that amends the evaluation criteria to identify the primary beneficiary of a variable interest entity and requires a quarterly reassessment of the treatment of such entities. The guidance also requires additional disclosures about an enterprise's involvement in a variable interest entity. The Company will adopt this guidance in the first interim period of fiscal 2010 and is currently evaluating the impact of the pending adoption on the consolidated financial statements.

2. Balance Sheet Account Details

Accounts receivable consist of the following (in thousands):

	January 3, 2010	December 28, 2008
Accounts receivable from product and service sales	$157,536	$132,564
Other receivables	1,613	1,840
	159,149	134,404
Allowance for doubtful accounts	(1,398)	(1,138)
Total	$157,751	$133,266

Inventory, net, consists of the following (in thousands):

	January 3, 2010	December 28, 2008
Raw materials	$39,144	$32,501
Work in process	51,670	34,063
Finished goods	1,962	6,867
Total inventory, net	$92,776	$73,431

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

	January 3, 2010	December 28, 2008
Leasehold improvements	$ 55,322	$ 26,637
Manufacturing and laboratory equipment	92,956	83,317
Computer equipment and software	37,071	27,490
Furniture and fixtures	5,993	4,167
	191,342	141,611
Accumulated depreciation and amortization	(74,154)	(52,175)
Total	$117,188	$ 89,436

Depreciation expense was $24.5 million, $17.3 million and $11.5 million for the years ended January 3, 2010, December 28, 2008 and December 30, 2007, respectively.

Accrued liabilities consist of the following (in thousands):

	January 3, 2010	December 28, 2008
Compensation	$32,487	$30,330
Short-term deferred revenue	27,445	15,862
Taxes	12,109	9,456
Reserve for product warranties	10,215	8,203
Customer deposits	6,121	6,583
Accrued royalties	2,552	2,695
Legal and other professional fees	1,818	1,708
Other	5,506	5,518
Total	$98,253	$80,355

3. Short-term investments

The following is a summary of short-term investments (in thousands):

	January 3, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
Debt securities in government sponsored entities	$289,101	$ 702	$ (102)	$289,701
Corporate debt securities	190,949	2,039	(166)	192,822
U.S. treasury securities	11,487	12	(28)	11,471
Total available-for-sale securities	491,537	2,753	(296)	493,994
Trading securities:				
Auction rate securities	54,900	—	(6,129)	48,771
Put option	—	6,129	—	6,129
Total trading securities	54,900	6,129	(6,129)	54,900
Total short-term investments	$546,437	$8,882	$(6,425)	$548,894

	December 28, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
Debt securities in government sponsored entities	$218,964	$1,544	$ —	$220,508
Corporate debt securities	92,301	547	(305)	92,543
Total	$311,265	$2,091	$(305)	$313,051

Available-For-Sale Securities

As of January 3, 2010, the Company had 38 available-for-sale securities in a gross unrealized loss position, all of which had been in such position for less than twelve months. All impairments are not considered other than temporary as it is likely the Company will not have to sell any securities before the recovery of their cost basis and it is not the Company's intent to do so. The following table shows the fair values and the gross unrealized losses of the Company's available-for-sale securities that were in an unrealized loss position at January 3, 2010 and December 28, 2008 aggregated by investment category (in thousands):

	January 3, 2010		December 28, 2008	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Government sponsored entities	$ 73,783	$(102)	$ —	$ —
Corporate debt securities	26,488	(166)	19,240	(305)
U.S. treasury securities	4,471	(28)	—	—
Total	$104,742	$(296)	$19,240	$(305)

Realized gains and losses are determined based on the specific identification method and are reported in other income (expense), net in the consolidated statements of operations. Gross realized losses on sales of available-for-sale securities were immaterial for the years ended January 3, 2010, December 28, 2008 and December 30, 2007. Gross realized gains on sales of available-for-sale securities totaled $1.0 million and $0.6 million for the years ended January 3, 2010 and December 28, 2008 respectively, and were immaterial for the year ended December 30, 2007.

Contractual maturities of available-for-sale securities at January 3, 2010 were as follows (in thousands):

	Estimated Fair Value
Due within one year	$169,671
After one but within five years	324,323
Total	$493,994

Trading Securities

At January 3, 2010, the Company's trading securities consisted of $54.9 million (at cost) in auction rate securities issued primarily by municipalities and universities. The auction rate securities are held in a brokerage account with UBS Financial Services, Inc., a subsidiary of UBS. These securities are debt instruments with a long-term maturity and with an interest rate that is reset in short intervals through auctions.

The markets for auction rate securities effectively ceased when the vast majority of auctions failed in February 2008, preventing investors from selling these securities. As of January 3, 2010, the securities continued to fail auction and remained illiquid. Changes in the fair value of the Company's auction rate securities from December 28, 2008 through January 3, 2010 are as follows (in thousands):

Fair value as of December 28, 2008	$47,235
Redeemed by issuer	(1,000)
Unrealized Gain(1)	2,536
Fair value as of January 3, 2010	$48,771

(1) Unrealized gains and losses associated with the Company's auction rate securities are classified as other income (expense), net in the consolidated statements of operations for the year ended January 3, 2010.

In determining the fair value of the Company's auction rate securities, the Company considered trades in the secondary market. However, due to the auction failures of the auction rate securities in the marketplace and the lack of trading in the secondary market of these instruments, there was insufficient observable auction rate security market information available to directly determine the fair value of the Company's investments. As a result, the value of these securities and resulting unrealized gain was determined using Level 3 hierarchical inputs. These inputs include management's assumptions of pricing by market participants, including assumptions about risk. The Company used the concepts of fair value based on estimated discounted future cash flows of interest income over a projected 17 year period, which is reflective of the weighted average life of the student loans in the underlying trust. In preparing this model, the Company used historical data of the rates upon which a majority of the auction rate securities' contractual rates were based, such as the LIBOR and average trailing twelve-month 90-day treasury interest rate spreads, to estimate future interest rates. The Company also considered the discount factors, taking into account the credit ratings of the auction rate securities, using a range of discount rates from 5.9% to 7.2%. The Company obtained information from multiple sources, including UBS, to determine a reasonable range of assumptions to use in valuing the auction rate securities. The Company's model was corroborated by a separate comparable cash flow analysis prepared by UBS. To understand the sensitivity of the Company's valuation, the liquidity factor and estimated

remaining life was varied. Variations in those results were evaluated and it was determined the factors and valuation method chosen were reasonable and representative of the Company's auction rate security portfolio.

As a result of the auction rate failures, various regulatory agencies initiated investigations into the sales and marketing practices of several banks and broker-dealers, including UBS, which sold auction rate securities, alleging violations of federal and state laws. Along with several other broker-dealers, UBS subsequently reached a settlement with the federal and state regulators that required them to repurchase auction rate securities from certain investors at par at some future date. In November 2008, the Company signed a settlement agreement granting the Company an option to sell its auction rate securities at par value to UBS during the period of June 30, 2010 through July 2, 2012 (the Settlement). In accepting the Settlement, the Company released UBS from any claims relating to the marketing and sale of auction rate securities. Although the Company expects to sell its auction rate securities under the Settlement, if the Settlement is not exercised before July 2, 2012, it will expire and UBS will have no further rights or obligation to buy the Company's auction rate securities. In lieu of the acceptance of the Settlement, the auction rate securities will continue to accrue interest as determined by the auction process or the terms outlined in the prospectus of the auction rate securities if the auction process fails. In addition to offering to repurchase the Company's auction rate securities, as part of the Settlement, UBS has agreed to provide the Company with a "no net cost" loan up to 75% of the par value of the auction rate securities until June 30, 2010. According to the terms of the Settlement, the interest rate on the loan will approximate the weighted average interest or dividend rate payable to the Company by the issuer of any auction rate securities pledged as collateral.

UBS's obligations under the Settlement are not secured by its assets and do not require UBS to obtain any financing to support its performance obligations under the Settlement. UBS has disclaimed any assurance that it will have sufficient financial resources to satisfy its obligations under the Settlement.

To account for the Settlement, the Company recorded a separate freestanding asset (put option) of $8.7 million and recognized a corresponding gain in earnings during the fourth quarter of 2008. Changes in the fair value of the Company's put option from December 28, 2008 through January 3, 2010 are as follows (in thousands):

Fair value as of December 28, 2008	$ 8,665
Unrealized loss(1)	(2,536)
Fair value as of January 3, 2010	$ 6,129

(1) Unrealized gains and losses associated with the Company's put option are classified as other income (expense), net in the consolidated statements of operations for the year ended January 3, 2010.

Since the put option does not meet the definition of a derivative instrument, the Company elected to measure it at fair value in accordance with authoritative guidance related to the fair value option for financial assets and financial liabilities. The Company valued the put option using a discounted cash flow approach including estimates of interest rates, timing and amount of cash flow, with consideration given to UBS's financial ability to repurchase the auction rate securities beginning June 30, 2010. These assumptions are volatile and subject to change as the underlying sources of these assumptions and market conditions change.

The Company will continue to recognize gains and losses in earnings approximating the changes in the fair value of the auction rate securities at each balance sheet date. These gains and losses are expected to be approximately offset by changes in the fair value of the put option.

The fair value of the auction rate securities and the put option total $54.9 million and $55.9 million at January 3, 2010 and December 28, 2008, respectively. At January 3, 2010, the auction rate securities were classified as short-term investments as the Company intends to exercise the right to sell the securities back to UBS within the next year. At December 28, 2008, the Company classified these securities as long-term assets

since the Company believed it would not able to liquidate its investments without significant loss during the year ended January 3, 2010.

4. Intangible Assets

The Company's intangible assets are comprised primarily of licensed technology from the Affymetrix settlement entered into on January 9, 2008 and acquired core technology and customer relationships from the acquisition of Solexa. As a result of the Affymetrix settlement, the Company agreed, without admitting liability, to make a one-time payment to Affymetrix of $90.0 million. In return, Affymetrix agreed to dismiss with prejudice all lawsuits it had brought against the Company, and the Company agreed to dismiss with prejudice its counterclaims in the relevant lawsuits. Affymetrix also agreed not to sue the Company or its affiliates or customers for making, using or selling any of the Company's current products, evolutions of those products or services related to those products. In addition, Affymetrix agreed that, for four years, it will not sue the Company for making, using or selling the Company's products or services that are based on future technology developments. The covenant not to sue covers all fields other than photolithography, the process by which Affymetrix manufactures its arrays and a field in which the Company does not operate.

Of the total $90.0 million payment made on January 25, 2008, $36.0 million was recorded as licensed technology and classified as an intangible asset. The remaining $54.0 million was charged to expense during the fourth quarter of 2007. This allocation was determined based on the fair value of past and estimated future revenue streams related to the products covered by the patents previously under dispute. The value of the licensed technology is the benefit derived, calculated using estimated discounted cash flows and future revenue projections, from the perpetual covenant not to sue for damages related to the sale of the Company's current products. The effective life of the licensed technology extends through 2015, the final expiry date of all patents considered in valuing the intangible asset. The related amortization is based on the higher of the percentage of usage or the straight-line method. The percentage of usage was determined using actual and projected revenues generated from products covered by the patents previously under dispute.

Acquired core technology and customer relationships are being amortized on a straight-line basis over their effective useful lives of ten and three years, respectively. The amortization of the Company's intangible assets is excluded from cost of product revenue and is separately classified as amortization of intangible assets on the Company's consolidated statements of operations.

The following is a summary of the Company's amortizable intangible assets as of the respective balance sheet dates (in thousands):

	January 3, 2010			December 28, 2008		
	Gross Carrying Amount	Accumulated Amortization	Intangibles, Net	Gross Carrying Amount	Accumulated Amortization	Intangibles, Net
Licensed technology	$36,000	$(11,820)	$24,180	$36,000	$ (7,788)	$28,212
Core technology	23,500	(6,854)	16,646	23,500	(4,504)	18,996
Customer relationships	900	(875)	25	900	(575)	325
License agreements	4,456	(1,519)	2,937	1,154	(932)	222
Total intangible assets, net	$64,856	$(21,068)	$43,788	$61,554	$(13,799)	$47,755

Amortization expense associated with the intangible assets was $6.7 million and $10.4 million for the years ended January 3, 2010 and December 28, 2008, respectively.

The estimated annual amortization of intangible assets for the next five years is shown in the following table (in thousands). Actual amortization expense to be reported in future periods could differ from these estimates as a result of acquisitions, divestitures, asset impairments and other factors.

2010	$ 6,816
2011	6,781
2012	6,770
2013	6,755
2014	6,736
Thereafter	9,930
Total	$43,788

5. Impairment of Manufacturing Equipment

During fiscal 2008, the Company implemented next-generation imaging and decoding systems to be used in manufacturing. These systems were developed to increase existing capacity and allow the Company to transition to the Infinium High-Density (HD) product line. As a result of this transition, the demand for products manufactured on the previous infrastructure was reduced and certain systems were no longer being utilized. A non-cash impairment charge of $4.1 million was recorded in the second quarter of fiscal 2008 for the excess machinery. This charge is included as a separate line item in the Company's consolidated statement of operations. There was no change to useful lives and related depreciation expense of the remaining assets as the Company believes these estimates are currently reflective of the period the assets will be used in operations.

6. Warranties

The Company generally provides a one-year warranty on genotyping, gene expression and sequencing systems. Additionally, the Company provides a warranty on its consumable sales through the expiry date, which generally ranges from six to twelve months after the manufacture date. At the time revenue is recognized, the Company establishes an accrual for estimated warranty expenses based on historical experience as well as anticipated product performance. This expense is recorded as a component of cost of product revenue. Estimated warranty expenses associated with extended maintenance contracts for systems are recorded as a cost of service and other revenue ratably over the term of the maintenance contract.

Changes in the Company's reserve for product warranties from January 1, 2007 through January 3, 2010 are as follows (in thousands):

Balance as of January 1, 2007	$ 996
Additions charged to cost of revenue	4,939
Repairs and replacements	(2,219)
Balance as of December 30, 2007	3,716
Additions charged to cost of revenue	13,044
Repairs and replacements	(8,557)
Balance as of December 28, 2008	8,203
Additions charged to cost of revenue	14,613
Repairs and replacements	(12,601)
Balance as of January 3, 2010	$ 10,215

7. Convertible Senior Notes

On February 16, 2007, the Company issued $400.0 million principal amount of 0.625% convertible senior notes due 2014. The net proceeds from the offering, after deducting the initial purchasers' discount and offering expenses, were approximately $390.3 million. The Company will pay 0.625% interest per annum on the principal amount of the notes, payable semi-annually in arrears in cash on February 15 and August 15 of each year. The Company made interest payments of $1.2 million on February 15, 2009 and August 15, 2009. The notes mature on February 15, 2014.

The notes will be convertible into cash and, if applicable, shares of the Company's common stock, $0.01 par value per share, based on a conversion rate, subject to adjustment, of 45.8058 shares per $1,000 principal amount of notes (which represents a conversion price of approximately $21.83 per share), only in the following circumstances and to the following extent: (1) during the five business-day period after any five consecutive trading-day period (the measurement period) in which the trading price per note for each day of such measurement period was less than 97% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such day; (2) during any calendar quarter, if the last reported sale price of the Company's common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 130% of the applicable conversion price in effect on the last trading day of the immediately preceding calendar quarter; (3) upon the occurrence of specified events; and (4) at any time on or after November 15, 2013 through the third scheduled trading day immediately preceding the maturity date. The requirements of the second condition above were satisfied during the first, second and third quarters of 2009. Accordingly, the notes were convertible during the period from, and including, April 1, 2009 through, and including, December 31, 2009. Additionally, these same requirements were satisfied during the third quarter of 2008, and, as a result, the notes were convertible during the period from, and including, October 1, 2008 through, and including, December 31, 2008. On December 29, 2008, a noteholder converted notes in an aggregate principal amount of $10.0 million. On February 4, 2009, the settlement date, we paid the noteholder the conversion value of the notes in cash, up to the principal amount of the notes. The excess of the conversion value over the principal amount, totaling $2.9 million, was paid in shares of common stock. This equity dilution upon conversion of the notes was offset by the reacquisition of the shares under the convertible note hedge transactions entered into in connection with the offering of the notes.

The hedge transaction entered with the initial purchasers and/or their affiliates (the hedge counterparties) entitles the Company to purchase up to 18,322,320 shares of the Company's common stock at a strike price of approximately $21.83 per share, subject to adjustment. In addition, the Company sold to these hedge counterparties warrants exercisable, on a cashless basis, for up to 18,322,320 shares of the Company's common stock at a strike price of $31.435 per share, subject to adjustment. The cost of the hedge transaction that was not covered by the proceeds from the sale of the warrants was approximately $46.6 million and was reflected as a reduction of additional paid-in capital. The hedge transaction is expected to reduce the potential equity dilution upon conversion of the notes to the extent the Company exercises the hedge to purchase shares from the hedge counterparties to deliver to converting noteholders. However, the warrants could have a dilutive effect on the Company's earnings per share to the extent that the price of the Company's common stock exceeds the strike price of the warrants.

Impact of the Adoption of Authoritative Guidance Related to Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion

See Note 1 for a description of the Company's adoption of authoritative guidance related to accounting for convertible debt instruments that may be settled in cash upon conversion. The following table summarizes

the effects of this new guidance on the Company's consolidated balance sheets as of January 3, 2010 and its consolidated statements of operations for the year ended January 3, 2010 (in thousands except per share data).

	January 3, 2010 Adjustments
Assets:	
Prepaid expenses and other current assets	$ (2,051)
Deferred tax assets, long-term portion	(38,135)
Total assets	(40,186)
Liabilities and Stockholders' Equity:	
Current portion of long-term debt	(99,797)
Conversion option subject to cash settlement	99,797
Stockholder's equity	(40,186)
Total liabilities and stockholders' equity	(40,186)

	Year Ended January 3, 2010 Adjustments
Income from operations	$ —
Interest expense	(19,656)*
Other income (expense), net	767
Provision for income taxes	(7,691)
Net income	(11,198)
Net income per basic share	(0.09)
Net income per diluted share	(0.08)

* These adjustments include only non-cash interest expense. Cash interest expense for the year ended January 3, 2010 totaled $2.4 million.

In addition, we have included below reconciliations (in thousands, except per share data) between amounts reported in previous filings as of December 28, 2008 to the amounts reported in the current filing for the same period to reflect retroactive adjustments.

	December 28, 2008		
	Pre adoption	Adjustments	Post adoption
Assets:			
Prepaid expenses and other current assets	$ 9,530	$ 4,624	$ 14,154
Deferred tax assets, long-term portion	93,603	(47,361)	46,242
Other assets	12,017	(7,192)	4,825
Total assets	1,377,100	(49,929)	1,327,171
Liabilities and Stockholders' Equity:			
Current portion of long-term debt	399,999	(123,110)	276,889
Conversion option subject to cash settlement	—	123,110	123,110
Stockholder's equity	848,596	(49,929)	798,667
Total liabilities and stockholders' equity	1,377,100	(49,929)	1,327,171

	Year Ended					
	December 28, 2008			December 30, 2007		
	Pre adoption	Adjustments	Post adoption	Pre adoption	Adjustments	Post adoption
Income (loss) from operations	$80,457	$ —	$ 80,457	$(301,201)	$ —	$(301,201)
Interest expense	(3,991)	(18,219)*	(22,210)	(3,562)	(14,735)*	(18,297)
Provision (benefit) for income taxes	40,429	(7,158)	33,271	(10,426)	(5,789)	(16,215)
Net income (loss)	50,477	(11,061)	39,416	(278,359)	(8,946)	(287,305)
Net income (loss) per basic share	0.43	(0.09)	0.34	(2.57)	(0.08)	(2.65)
Net income (loss) per diluted share	0.38	(0.08)	0.30	(2.57)	(0.08)	(2.65)

* These adjustments include only non-cash interest expense. Cash interest expense for the year ended December 28, 2008 and December 30, 2007 totaled $2.6 million and $1.4 million, respectively.

The new guidance requires the carrying amount of the liability component to be estimated by measuring the fair value of a similar liability that does not have an associated conversion feature. As the Company was unable to find any other comparable companies in industry and size with outstanding non-convertible public debt, the Company determined that senior, unsecured corporate bonds represent a similar liability to the convertible senior notes without the conversion option. To measure the fair value of the similar liability at February 16, 2007, the Company estimated an interest rate using assumptions that market participants would use in pricing the liability component, including market interest rates, credit standing, yield curves and volatilities, all of which are defined as Level 2 Observable Inputs. The estimated interest rate of 8.27% was applied to the convertible senior notes and coupon interest using a present value technique to arrive at the fair value of the liability component. The difference between the cash proceeds associated with the convertible debt and this estimated fair value of the liability component is recorded as an equity component. We classified a portion of the equity component as temporary equity measured as the excess of a) the amount of cash that would be required to be paid upon conversion over b) the current carrying amount of the liability-classified component. This amount is reflected within conversion option subject to cash settlement in the consolidated balance sheets.

As of December 28, 2008, the principal amount of the convertible senior notes was $400.0 million and the unamortized discount was $123.1 million resulting in a net carrying amount of the liability component of $276.9 million. As of January 3, 2010, the principal amount of the liability component was $390.0 million due to the conversion of $10.0 million of the notes during the first quarter of 2009. Upon conversion, the Company recorded a gain of $0.8 million in the first quarter of 2009, calculated as the difference between the carrying amount of the converted notes and their estimated fair value as of the settlement date. To measure the fair value of the converted notes as of the settlement date, the Company calculated an interest rate of 11.3% using Level 2 Observable Inputs. This rate was applied to the converted notes and coupon interest rate using the same present value technique used in the issuance date valuation. The unamortized discount on the remaining convertible senior notes as of January 3, 2010 was $99.8 million, resulting in a net carrying amount of $290.2 million. The remaining period over which the discount on the liability component will be amortized is 4.12 years.

8. Commitments

Operating Leases

The Company leases office and manufacturing facilities under various noncancellable operating lease agreements. Facilities leases generally provide for periodic rent increases, and many contain escalation clauses and renewal options. Certain leases require the Company to pay property taxes and routine maintenance. The Company is headquartered in San Diego, California and leases facilities in Hayward, California, the United Kingdom, The Netherlands, Japan, Singapore, Australia and China.

Annual future minimum payments under these operating leases as of January 3, 2010 were as follows (in thousands):

2010	$ 11,668
2011	12,393
2012	12,477
2013	11,907
2014	10,403
Thereafter	89,567
Total	$148,415

Rent expense, net of amortization of the deferred gain on sale of property, was $13.6 million, $10.7 million and $7.7 million for the years ended January 3, 2010, December 28, 2008 and December 30, 2007, respectively.

9. Stockholders' Equity

Common Stock

On July 22, 2008, the Company announced a two-for-one stock split in the form of a 100% stock dividend with a record date of September 10, 2008 and a distribution date of September 22, 2008. Share and per share amounts have been restated to reflect the stock split for all periods presented.

On August 12, 2008, a total of 8,050,000 shares were sold to the public at a public offering price of $43.75 per share, raising net proceeds to the Company of $342.7 million, after deducting underwriting discounts and commissions and offering expenses.

On January 3, 2010, the Company had 119,475,815 shares of common stock outstanding.

Stock Options

On January 3, 2010, the Company had three active stock plans: the 2005 Stock and Incentive Plan (the 2005 Stock Plan), the 2005 Solexa Equity Incentive Plan (the 2005 Solexa Equity Plan) and the New Hire Stock and Incentive Plan. As of January 3, 2010, options to purchase 7,280,267 shares remained available for future grant under the 2005 Stock Plan and 2005 Solexa Equity Plan. There is no set number of shares reserved for issuance under the New Hire Stock and Incentive Plan.

Stock options granted at the time of hire primarily vest over a four or five-year period, with 20% or 25% of options vesting on the first anniversary of the grant date and the remaining options vesting monthly over the remaining vesting period. Stock options granted subsequent to hiring primarily vest monthly over a four or five-year period. Each grant of options has a maximum term of ten years, measured from the applicable grant date, subject to earlier termination if the optionee's service with us ceases. Vesting in all cases is subject to

the individual's continued service to us through the vesting date. The Company satisfies option exercises through the issuance of new shares.

The Company's stock option activity under all stock option plans from January 1, 2007 through January 3, 2010 is as follows:

	Options	Weighted-Average Exercise Price
Outstanding at January 1, 2007	16,718,240	$ 6.97
Options assumed through business combination	2,848,664	$10.69
Granted	7,569,016	$20.32
Exercised	(4,358,572)	$ 6.03
Cancelled	(1,929,480)	$11.19
Outstanding at December 30, 2007	20,847,868	$12.13
Granted	3,091,108	$34.23
Exercised	(4,571,855)	$ 8.52
Cancelled	(1,232,917)	$19.93
Outstanding at December 28, 2008	18,134,204	$16.26
Granted	1,560,024	$28.86
Exercised	(2,965,606)	$10.56
Cancelled	(639,184)	$14.88
Outstanding at January 3, 2010	16,089,438	$18.59

The following is a further breakdown of the options outstanding as of January 3, 2010:

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price of Options Exercisable
$0.20-4.26	1,969,183	3.25	$ 3.36	1,602,420	$ 3.15
$4.30-6.85	1,676,898	4.99	$ 5.41	1,449,009	$ 5.31
$6.87-13.30	1,803,330	5.66	$10.75	1,312,461	$10.71
$13.43-17.58	1,624,453	6.90	$15.62	869,862	$15.58
$17.60-19.61	1,371,403	6.87	$18.74	718,826	$18.74
$19.71-20.04	1,888,561	6.96	$20.03	934,462	$20.04
$20.12-27.97	1,673,797	8.09	$24.38	496,340	$23.76
$28.03-32.49	2,197,532	8.20	$29.97	727,353	$30.49
$32.58-41.37	1,624,281	8.29	$35.05	650,680	$35.46
$42.02-44.38	260,000	8.58	$44.11	87,291	$44.09
$0.20-44.38	16,089,438	6.59	$18.59	8,848,704	$15.08

The weighted average remaining life in years of options exercisable is 6.14 years as of January 3, 2010.

The aggregate intrinsic value of options outstanding and options exercisable as of January 3, 2010 was $194.5 million and $107.0 million, respectively. Aggregate intrinsic value represents the difference between the Company's closing stock price per share on the last trading day of the fiscal period, which was $30.68 as

of December 31, 2009, and the exercise price multiplied by the number of options outstanding. Total intrinsic value of options exercised was $73.4 million, $136.6 million and $72.1 million for the years ended January 3, 2010, December 28, 2008 and December 30, 2007, respectively.

Employee Stock Purchase Plan

In February 2000, the board of directors and stockholders adopted the 2000 ESPP. A total of 15,467,426 shares of the Company's common stock have been reserved for issuance under the ESPP. The ESPP permits eligible employees to purchase common stock at a discount, but only through payroll deductions, during defined offering periods.

The price at which stock is purchased under the ESPP is equal to 85% of the fair market value of the common stock on the first or last day of the offering period, whichever is lower. The initial offering period commenced in July 2000. In addition, beginning with fiscal 2001, the ESPP provides for annual increases of shares available for issuance by the lesser of 3% of the number of outstanding shares of the Company's common stock on the last day of the immediately preceding fiscal year, 3,000,000 shares or such lesser amount as determined by the Company's board of directors. Shares totaling 359,713, 276,198 and 266,962 were issued under the ESPP during fiscal 2009, 2008 and 2007, respectively. As of January 3, 2010, there were 13,434,449 shares available for issuance under the ESPP.

Restricted Stock Units

In 2007 the Company began granting restricted stock units pursuant to its 2005 Stock and Incentive Plan as part of its periodic employee equity compensation review program. Restricted stock units are share awards that, upon vesting, will deliver to the holder shares of the Company's common stock. Restricted stock units granted during 2007 vest over four years as follows: 15% vest on the first and second anniversaries of the grant date, 30% vest on the third anniversary of the grant date and 40% vest on the fourth anniversary of the grant date. Effective January 2008, the Company changed the vesting schedule for grants of new restricted stock units. Currently, restricted stock units vest 15% on the first anniversary of the grant date, 20% on the second anniversary of the grant date, 30% on the third anniversary of the grant date and 35% on the fourth anniversary of the grant date. The Company satisfies restricted stock units vesting through the issuance of new shares.

A summary of the Company's restricted stock unit activity and related information from January 1, 2007 through January 3, 2010 is as follows:

	Restricted Stock Units(1)
Outstanding at December 30, 2007	394,500
Awarded	1,287,504
Vested	(55,638)
Cancelled	(47,090)
Outstanding at December 28, 2008	1,579,276
Awarded	1,292,473
Vested	(246,055)
Cancelled	(116,986)
Outstanding at January 3, 2010	2,508,708

(1) Each stock unit represents the fair market value of one share of common stock.

The weighted average grant-date fair value per share for the restricted stock units was $32.32 and $34.53 for the years ended January 3, 2010 and December 28, 2008, respectively. No restricted stock units were outstanding as of December 30, 2007.

Based on the closing price per share of the Company's common stock of $30.68 on December 31, 2009, the total pretax intrinsic value of all outstanding restricted stock units on that date was $81.1 million.

Warrants

In conjunction with its acquisition of Solexa, Inc. on January 26, 2007, the Company assumed 4,489,686 warrants issued by Solexa prior to the acquisition. During the year ended January 3, 2010, there were 954,376 warrants exercised, resulting in cash proceeds to the Company of approximately $7.6 million. As of January 3, 2010, 252,164 of the assumed warrants had expired.

A summary of all warrants outstanding as of January 3, 2010 is as follows:

Number of Shares	Exercise Price	Expiration Date
16,380	$ 7.27	4/25/2010
307,132	$ 7.27	7/12/2010
732,230	$10.91	11/23/2010
1,027,412	$10.91	1/19/2011
18,322,320(1)	$31.44	2/15/2014
20,405,474		

(1) Represents warrants sold in connection with the offering of the Company's convertible senior notes (See Note 7).

Treasury Stock

In October 2008, the board of directors authorized a $120.0 million stock repurchase program. In fiscal 2008, the Company repurchased 3.1 million shares for $70.8 million under the program.

In July 2009, the board of directors authorized a $75.0 million stock repurchase program and concurrently terminated the $120.0 million stock repurchase program authorized in October 2008. In November 2009, upon the completion of the repurchase program authorized in July 2009, our board of directors authorized an additional $100.0 million stock repurchase program. In fiscal 2009, the Company repurchased a total of 6.1 million shares for $175.1 million under both programs in open-market transactions or through privately negotiated transactions in compliance with Rule 10b-18 under the Securities Exchange Act of 1934.

Stockholder Rights Plan

On May 3, 2001, the board of directors of the Company declared a dividend of one preferred share purchase right (a Right) for each outstanding share of common stock of the Company. The dividend was payable on May 14, 2001 (the Record Date) to the stockholders of record on that date. Each Right entitles the registered holder to purchase from the Company one unit consisting of one-thousandth of a share of its Series A Junior Participating Preferred Stock at a price of $100 per unit. The Rights will be exercisable if a person or group hereafter acquires beneficial ownership of 15% or more of the outstanding common stock of the Company or announces an offer for 15% or more of the outstanding common stock. If a person or group acquires 15% or more of the outstanding common stock of the Company, each Right will entitle its holder to purchase, at the exercise price of the Right, a number of shares of common stock having a market value of

two times the exercise price of the Right. If the Company is acquired in a merger or other business combination transaction after a person acquires 15% or more of the Company's common stock, each Right will entitle its holder to purchase, at the Right's then-current exercise price, a number of common shares of the acquiring company which at the time of such transaction have a market value of two times the exercise price of the Right. The board of directors will be entitled to redeem the Rights at a price of $0.01 per Right at any time before any such person acquires beneficial ownership of 15% or more of the outstanding common stock. The Rights expire on May 14, 2011 unless such date is extended or the Rights are earlier redeemed or exchanged by the Company.

10. Legal Proceedings

From time to time, we are party to litigation and other legal proceedings in the ordinary course, and incidental to the conduct, of our business. While the results of any litigation or other legal proceedings are uncertain, management does not believe the ultimate resolution of any pending legal matters is likely to have a material adverse effect on our financial position or results of operations.

11. Income Taxes

The income (loss) before income taxes summarized by region is as follows (in thousands):

	Year Ended		
	January 3, 2010	December 28, 2008	December 30, 2007
United States	$ 65,081	$46,205	$ 43,710
Foreign	49,044	26,482	(347,230)
Total income (loss) before income taxes	$114,125	$72,687	$(303,520)

The provision (benefit) for income taxes consists of the following (in thousands):

	Year Ended		
	January 3, 2010	December 28, 2008	December 30, 2007
Current:			
Federal	$ 43,565	$13,868	$ 18,564
State	2,511	2,134	4,801
Foreign	6,204	5,042	(2,172)
Total current provision	52,280	21,044	21,193
Deferred:			
Federal	(14,607)	11,700	(25,071)
State	5,184	901	(12,594)
Foreign	(1,013)	(374)	257
Total deferred provision	(10,436)	12,227	(37,408)
Total tax provision (benefit)	$ 41,844	$33,271	$(16,215)

The provision (benefit) for income taxes reconciles to the amount computed by applying the federal statutory rate to income (loss) before taxes as follows (in thousands):

	Year Ended		
	January 3, 2010	December 28, 2008	December 30, 2007
Tax at federal statutory rate	$39,944	$25,440	$(106,232)
State, net of federal benefit	4,275	3,461	(10,304)
Research and other credits	(4,050)	(4,060)	(3,118)
Acquired in-process research & development	4,386	9,508	116,916
Change in valuation allowance	(1,967)	(6,892)	(17,125)
Permanent differences	2,093	1,449	653
Foreign rate adjustments	(5,400)	4,124	3,160
Other	2,563	241	(165)
Total tax provision (benefit)	$41,844	$33,271	$ (16,215)

Significant components of the Company's deferred tax assets and liabilities are as follows (in thousands):

	January 3, 2010	December 28, 2008
Deferred tax assets:		
Net operating losses	$ 15,869	$ 33,839
Tax credits	18,681	19,139
Other accruals and reserves	17,813	11,341
Stock compensation	25,442	15,962
Inventory capitalization	4,172	3,555
Other amortization	4,216	3,101
Other	10,808	6,612
Total deferred tax assets	97,001	93,549
Valuation allowance on deferred tax assets	(14,852)	(15,200)
Net deferred tax assets	82,149	78,349
Deferred tax liabilities:		
Purchased intangible amortization	(5,043)	(5,985)
Accrued litigation settlements	(3,810)	(11,084)
Convertible debt	(3,901)	(4,905)
Other	(2,810)	(1,498)
Total deferred tax liabilities	(15,564)	(23,472)
Net deferred tax assets	$ 66,585	$ 54,877

A valuation allowance is established when it is more likely than not the future realization of all or some of the deferred tax assets will not be achieved. The evaluation of the need for a valuation allowance is performed on a jurisdiction-by-jurisdiction basis, and includes a review of all available positive and negative evidence. Based on the available evidence as of January 3, 2010, the Company was not able to conclude it is more likely than not certain U.S. and foreign deferred tax assets will be realized. Therefore, the Company

recorded a valuation allowance of $2.8 million and $12.1 million against certain U.S. and foreign net deferred tax assets, respectively.

As of January 3, 2010, the Company had net operating loss carryforwards for federal and state tax purposes of $25.4 million and $132.1 million, respectively, which begin to expire in 2012 and 2013, respectively, unless previously utilized. In addition, the Company also had U.S. federal and state research and development tax credit carryforwards of $16.0 million and $16.2 million, respectively, which begin to expire in 2018 and 2019, respectively, unless previously utilized.

As of January 3, 2010, the valuation allowance includes $12.3 million of pre-acquisition foreign deferred tax assets of Solexa. In accordance with the adoption of Topic 805 to the extent any of these assets are recognized in the future the adjustment will be recorded as a reduction to the provision for income taxes.

Pursuant to Section 382 and 383 of the Internal Revenue Code, utilization of the Company's net operating loss and credits may be subject to annual limitations in the event of any significant future changes in its ownership structure. These annual limitations may result in the expiration of net operating losses and credits prior to utilization. The deferred tax assets as of January 3, 2010 are net of any previous limitations due to Section 382 and 383.

Due to the adoption of SFAS No. 123R, the Company recognizes excess tax benefits associated with share-based compensation to stockholders' equity only when realized. When assessing whether excess tax benefits relating to share-based compensation have been realized, the Company follows the with-and-without approach excluding any indirect effects of the excess tax deductions. Under this approach, excess tax benefits related to share-based compensation are not deemed to be realized until after the utilization of all other tax benefits available to the Company. During 2009, the Company realized $39.3 million of such excess tax benefits, and accordingly recorded a corresponding credit to additional paid in capital. As of January 3, 2010, the Company has $17.1 million of unrealized excess tax benefits associated with share-based compensation. These tax benefits will be accounted for as a credit to additional paid-in capital, if and when realized, rather than a reduction of the provision for income taxes.

The Company's manufacturing operations in Singapore operate under various tax holidays and incentives that begin to expire in 2018. For the year ended January 3, 2010, these tax holidays and incentives resulted in an approximate $2.3 million decrease to the provision for income taxes and an increase to net income per diluted share of $0.02.

Residual U.S. income taxes have not been provided on $38.6 million of undistributed earnings of foreign subsidiaries as of January 3, 2010, since the earnings are considered to be indefinitely invested in the operations of such subsidiaries.

The following table summarizes the gross amount of the Company's uncertain tax positions (in thousands):

	January 3, 2010	December 28, 2008	December 30, 2007
Balance at beginning of year	$ 9,402	$7,000	$5,381
Increases related to current year tax positions	2,358	2,402	1,619
Balance at end of year	$11,760	$9,402	$7,000

During 2009 the Company determined that $14.4 million of previously reported uncertain tax positions, which related to pre-acquistion net operating loss carryforwards of Solexa, were not uncertain as of the Solexa acquisition in January 2007. Accordingly, the uncertain tax position balances that were previously reported have been reduced by $14.4 million to correctly present the uncertain tax position balances.

As of January 3, 2010, $9.6 million of the Company's uncertain tax positions would reduce the Company's annual effective tax rate, if recognized.

The Company does not expect its uncertain tax positions to change significantly over the next 12 months. Any interest and penalties related to uncertain tax positions will be reflected in income tax expense. As of January 3, 2010, no interest or penalties have been accrued related to the Company's uncertain tax positions. Tax years 1995 to 2009 remain subject to future examination by the major tax jurisdictions in which the Company is subject to tax.

12. Employee Benefit Plans

Retirement Plan

The Company has a 401(k) savings plan covering substantially all of its employees. Company contributions to the plan are discretionary. During the years ended January 3, 2010, December 28, 2008 and December 30, 2007, the Company made matching contributions of $3.3 million, $2.6 million and $1.4 million, respectively.

Executive Deferred Compensation Plan

For the Company's executives and members of the board of directors, the Company adopted the Illumina, Inc. Deferred Compensation Plan (the Plan) that became effective January 1, 2008. Eligible participants can contribute up to 80% of their base salary and 100% of all other forms of compensation into the Plan, including bonus, commission and director fees. The Company has agreed to credit the participants' contributions with earnings that reflect the performance of certain independent investment funds. On a discretionary basis, the Company may also make employer contributions to participant accounts in any amount determined by the Company. The vesting schedules of employer contributions are at the sole discretion of the Compensation Committee. However, all employer contributions shall become 100% vested upon the occurrence of the participant's disability, death or retirement or a change in control of the Company. The benefits under this plan are unsecured. Participants are generally eligible to receive payment of their vested benefit at the end of their elected deferral period or after termination of their employment with the Company for any reason or at a later date to comply with the restrictions of Section 409A. As of January 3, 2010, no employer contributions were made to the Plan.

In January 2008, the Company also established a rabbi trust for the benefit of its directors and executives under the Plan. In accordance with authoritative guidance related to consolidation of variable interest entities and accounting for deferred compensation arrangements where amounts earned are held in a rabbi trust and invested, the Company has included the assets of the rabbi trust in its consolidated balance sheet since the trust's inception. As of January 3, 2010, the assets of the trust and liabilities of the Company were $4.0 million. The assets and liabilities are classified as other assets and accrued liabilities, respectively, on the Company's balance sheet as of January 3, 2010. Changes in the values of the assets held by the rabbi trust accrue to the Company.

13. Segment Information, Geographic Data and Significant Customers

During the first quarter of 2008, the Company reorganized its operating structure into a newly created Life Sciences Business Unit, which includes all products and services related to the research market, namely the sequencing, BeadArray, and VeraCode product lines. The Company also created a Diagnostics Business Unit to focus on the emerging opportunity in molecular diagnostics. For the year ended January 3, 2010, the Company had limited activity related to the Diagnostics Business Unit, and operating results were reported on an aggregate basis to the chief operating decision maker of the Company, the chief executive officer. In

accordance with authoritative guidance for disclosures about segments of an enterprise and related information, the Company operated in one reportable segment for the year ended January 3, 2010.

The Company had revenue in the following regions for the years ended January 3, 2010, December 28, 2008 and December 30, 2007 (in thousands):

	Year Ended		
	January 3, 2010	December 28, 2008	December 30, 2007
United States	$347,195	$280,064	$207,692
United Kingdom	55,854	67,973	34,196
Other European countries	140,931	127,397	75,360
Asia-Pacific	96,396	72,740	35,155
Other markets	25,948	25,051	14,396
Total	$666,324	$573,225	$366,799

Net revenues are attributable to geographic areas based on the region of destination.

The majority of our product sales consist of consumables and instruments. For the years ended January 3, 2010, December 28, 2008 and December 30, 2007, consumable sales represented 59%, 58% and 53%, respectively, of total revenues and instrument sales comprised 34%, 32%, and 33%, respectively, of total revenues. Our customers include leading genomic research centers, pharmaceutical companies, academic institutions, clinical research organizations and biotechnology companies. The Company had no customers that provided more than 10% of total revenue in the years ended January 3, 2010, December 28, 2008 and December 30, 2007.

Net long-lived assets exclude goodwill and other intangible assets since they are not allocated on a geographic basis. The Company had net long-lived assets consisting of property and equipment in the following regions as of January 3, 2010 and December 28, 2008(in thousands):

	January 3, 2010	December 28, 2008
United States	$ 75,095	$65,630
United Kingdom	27,862	9,849
Other European countries	864	1,055
Singapore	12,599	12,586
Other Asia-Pacific countries	768	316
Total	$117,188	$89,436

14. Quarterly Financial Information (unaudited)

The following financial information reflects all normal recurring adjustments, except as noted below, which are, in the opinion of management, necessary for a fair statement of the results and cash flows of interim periods. All quarters for 2008 and 2009 were 13 weeks except for the fourth quarter 2009, which was 14 weeks. Summarized quarterly data for fiscal 2009 and 2008 are as follows (in thousands except per share data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2009:				
Total revenue	$165,757	$161,643	$158,360	$180,564
Total cost of revenue (excluding impairment of manufacturing equipment and amortization of intangible assets)	54,022	48,815	49,564	53,368
Net income	18,811	24,688	17,077	11,705
Net income per share, basic	0.15	0.20	0.14	0.10
Net income per share, diluted	0.14	0.18	0.12	0.09
2008:				
Total revenue	$121,861	$140,177	$150,260	$160,927
Total cost of revenue (excluding amortization of intangible assets)	46,081	50,459	54,430	54,654
Net income (loss)(1)	10,743	12,659	(10,078)	26,092
Net income (loss) per share, basic(1)	0.10	0.11	(0.08)	0.21
Net income (loss) per share, diluted(1)	0.08	0.09	(0.08)	0.20

(1) Adjusted for required retroactive adoption of authoritative accounting guidance for convertible debt instruments that may be settled in cash upon conversion effective December 29, 2008.

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

	Balance at Beginning of Period	Additions Charged to Expense/ Revenue(1)	Deductions(2)	Balance at End of Period
		(In thousands)		
Year ended January 3, 2010				
Allowance for doubtful accounts	$1,138	828	(568)	$ 1,398
Reserve for inventory	6,431	8,403	(4,237)	10,597
Year ended December 28, 2008				
Allowance for doubtful accounts	$ 540	893	(295)	$ 1,138
Reserve for inventory	2,089	7,154	(2,812)	6,431
Year ended December 30, 2007				
Allowance for doubtful accounts	$ 338	237	(35)	$ 540
Reserve for inventory	850	2,302	(1,063)	2,089

(1) Additions to the allowance for doubtful accounts and reserve for inventory are charged to selling, general and administrative expense and cost of product revenue respectively.

(2) Deductions for allowance for doubtful accounts and reserve for inventory are for accounts receivable written off and disposal of obsolete inventory.

EXHIBIT 2.h

ILLUMINA INC (ILMN)

10-K
Annual report pursuant to section 13 and 15(d)
Filed on 02/28/2011
Filed Period 01/02/2011

THOMSON REUTERS

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

Form 10-K

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended January 2, 2011

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to .

Commission file number: 000-30361

Illumina, Inc.

(Exact name of Registrant as Specified in Its Charter)

Delaware	**33-0804655**
(State or other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*
9885 Towne Centre Drive, San Diego, California	**92121**
(Address of Principal Executive Offices)	*(zip code)*

Registrant's telephone number, including area code:
(858) 202-4500
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Exchange on Which Registered**
Common Stock, $0.01 par value (including associated Preferred Stock Purchase Rights)	The NASDAQ Global Select Market

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

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

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

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

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

As of February 4, 2011, there were 127,626,004 shares (excluding 24,868,929 shares held in treasury) of the Registrant's Common Stock outstanding. The aggregate market value of the Common Stock held by non-affiliates of the Registrant as of July 4, 2010 (the last business day of the Registrant's most recently completed second fiscal quarter), based on the closing price for the Common Stock on The NASDAQ Global Select Market on that date, was $3,554,527,753. This amount excludes an aggregate of 41,715,009 shares of Common Stock held by officers and directors and each person known by the Registrant to own 10% or more of the outstanding Common Stock. Exclusion of shares held by any person should not be construed to indicate that such person possesses the power, directly or indirectly, to direct or cause the direction of the management or policies of the Registrant, or that the Registrant is controlled by or under common control with such person.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement for the annual meeting of stockholders expected to be held on May 10, 2011 are incorporated by reference into Items 10 through 14 of Part III of this Report.

ILLUMINA, INC.

FORM 10-K
FOR THE FISCAL YEAR ENDED JANUARY 2, 2011

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Special Note Regarding Forward-Looking Statements

This annual report on Form 10-K contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements discuss our current expectations concerning future results or events, including our future financial performance. We make these forward-looking statements in reliance on the safe harbor protections provided under the Private Securities Litigation Reform Act of 1995. These statements include, among others:

- statements concerning our expectations as to our future financial performance, results of operations, or other operational results or metrics;
- statements concerning the benefits that we expect will result from our business activities and certain transactions we have completed, such as product introductions, increased revenue, decreased expenses, and avoided expenses and expenditures; and
- statements of our expectations, beliefs, future plans and strategies, anticipated developments (including new products), and other matters that are not historical facts.

These statements may be made expressly in this document or may be incorporated by reference to other documents we have filed or will file with the Securities and Exchange Commission, or SEC. You can identify many of these statements by looking for words such as "anticipates," "believes," "can," "continue," "could," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "should," or "will" or the negative of these terms or other comparable terminology and similar references to future periods. These forward-looking statements are subject to numerous assumptions, risks, and uncertainties that may cause actual results or events to be materially different from any future results or events expressed or implied by us in those statements. Many of the factors that will determine or effect these results or events are beyond our ability to control or project. Specific factors that could cause actual results or events to differ from those in the forward-looking statements include:

- our ability to develop and commercialize further our sequencing, BeadArray™, VeraCode®, Eco™, and reagents technologies and to deploy new sequencing, genotyping, gene expression, and diagnostics products and applications for our technology platforms;
- our ability to manufacture robust instrumentation and consumables;
- reductions in the funding levels to our primary customers, including as the result of timing and amount of funding provided by the American Recovery and Reinvestment Act of 2009; and
- other factors detailed in our filings with the SEC, including the risks, uncertainties, and assumptions described in Item 1A "Risk Factors" below, or in information disclosed in public conference calls, the date and time of which are released beforehand.

Our forward-looking statements speak only as of the date of this annual report. We undertake no obligation, and do not intend, to publicly update or revise forward-looking statements, to review or confirm analysts' expectations, or to provide interim reports or updates on the progress of any current financial quarter, whether as a result of new information, future events, or otherwise. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained in this annual report. Given these uncertainties, we caution investors not to unduly rely on our forward-looking statements.

Available Information

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports are available free of charge on our website, *www.illumina.com*. The information on our website is not incorporated by reference into this report. Such reports are made available as soon as reasonably practicable after filing with, or furnishing to, the SEC. The SEC also maintains an Internet site at *www.sec.gov* that contains reports, proxy and information statements, and other information regarding issuers

that electronically file with the SEC. Copies of our annual report on Form 10-K will be made available, free of charge, upon written request.

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Unless the context requires otherwise, references in this annual report on Form 10-K to "Illumina," the "Company," "we," "us," and "our" refer to Illumina, Inc. and its subsidiaries.

PART I

ITEM 1. *Business*

Overview

We are a leading developer, manufacturer, and marketer of life science tools and integrated systems for the analysis of genetic variation and function. We were incorporated in California in April 1998 and reincorporated in Delaware in July 2000. Our principal executive offices are located at 9885 Towne Centre Drive, San Diego, California 92121. Our telephone number is (858) 202-4500.

Using our proprietary technologies, we provide a comprehensive line of genetic analysis solutions, with products and services that serve a broad range of highly interconnected markets, including sequencing, genotyping, gene expression, and molecular diagnostics. Our customers include leading genomic research centers, academic institutions, government laboratories, and clinical research organizations, as well as pharmaceutical, biotechnology, agrigenomics, and consumer genomics companies.

Our broad portfolio of systems, consumables, and analysis tools are designed to simplify genetic analysis. This portfolio addresses a range of genomic complexity, price points, and throughputs, enabling researchers to select the best solution for their scientific challenge. In 2007, through our acquisition of Solexa, Inc., we acquired our proprietary sequencing by synthesis (SBS) technology that is at the heart of our leading-edge sequencing instruments. These systems can be used to efficiently perform a range of nucleic acid (DNA, RNA) analyses on large numbers of samples. For more focused studies, our array-based solutions provide ideal tools to perform genome-wide association studies (GWAS) involving single-nucleotide polymorphism (SNP) genotyping and copy number variation (CNV) analyses, as well as gene expression profiling, and other DNA, RNA, and protein studies. To further enhance our genetic analysis workflows, in January 2011 we acquired Epicentre Technologies Corporation, a leading provider of nucleic acid sample preparation reagents and specialty enzymes for sequencing and microarray applications. In 2010, through our acquisition of Helixis, Inc., we expanded our portfolio to include real-time polymerase chain reaction (PCR), one of the most widely used technologies in life sciences. Our new Eco Real-Time PCR System provides researchers with an affordable, full-featured system to perform targeted validation studies.

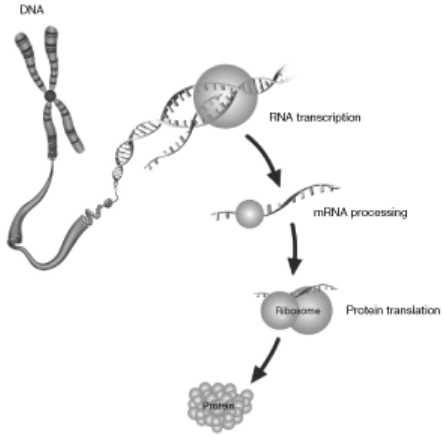
Our operating structure is divided into two business segments, the Life Sciences Business Unit and the Diagnostics Business Unit. During 2010, our Diagnostics Business Unit had limited business activity and, accordingly, operating results for both units are reported on an aggregate basis as one operating segment. At each reporting period end, we will reassess our reportable operating segments, particularly as we continue to develop our molecular diagnostics business.

Industry Background

Genetics Primer

The instruction set for all living cells is encoded in deoxyribonucleic acid, or DNA, with the complete set of DNA for any organism referred to as its genome. DNA contains small regions called genes, which comprise a string of nucleotide bases labeled A, C, G, and T, representing adenine, cytosine, guanine, and thymine, respectively. These nucleotide bases are present in a precise order known as the DNA sequence. When a gene is "expressed," a partial copy of its DNA sequence — called messenger RNA (mRNA) — is used as a template

to direct the synthesis of a protein. Proteins in turn, direct all cellular function. The illustration below is a simplified gene expression schematic.



Variations among organisms are due in large part to differences in their DNA sequences. Changes caused by insertions, deletions, inversions, or duplications of nucleotide bases may result in certain genes becoming over-expressed (excessive protein production), under-expressed (reduced protein production), or silenced altogether, sometimes triggering changes in cellular function. These changes can be the result of heredity, but most often occur at random. The most common form of variation in humans is called a single-nucleotide polymorphism (SNP), which is a variation in a single position of a nucleotide base in a DNA sequence. Copy number variations (CNVs) occur when there are fewer or more copies of certain genes.

In humans, genetic variation accounts for many of the physical differences we see (height, hair, eye color, etc.). More importantly, these genetic variations can have medical consequences affecting disease susceptibility, including predisposition to complex genetic diseases such as cancer, diabetes, cardiovascular disease, and Alzheimer's disease. They can also impact an individual's response to certain drug treatments, causing them to respond well, not respond at all, or experience adverse side effects — an area of study known as pharmacogenomics.

Scientists are studying these variations and their consequences in humans, as well as a broad range of animals, plants, and microorganisms. Researchers investigating human, viral, and bacterial genetic variation are helping us to better understand the mechanisms of disease and develop more effective therapeutics and diagnostics. Greater insight into genetic variation in plants (e.g., food and biofuel crops) and animals (e.g., livestock and domestic animals) is enabling scientists to improve crop yields and animal breeding programs.

The methods for studying genetic variation and biological function include sequencing, SNP genotyping, CNV analysis, gene expression profiling, and gene regulation analysis, each of which is addressed by our breadth of products and services.

Life Sciences Research Primer

Life science research encompasses the study of all living things, from humans, animals, and plants, to viruses and bacteria. It is being performed in government, university, pharmaceutical, biotechnology, and agrigenomics laboratories around the world, where scientists are seeking to expand our knowledge of the biological functions essential for life. Beginning at the genetic level, where our tools are used to elucidate the correlation between gene sequence and biological processes, life science research expands to include the study of the cells, tissues, organs, systems, and other components that make up living organisms. This research

supports development of new, more effective clinical diagnostics and medicines to improve human health, as well as advances in agriculture and animal husbandry to meet the world's growing needs for food and energy.

Molecular Diagnostics Primer

Molecular diagnostic assays (or tests) are designed to identify the biological indicators linked with disease and drug metabolism, providing physicians with information to more effectively diagnose, treat, and monitor both acute and chronic disease conditions. They are an integral part of personalized healthcare, where the unique makeup of each individual will be taken into account in diagnosing disease and managing treatment through the use of more tailored therapies. Biological indicators that can be measured by these assays include protein or gene expression, methylation levels, copy number variations, and the presence or absence of a specific gene or group of genes.

There are molecular diagnostic assays on the market for infectious disease, cancer, and heart disease, as well as molecular-based drug metabolism assays to help physicians select the most effective therapy with the fewest side effects. Our innovative technologies and products are contributing to the development of a wide-range of potential molecular diagnostic assays. Our own efforts in this area are currently focused on the identification of certain genetic markers with potential diagnostic and therapeutic utility.

Growing news coverage about the clinical relevance of newly discovered genetic markers has prompted consumers' interest in having their personal genomes analyzed, sparking the development of the consumer genomics market. We believe there are distinct medical benefits, especially for people with family histories of certain diseases, of knowing your disease predisposition. Several companies, including Illumina, now offer personal sequencing or genotyping services, working with physician groups and genetic counselors to interpret the results for consumers.

We believe the growth in consumer genomics and the use of molecular diagnostic assays will trigger a fundamental shift in the practice of medicine and the economics of the pharmaceutical industry by facilitating an increased emphasis on preventative and predictive molecular medicine, ushering in the era of personalized medicine.

Our Principal Markets

From the company's inception, we have believed that the analysis of genetic variation and function will play an increasingly important role in molecular biology, and that by empowering genetic analysis, our tools will advance disease research, drug development, and the creation of molecular tests. In addition to developing sequencing- and array-based solutions for life science, applied, and consumer genomics markets, we are making inroads into the emerging market of molecular diagnostics.

Life Sciences Research Market

The life sciences research market consists of laboratories generally associated with universities, medical research centers, government institutions, as well as biotechnology and pharmaceutical companies. Researchers at these institutions are using our products and services in a broad spectrum of scientific activities, such as: next-generation sequencing, mid-to-high-complexity genotyping and gene expression (for whole-genome discovery and profiling), and low complexity genotyping and gene expression (for high-throughput targeted screening). DNA sequencing is growing the most rapidly among these three areas due to the creation of next-generation sequencing technologies, such as SBS. It is fueled by private and public funding, new global initiatives to broadly characterize genetic variation, and the migration of legacy genetic applications to sequencing-based technologies.

Applied Markets

We provide products and services for various other markets, which we refer to as "applied markets." The largest among these is the "Agbio" market, where government and corporate researchers use our sequencing- and array-based tools to accelerate and enhance agricultural research. For example, we currently offer

microarrays that contain SNPs for custom and focused genotyping of seeds and crops (such as maize) and livestock (such as cattle, horses, pigs, and sheep). Customers use them to perform selective breeding, accelerating and enhancing the process over traditional methods such as cross-breeding.

Molecular Diagnostics Market

Molecular diagnostics makes up the fastest growing segment in the clinical diagnostics market, with the primary growth drivers being the continued discovery of genetic markers with proven clinical utility, the increasing adoption of genetic-based diagnostic tests, and the expansion of reimbursement programs to include a greater number of approved molecular diagnostic tests. We believe our BeadXpress instrument platform, using our VeraCode technology, is ideally suited to provide a cost-effective, high-throughput, mid- to low-multiplex solution to the molecular diagnostic market. In April 2010, we obtained 510(K) approval for the BeadXpress platform from the U.S. Food and Drug Administration (FDA). We have initiated development of a variety of clinical diagnostic testing panels for this platform and are continuing research into the potential development of cancer diagnostic panels, initially focusing on ovarian, gastric, and colorectal cancers. During the fourth quarter of 2009, we made an FDA pre-IDE (investigational device exemption) submission for a cytogenetics test intended to be used on our iScan instrument platform as an aid in the postnatal diagnosis of chromosomal abnormalities known to be associated with developmental delay and mental retardation. Following completion of the required clinical trial, we intend to seek FDA clearance for the iScan instrument platform and related consumables.

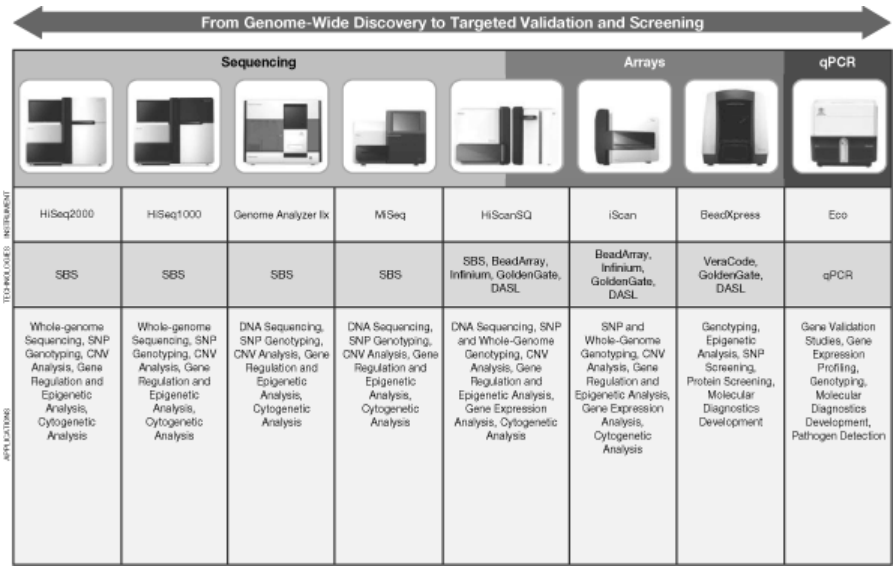
Consumer Genomics Markets

New sequencing and genotyping technologies, such as those developed by Illumina, are driving down the cost of performing analyses which are increasingly valuable in diagnosing disease and evaluating disease risk. Consumer genomics is a nascent market, but one we believe has the potential for high growth as the cost per analysis continues to drop. In June 2009, we launched our Individual Genome Sequencing Service, the first physician-intermediated personal genome sequencing service for consumers. Built around physician-patient consultation, the service requires a physician's order to initiate the process, with genome sequencing performed using our CLIA-certified, CAP-accredited laboratory. We have established collaborations with partners to perform the secondary data analysis of a personal genome (such as calculation of disease risk, ancestry, and information on traits of interest). Some of our partners, as well as other companies in the direct-to-consumer market, use our genotyping technology and products to perform personal genotyping services.

Our Principal Technologies

Our unique technology platforms enable the scale of experimentation necessary for genome-wide discovery, target selection, and validation studies (see Figure 1 below). More than 2,500 customer-authored scientific publications have been published to date using these technologies, representing the efforts of a large and dynamic Illumina user community. Through rapid innovation, we believe we are changing the economics of genetic research, enabling projects once considered unapproachable to now be within reach of more investigators.

Figure 1: Illumina Platform Overview:



Sequencing Technology

DNA sequencing is the process of determining the order of nucleotide bases (A, C, G, or T) in a DNA sample. Our HiSeq 2000, HiSeq 1000, Genome Analyzer IIx, and HiScanSQ systems represent a family of systems that we believe are setting the standard for productivity, cost-effectiveness, and accuracy among next-generation sequencing technologies. They are used by customers to perform whole-genome, de novo, and targeted re-sequencing of genomes, and to analyze specific gene regions and genes. In January 2011, we announced the MiSeq Personal Sequencing System, which will expand our family of sequencing systems to include a low-cost personal sequencing system that will provide individual researchers a sequencing platform that can go from purified DNA to analyzed data in as few as eight hours or can generate in excess of 1 gigabase (Gb) per run in slightly over a day.

Whole-genome sequencing determines an organism's complete DNA sequence. In de novo sequencing, the goal is to sequence a representative sample from a species never before sequenced. In targeted re-sequencing, a sequence of nucleotide bases is compared to a standard or reference sequence from a previously sequenced species to identify changes that reflect genetic variation. Understanding the similarities and differences in DNA sequence between and within species furthers our understanding of the function of the structures encoded in the DNA.

Our DNA sequencing technology is based on our proprietary reversible terminator-based sequencing chemistry, referred to as sequencing by synthesis (SBS) biochemistry. In SBS, single stranded DNA is extended from a priming site, one base at a time, using reversible terminator nucleotides. These are DNA bases that can be added to a growing second strand, but which initially cannot be further extended. This means that at each cycle of the chemistry, only one base can be added. Each base that is added includes a fluorescent label that is specific to the particular base (A, C, G, or T). Following incorporation, the emitted light can be imaged to determine its color and thus determine the base. Once this is done, an additional step removes both the fluorescence and the blocking group that had prevented further extension of the second

strand. This allows another base to be added, and the cycle can then be repeated. Our technology is capable of generating over 600 billion bases of DNA sequence from a single experiment with a single sample preparation. Key aspects of the SBS chemistry are the subject of significant intellectual property owned by us.

In our DNA sequencing systems, we apply the SBS biochemistry on microscopic clusters of DNA. Each cluster starts as a single DNA molecule fragment, typically a few hundred bases long, attached to the inside surface of a flow cell. We then use a proprietary amplification biochemistry to create copies of each starting molecule. As the copies are made, they are covalently linked to the surface, so they cannot diffuse away. After a number of cycles of amplification, each cluster might have approximately 1,000 copies of the original starting molecule, but still be only about a micron (one-millionth of a meter) in diameter. By making so many copies, the fluorescent signal from each cluster is significantly increased. Because the clusters are so small, hundreds of millions of clusters can be independently formed inside a single flow cell. This large number of clusters can then be sequenced simultaneously by alternate cycles of SBS biochemistry and fluorescent imaging. Sequence reads are analyzed using specially developed data analysis software.

With the ability to generate over 600 Gb of DNA sequence per run, our SBS sequencing technology provides researchers with the broadest range of applications and the opportunity to sequence even large mammalian genomes in days rather than weeks or years. Since the launch of our first Genome Analyzer in 2007, our systems have reduced the cost of sequencing by more than a factor of 100.

BeadArray Technology

Our BeadArray technology combines microscopic beads and a substrate in a proprietary manufacturing process to produce arrays that can perform many assays simultaneously, enabling large-scale analysis of genetic variation and biological function in a unique high-throughput, cost effective, and flexible manner. The arrays manufactured using BeadArray technology are imaged by our iScan and HiScanSQ systems for a broad range of DNA and RNA analysis applications including SNP discovery, SNP genotyping, CNV analysis, gene expression analysis, and methylation analysis.

Our proprietary BeadArray technology consists of microscopic silica beads, each bead covered with hundreds of thousands of copies of oligonucleotides, or oligos, that act as the capture sequences in one of our assays. We deploy our BeadArray technology on BeadChips; silicon wafers the size of a microscope slide, with varying numbers of sample sites per slide. BeadChips are chemically etched to create tens of millions of wells for each sample site.

We create unique bead pools, or sensors, for different DNA and RNA analysis applications by affixing thousands to millions of copies of a specific type of oligonucleotide molecule to each of the billions of microscopic beads in a batch. We make different batches of beads, with the beads in a given batch coated with one particular type of molecule. The particular molecules on a bead define that bead's function as a sensor. To form an array, a pool of coated beads is brought into contact with the array surface where they are randomly drawn into the wells, one bead per well. Because the beads assemble randomly into the wells, we perform a final procedure called "decoding" to determine which bead type occupies which well in the array. We employ several proprietary methods for decoding, which is a process that requires only a few steps to identify all the beads in the array. One beneficial by-product of the decoding process is a functional validation of each bead in the array. This quality control test characterizes the performance of each bead and can identify and eliminate use of any empty wells. We ensure that each bead type on the array is sufficiently represented by including multiple copies of each bead type. Multiple bead type copies improve the reliability and accuracy of the resulting data by allowing statistical processing of the results of identical beads.

An experiment is performed by preparing a sample, such as DNA, and introducing it to the array. The molecules in the sample bind to their matching molecules on the coated beads. The molecules in either the sample or on the bead are labeled with fluorescent dye either before or after the binding, which can be detected by shining a laser on the BeadChip. This allows the detection of the molecules resulting in a quantitative analysis of the sample.

Using our BeadArray technology, we achieve high-throughput analysis with a high density of test sites per array, and are able to format arrays in various configurations. We seek to maximize cost effectiveness by reducing consumption of expensive consumables and valuable samples and through the low manufacturing costs associated with our technologies. Our ability to vary the size, shape, and format of the well patterns and to create specific bead pools for different applications provides the flexibility to address multiple markets and market segments. These features enable our BeadArray technology to be applied to high-growth markets of SNP genotyping and CNV analysis, and have allowed us to be a key player in the gene expression market.

VeraCode Technology

Our proprietary VeraCode technology is a detection method for multiplex assays that require high precision, accuracy, and speed. When deployed on our BeadXpress Reader System, VeraCode technology provides a high-throughput solution for biomarker research and validation, pharmaceutical development, industrial and agriculture testing, clinical research, forensics, and molecular diagnostic assay development.

The VeraCode technology platform leverages the power of digital holographic codes to provide a detection method for multiplex assays. VeraCode enables low-cost multiplexing from 1 to 384-plex in a single well. The VeraCode technology consists of cylindrical glass beads (measuring 240 microns in length by 28 microns in diameter) inscribed with a unique digital holographic code to designate and track the specific analyte or genotype of interest throughout the multiplex reaction. When excited by a laser, each VeraCode bead emits a unique code image, allowing for quick and specific detection by the BeadXpress Reader System.

Depending on the desired multiplex levels, assays are created by pooling microbeads with code diversities from one to several hundred. Unlike traditional microarrays, the VeraCode microbeads are used in solution, which takes advantage of solution-phase kinetics for more rapid hybridization times, dramatically reducing the time to achieve results.

In December 2009, we began offering VeraCode Universal Capture and Carboxyl Beads as General Purpose Reagents (GPRs). These royalty-free VeraCode GPR Beads provide customers with a flexible, high-quality, cost-effective multiplexing platform to develop their own custom multiplex assays for genotyping, CNV, gene expression, methylation, and protein analysis studies.

Eco Real-Time PCR Technology

In April 2010, we purchased Helixis, Inc. and its novel real-time PCR technology, and in July 2010 introduced the Eco Real-Time PCR System to the market. Real-Time PCR (also known as quantitative PCR or qPCR) is used to amplify and simultaneously quantify a targeted DNA molecule, with applications in gene expression, viral quantification, array data validation, pathogen detection, and genotyping. The procedure follows the same steps as PCR, whereby thermal cycling (alternately heating and cooling the DNA sample from 20 to 40 times) causes the DNA to self-replicate, resulting in the doubling of DNA product with each cycle. Real-time PCR uses various fluorescent detection chemistries to enable the monitoring of the PCR reaction as it progresses. Data are collected at each cycle rather than at the end of the reaction, providing higher precision, increased sensitivity, increased dynamic range, and higher resolution.

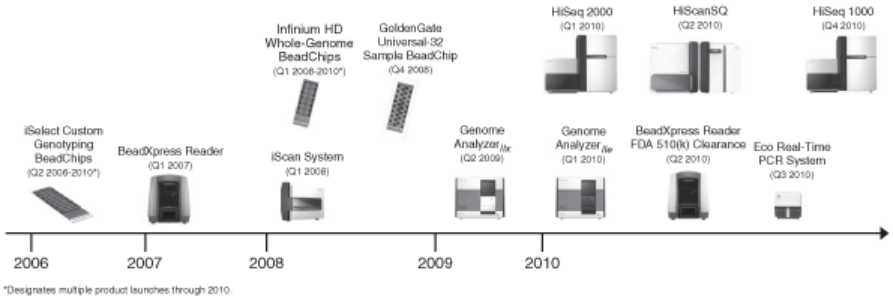
The Eco System combines a proprietary thermal system, four-color multiplex capabilities, and a fine-tuned optical system to deliver accurate qPCR results. Its unique design provides superior thermal uniformity, supporting high-quality PCR performance for demanding applications such as high resolution melt (HRM) curve analysis used for SNP genotyping, DNA fingerprinting, species identification, HLA compatibility typing, allelic prevalence, and DNA methylation analysis. Measuring just over one cubic foot in size, we believe the Eco System's overall performance rivals larger, more expensive systems and provides us with a highly differentiated entry into this market.

Our Products

Using our proprietary technologies, our products give our customers the ability to analyze the genome at any level of complexity, from whole-genome sequencing to low-multiplex assays, and enable us to serve a number of markets, including research, agriculture, forensics, pharmaceuticals, and molecular diagnostics.

The majority of our product sales consist of instruments and consumables (which include reagents, flow cells, and BeadChips) based on our proprietary technologies (see Figure 2 below). For the fiscal years ended January 2, 2011, January 3, 2010, and December 28, 2008, instrument sales comprised 36%, 34%, and 32%, respectively, of total revenues, and consumable sales represented 56%, 59%, and 58%, respectively, of total revenues.

Figure 2: Illumina Product Introduction Timeline:



Based on our proprietary SBS technology, our next-generation sequencing platforms are designed to meet the workflow, output, and accuracy demands of a full range of sequencing applications. Designed for high-throughput (up to 600 Gb per run and up to 80 Gb per day) sequencing, the HiSeq 2000 is fast, easy-to-use, and cost-effective, generating the sequence of two human genomes per run at 30× coverage for less than $5,000 (USD) in consumable cost per genome. Offering the same cost per data output and user experience, the HiSeq 1000 accommodates lower throughput needs, with an easy upgrade path to the HiSeq 2000. The Genome Analyzer IIx offers the simplest and fastest workflow for medium to high-throughput applications, generating up to 95 Gb per run. Introduced in January 2011, with first customer shipments expected mid-2011, our MiSeq Personal Sequencing System delivers the fastest time to an answer (as little as eight hours) and offers a breadth of sequencing applications in a compact and economical instrument to meet the needs of individual researchers.

Sequencing/Array Combination Platforms

The HiScanSQ combines our SBS sequencing technology and iScan microarray analysis instrumentation into one system, with a modular design that can evolve with changing research needs. This flexible system allows researchers to use our sequencing and array technologies interactively to bring increased power to their experiments.

Array Platforms

The iScan System is our dedicated array scanner that supports the rapid, sensitive, and accurate imaging of our array-based genetic analysis products. It incorporates high-performance lasers, optics, and detection systems, delivering sub-micron resolution and unmatched throughput rates. The iScan supports our Infinium, GoldenGate, DASL, gene expression, and methylation assays. Our BeadXpress Reader is designed for both small and high-throughput laboratories conducting molecular testing with multiplexed-based assays deployed on our VeraCode bead technology. It supports a wide range of applications, including DNA, RNA, and protein-based assays, and is FDA cleared for in vitro diagnostics with specific VeraCode FDA-cleared tests.

Consumables

Our InfiniumHD Whole-Genome BeadChips represent our most technologically advanced multi-sample DNA analysis microarrays, enabling the interrogation of up to 2.5 million markers per sample, depending on the BeadChip. The most recent additions to the Omni family, the HumanOmni2.5 and HumanOmni1S BeadChips, provide comprehensive coverage of common and rare variants identified by the 1000 Genomes Project for performing rich GWAS projects. This product line also includes agriculturally relevant genome panels such as the BovineHD and MaizeSNP50 BeadChips.

For researchers who want to study focused genomic regions of interest, or are interested in organisms for which there are no standard products, we offer iSelect Custom Genotyping BeadChips. Easily developed to fit any experimental design, these SNP genotyping arrays can be used to investigate from 3,000 to 1,000,000 markers targeting any species.

Our GoldenGate Universal-32 Sample BeadChip provides a flexible customized solution for mid-plex genotyping assays performed on the iScan System or HiScan, while the VeraCode GoldenGate genotyping arrays are well-suited for low-plex genotyping on the BeadXpress Reader.

We have developed a variety of sample preparation and sequencing kits to simplify workflows and accelerate analysis. Some provide all the necessary consumables needed for analyses, such as our Standard Sequencing Kit (SBS chemistry on our sequencing platforms) and Infinium Assay Kit (array-based genotyping on the iScan System). Others support more discrete analyses, such as our Paired-End Genomic DNA Sample Prep Kit for streamlining library preparation for the generation of 200 — 500 kb insert paired-end reads for sequencing, gene expression, and epigenetic analysis. Our new TruSeq SBS Sequencing Kit enhances sequencing studies with our HiSeq 2000, HiSeq 1000, Genome Analyzer IIx and MiSeq systems, by enabling researchers to extend the read lengths, achieve higher Gb of mappable data, and deliver the highest yield of perfect reads to maximize the ability to accurately characterize the genome. Through our recent acquisition of Epicentre Technologies Corporation, we acquired the proprietary Nextera technology for next-generation sequencing library preparation. This technology will enable us to offer sequencing library preparation kits with lower sample input requirements that greatly simplify genetic analysis workflows (from 12 hours and 9 steps, to 2 hours and 4 steps) and significantly reduce the time from sample preparation to answer.

Real-time PCR Platforms

The Eco Real-Time PCR System provides fast, accurate qPCR results. Its icon-driven user interface simplifies experimental design and setup, while a straightforward workflow streamlines operation, enabling the system to perform qPCR on 48 samples in less than 40 minutes. As our first entry into the qPCR market, we believe the smaller, lower-cost, full-featured Eco System will enable more scientists to use real-time PCR technology in their research.

Our Services

In addition to the products we supply to customers, we also provide sequencing and genotyping services through our CLIA-certified, CAP accredited laboratory.

FastTrack Services

One of the ways in which we compete and extend the reach of our systems in the genetic analysis market is to deliver FastTrack Services that leverage our proprietary technologies and the expertise of our scientists to perform genotyping and sequencing services for our customers. We began offering genotyping services to academic institutions, biotechnology, and pharmaceutical customers in 2002. The in-house molecular geneticists that make up our FastTrack Genotyping team help customers perform GWAS projects, linkage analysis, and fine mapping studies to meet their deadlines, employing a range of our products, including standard and custom GoldenGate, standard Infinium and Infinium HD, and iSelect Infinium assays. These projects range in size from a few hundred to over 10,000 samples.

After five years of building an infrastructure to support genotyping services, we expanded to deliver sequencing services in 2007. We continue to combine the power of our proprietary SBS technology with the consultative and analytical capabilities of our FastTrack Sequencing team to execute high-value projects such as whole-genome sequencing, targeted resequencing, digital expression profiling, and small RNA discovery. Projects range from small sample sets requiring as little as one run, to large-scale projects such as de novo whole-genome sequencing that demand multiple instruments running in parallel for extended periods of time.

Service Partnership Programs

To complement our own service capabilities, we have developed partnered programs such as our Certified Service Providers (CSPro) and Illumina Genome Network (IGN) to create a world-wide network of Illumina technology-enabled service offerings that broaden our market reach. Illumina CSPro is a collaborative service partnership established between Illumina and leading genome centers and research laboratories to ensure the delivery of high-quality genetic analysis services. It provides a competitive advantage for service providers, while also ensuring that customers will receive Illumina data quality and service. To become a CSPro provider, participating laboratories must complete an Illumina certification process and undergo recertification on an annual basis. There are over 50 Illumina CSPro-certified organizations worldwide providing sequencing, genotyping, and gene expression services using our technologies and products.

Introduced in July 2010, the IGN links researchers interested in conducting large whole genome sequencing projects with leading institutes worldwide that possess our next-generation sequencing technology. IGN provides a cost-effective and dependable way to complete large sequencing projects. The genome sequencing service network comprises CSPro-certified academic and commercial organizations possessing 10 or more HiSeq 2000 or Genome Analyzer systems and committed to providing industry-leading turnaround times of as few as 12 weeks for 50 samples. Current members include the National Center for Genome Resources (NCGR) in Santa Fe, New Mexico and the Macrogen Genomic Medicine Institute in Seoul, Korea.

Individual Genome Sequencing

Introduced in June 2009, Illumina's Individual Genome Sequencing Service provides personal genome sequencing for consumers. It is performed in our CLIA-certified, CAP-accredited laboratory using our next-generation sequencing technology. The service is built around physician-patient consultation, with a physician's order required to initiate the process. The offering includes sequencing of an individual's DNA to 30-times depth, providing information on SNP variation and other structural characteristics of the genome such as insertions, deletions, and rearrangements. We are collaborating with a number of partners to provide secondary data analysis such as calculation of disease risk, ancestry, and information on traits of interest. The service requires individuals to follow our physician-mediated process, which involves pre-service consultation, patient consent, and a seven-day "cooling off" period during which the patient may withdraw consent. The final genome data is returned to the physician, who in turn delivers it to the consumer.

Intellectual Property

We have an extensive intellectual property portfolio, including, as of February 1, 2011, ownership of, or exclusive licenses to, 214 issued U.S. patents and 197 pending U.S. patent applications, including seven allowed applications that have not yet issued as patents. Our issued patents include those directed to various aspects of our arrays, assays, oligo synthesis, sequencing technology, instruments, and chemical detection technologies, and have terms that expire between 2011 and 2029. We continue to file new patent applications to protect the full range of our technologies. We have filed or have been granted counterparts for many of these patents and applications in foreign countries.

We also rely upon trade secrets, know-how, copyright, and trademark protection, as well as continuing technological innovation and licensing opportunities to develop and maintain our competitive position. Our success will depend in part on our ability to obtain patent protection for our products and processes, to preserve our trade secrets, to enforce our patents, copyrights and trademarks, to operate without infringing the proprietary rights of third parties, and to acquire licenses related to enabling technology or products.

We are party to various exclusive and non-exclusive license agreements and other arrangements with third parties that grant us rights to use key aspects of our array and sequencing technologies, assay methods, chemical detection methods, reagent kits, and scanning equipment. We have exclusive licenses from Tufts University to patents that are directed to our BeadArray technology. These patents were filed by Dr. David Walt, who is a member of our board of directors, the Chairman of our Scientific Advisory Board, and one of our founders. Our exclusive licenses expire with the termination of the underlying patents, which will occur between 2011 and 2020. We have additional nonexclusive license agreements with various third parties for other components of our products. In most cases, the agreements remain in effect over the term of the underlying patents, may be terminated at our request without further obligation, and require that we pay customary royalties while the agreement is in effect.

Research and Development

We have made substantial investments in research and development since our inception. We have assembled a team of skilled scientists and engineers who are specialists in biology, chemistry, informatics, instrumentation, optical systems, software, manufacturing, and other related areas required to complete the development of our products. Our research and development efforts have focused primarily on the tasks required to optimize our sequencing, BeadArray, VeraCode, and oligo synthesis technologies and to support commercialization of the products and services derived from these technologies.

Our research and development expenses for 2010, 2009, and 2008 (inclusive of charges relating to share-based compensation of $25.4 million, $20.0 million, and $14.1 million, respectively) were $177.9 million, $140.6 million, and $100.0 million, respectively. We expect research and development expense to increase during 2011 as we continue to expand our research and product development efforts.

Marketing and Distribution

Our current products address the genetic analysis portion of the life sciences market, in particular, experiments involving sequencing, SNP genotyping, and gene expression profiling. These experiments may be involved in many areas of biologic research, including basic human disease research, pharmaceutical drug discovery and development, pharmacogenomics, toxicogenomics, and animal and agricultural research. Our potential customers include leading genomic research centers, academic institutions, government laboratories, and clinical research organizations, as well as pharmaceutical, biotechnology, agrigenomics, and consumer genomics companies. The genetic analysis market is relatively new and emerging and its size and speed of development will ultimately be driven by, among other items:

- the ability of the research community to extract medically valuable information from genomics and to apply that knowledge to multiple areas of disease-related research and treatment;
- the availability of sufficiently low cost, high-throughput research tools to enable the large amount of experimentation required to study genetic variation and biological function; and
- the availability of government and private industry funding to perform the research required to extract medically relevant information from genomic analysis.

We market and distribute our products directly to customers in North America, Europe, Latin America, and the Asia-Pacific region. In each of these areas, we have dedicated sales, service, and application support personnel responsible for expanding and managing their respective customer bases. In addition, in certain markets within Europe, the Asia-Pacific region, Latin America, the Middle East, and South Africa we sell our products and provide services to customers through distributors that specialize in life science products. We expect to continue to increase our sales and distribution resources during 2011 and beyond as we launch a number of new products and expand the number of customers that can use our products.

Manufacturing

We manufacture sequencing and array platforms, reagent kits, scanning equipment, and oligos. Our manufacturing capacity for consumables and instruments has grown during 2010 to support our increased

customer demand. We are also focused on continuing to enhance the quality and manufacturing yield of our BeadChips and flow cells, in particular. To continue to increase throughput and improve the quality and manufacturing yield as we increase the complexity of our products, we are exploring ways to continue increasing the level of automation in the manufacturing process. We adhere to access and safety standards required by federal, state, and local health ordinances, such as standards for the use, handling, and disposal of hazardous substances.

Raw Materials

Our manufacturing operations require a wide variety of raw materials, electronic and mechanical components, chemical and biochemical materials, and other supplies. We have multiple commercial sources for many of our components and supplies; however, there are some raw materials and components that we obtain from single source suppliers. To mitigate potential risks arising from single source suppliers, we believe that we can redesign our products for alternative components or use alternative reagents if required. In addition, while we generally attempt to keep our inventory at minimal levels, we purchase incremental inventory as circumstances warrant to protect our supply chain.

Competition

Although we believe that our products and services provide significant advantages over products and services currently available from other sources, we expect to continue to encounter intense competition from other companies that offer products and services for sequencing, SNP genotyping, gene expression, and molecular diagnostics markets. These include companies such as Affymetrix, Inc.; Agilent Technologies, Inc.; Beckman Coulter, Inc.; Complete Genomics, Inc.; Helicos BioSciences Corporation; General Electric Company; Life Technologies Corporation; Luminex Corporation; Pacific Biosciences of California, Inc.; QIAGEN N.V.; Roche Diagnostics Corp.; and Sequenom, Inc., among others. Some of these companies have or will have substantially greater financial, technical, research, and other resources and larger, more established marketing, sales, distribution, and service organizations than we do. In addition, they may have greater name recognition than we do in the markets we address and in some cases a larger installed base of systems. Each of these markets is very competitive and we expect new competitors to emerge and the intensity of competition to increase. In order to effectively compete with these companies, we will need to demonstrate that our products have superior throughput, cost, and accuracy advantages over competing products.

Segment and Geographic Information

We are organized in two business segments, Life Sciences and Diagnostics. Our Life Sciences Business Unit includes all products and services related to the research market, namely the product lines based on our sequencing, BeadArray, VeraCode, and real-time PCR technologies. Our Diagnostics Business Unit focuses on the emerging opportunity in molecular diagnostics. During all periods presented, our Diagnostics Business Unit had limited activity. Accordingly, our operating results for both units are reported on an aggregate basis as one operating segment. We will begin reporting in two segments once revenues, operating profit or loss, or assets of the Diagnostics Business Unit exceed 10% of the consolidated amounts.

We currently sell our products to a number of customers outside the United States, including customers in other areas of North America, Europe, and the Asia-Pacific region. Shipments to customers outside the United States totaled $403.8 million, or 45% of our total revenue, during 2010, compared to $319.1 million, or 48%, and $293.2 million, or 51%, in 2009 and 2008, respectively. Sales to customers outside of the United States were generally denominated in U.S. dollars. In 2008, we reorganized our international structure to establish more efficient channels among product development, product manufacturing, and sales. The reorganization increased our foreign subsidiaries' anticipated dependence on the U.S. entity for management decisions, financial support, production assets, and inventory thereby making the foreign subsidiaries more of a direct and integral component of the U.S. entity's operations. As a result, we reassessed the primary economic environment of our foreign subsidiaries and determined the subsidiaries are more U.S. dollar based, resulting in a U.S. dollar functional currency determination. We expect that sales to international customers will continue to be an important and growing source of revenue. See note "13. Segment Information,

Geographic Data, and Significant Customers" in Part II, Item 8, of this Form 10-K for further information concerning our foreign and domestic operations.

Backlog

Our backlog was $299.0 million and $227.6 million at January 2, 2011 and January 3, 2010, respectively. Generally, our backlog consists of orders believed to be firm as of the balance sheet date; however, we may allow customers to make product substitutions as we launch new products. The timing of shipments depends on several factors, including agreed upon shipping schedules, which may span multiple quarters, and whether the product is catalog or custom. We expect an estimated 90% of the backlog as of January 2, 2011 to be shipped within the fiscal year ending January 1, 2012. Although we generally recognize revenue upon the transfer of title to a customer, we may be required to defer the recognition of revenue even after title transfer depending on the specific arrangement with a customer and the applicable accounting treatment. A material portion of our backlog at January 2, 2011 is associated with a large order we received from one customer at the end of 2009 for which we are using operating lease accounting that requires us to recognize revenue over a period of three years with the majority of that revenue recognized in 2011 and 2012.

Seasonality

Historically, customer purchasing patterns have not shown significant seasonal variation, although demand for our products is usually lowest in the first quarter of the calendar year and highest in the third quarter of the calendar year as a result, in part, of U.S. academic customers spending unused budget allocations before the end of the U.S. government's fiscal year on September 30 of each year.

Environmental Matters

We are committed to the protection of our employees and the environment. Our operations require the use of hazardous materials that subject us to a variety of federal, state, and local environmental and safety laws and regulations. We believe we are in material compliance with current applicable laws and regulations; however, we could be held liable for damages and fines should contamination of the environment or individual exposures to hazardous substances occur. In addition, we cannot predict how changes in these laws and regulations, or the development of new laws and regulations, will affect our business operations or the cost of compliance.

Government Regulation

Our products are not currently subject to FDA clearance or approval if they are not intended to be used for the diagnosis of disease. However, as we expand our product line to encompass products that are intended to be used for the diagnosis of disease, such as molecular diagnostic products, regulation by governmental authorities in the United States and other countries will be a significant factor in the development, testing, production, and marketing of such products. Products that we develop in the molecular diagnostic markets, depending on their intended use, will be regulated as medical devices by the FDA and comparable agencies of other countries and may require either receiving clearance following a pre-market notification process, also known as a 510(k) clearance, or premarket approval (PMA), from the FDA prior to marketing. Obtaining the requisite regulatory approvals can be expensive and may involve considerable delay.

The shorter 510(k) clearance process, which generally takes from three to six months after submission, but can take significantly longer, may be utilized if it is demonstrated that the new product is "substantially equivalent" to a similar product that has already been cleared by the FDA. The longer PMA process is much more costly, uncertain, and generally takes from nine months to two years after filing. Because we cannot ensure that any molecular diagnostic products that we develop will be subject to the shorter 510(k) clearance process, or will ultimately be approved at all, the regulatory approval process for such products may be significantly delayed and may be significantly more expensive than anticipated. If we fail to obtain, or experience significant delays in obtaining, regulatory approvals for molecular diagnostic products that we

develop, we may not be able to launch or successfully commercialize such products in a timely manner, or at all.

Changes to the current regulatory framework, including the imposition of additional or new regulations, could arise at any time during the development or marketing of our products, which may negatively affect our ability to obtain or maintain FDA or comparable regulatory approval of our products, if required.

In addition, the regulatory approval or clearance process required to manufacture, market, and sell our existing and future products that are intended for, and marketed and labeled as, "Research Use Only," or RUO, is uncertain if such products are used or could be used, even without our consent, for the diagnosis of disease. If the FDA or other regulatory authorities assert that any of our RUO products are subject to regulatory clearance or approval, our business, financial condition, or results of operations could be adversely affected.

Employees

As of January 2, 2011, we had approximately 2,100 employees. None of our employees is represented by a labor union. We consider our employee relations to be positive. Our success will depend in large part upon our ability to attract and retain employees. In addition, we employ a number of temporary and contract employees. We face competition in this regard from other companies, research and academic institutions, government entities, and other organizations.

ITEM 1A. *Risk Factors*

Our business is subject to various risks, including those described below. In addition to the other information included in this Form 10-K, the following issues could adversely affect our operating results or our stock price.

We face intense competition, which could render our products obsolete, result in significant price reductions, or substantially limit the volume of products that we sell.

We compete with life sciences companies that design, manufacture, and market products for analysis of genetic variation and biological function and other applications using a wide-range of competing technologies. We anticipate that we will continue to face increased competition as existing companies develop new or improved products and as new companies enter the market with new technologies. One or more of our competitors may render our technology obsolete or uneconomical. Some of our competitors have greater financial and personnel resources, broader product lines, a more established customer base, and more experience in research and development than we do. Furthermore, life sciences and pharmaceutical companies, which are our potential customers and strategic partners, could also develop competing products. We believe that customers in our markets display a significant amount of loyalty to their initial supplier of a particular product; therefore, it may be difficult to generate sales to potential customers who have purchased products from competitors. To the extent we are unable to be the first to develop or supply new products, our competitive position may suffer.

The market for molecular diagnostics products is currently limited and highly competitive, with several large companies already having significant market share, intellectual property portfolios, and regulatory expertise. Established diagnostic companies also have an installed base of instruments in several markets, including clinical and reference laboratories, which could deter acceptance of our products. In addition, some of these companies have formed alliances with genomics companies that provide them access to genetic information that may be incorporated into their diagnostic tests.

Our success depends upon the continued emergence and growth of markets for analysis of genetic variation and biological function.

We design our products primarily for applications in the life sciences, agricultural, and pharmaceutical industries. The usefulness of our technologies depends in part upon the availability of genetic data and its usefulness in identifying or treating disease. We are focusing on markets for analysis of genetic variation and

biological function, namely sequencing, genotyping, and gene expression profiling. These markets are new and emerging, and they may not develop as quickly as we anticipate, or reach their full potential. Other methods of analysis of genetic variation and biological function may emerge and displace the methods we are developing. Also, researchers may not be able to successfully analyze raw genetic data or be able to convert raw genetic data into medically valuable information. For instance, demand for our microarray products may be adversely affected if researchers fail to find meaningful correlations between genetic variation, such as SNPs, and disease susceptibility through genome wide association studies. In addition, factors affecting research and development spending generally, such as changes in the regulatory environment affecting life sciences and pharmaceutical companies, and changes in government programs that provide funding to companies and research institutions, could harm our business. If useful genetic data is not available or if our target markets do not develop in a timely manner, demand for our products may grow at a slower rate than we expect, and we may not be able to sustain profitability.

If the quality of our products does not meet our customers' expectations, then our reputation could suffer and ultimately our sales and operating earnings could be negatively impacted.

In the course of conducting our business, we must adequately address quality issues associated with our products and services, including defects in our engineering, design, and manufacturing processes, as well as defects in third-party components included in our products. Because our instruments and consumables are highly complex, the occurrence of defects may increase as we continue to introduce new products and services and as we rapidly scale up manufacturing to meet increased demand for our products and services. Although we have established internal procedures to minimize risks that may arise from product quality issues, there can be no assurance that we will be able to eliminate or mitigate occurrences of these issues and associated liabilities. In addition, identifying the root cause of quality issues, particularly those affecting reagents and third-party components, may be difficult, which increases the time needed to address quality issues as they arise and increases the risk that similar problems could recur. Finding solutions to quality issues can be expensive and we may incur significant costs or lost revenue in connection with, for example, shipment holds, product recalls, and warranty or other service obligations. In addition, quality issues can impair our relationships with new or existing customers and adversely affect our brand image, and our reputation as a producer of high quality products could suffer, which could adversely affect our business, financial condition, or results of operations.

Our continued growth is dependent on continuously developing and commercializing new products.

Our target markets are characterized by rapid technological change, evolving industry standards, changes in customer needs, existing and emerging competition, strong price competition, and frequent new product introductions. Accordingly, our continued growth depends on continuously developing and commercializing new products and services, including improving our existing products and services, in order to address evolving market requirements on a timely basis. If we fail to innovate or adequately invest in new technologies, our products and services will become dated, and we could lose our competitive position in the markets that we serve as customers purchase new products offered by our competitors. We believe that successfully introducing new products and technologies in our target markets on a timely basis provides a significant competitive advantage because customers make an investment of time in selecting and learning to use a new product and may be reluctant to switch once that selection is made.

To the extent that we fail to introduce new and innovative products, or such products are not accepted in the market or suffer significant delays in development, we may lose market share to our competitors, which will be difficult or impossible to regain. An inability, for technological or other reasons, to successfully develop and introduce new products could reduce our growth rate or otherwise have an adverse effect on our business. In the past, we have experienced, and are likely to experience in the future, delays in the development and introduction of new products. We cannot ensure that we will keep pace with the rapid rate of change in our markets or that our new products will adequately meet the requirements of the marketplace,

achieve market acceptance, or compete successfully with competing technologies. Some of the factors affecting market acceptance of new products and services include:

- availability, quality, and price relative to competing products and services;
- the functionality and performance of new and existing products and services;
- the timing of introduction of the new product or service relative to competing products and services;
- scientists' and customers' opinions of the utility of the new product or service;
- citation of the new product or service in published research;
- regulatory trends and approvals; and
- general trends in life sciences research and applied markets.

We may also have to write off excess or obsolete inventory if sales of our products are not consistent with our expectations or the market requirements for our products change due to technical innovations in the marketplace.

If we do not successfully manage the development and launch of new products or services, including product transitions, our financial results could be adversely affected.

We face risks associated with launching new products and pre-announcing products and services when the products or services have not been fully developed or tested. If our products and services are not able to deliver the performance or results expected by our target markets or are not delivered on a timely basis, our reputation and credibility may suffer. If we encounter development challenges or discover errors in our products late in our development cycle, we may delay our product launch date. In addition, we may experience difficulty in managing or forecasting customer reactions, purchasing decisions, or transition requirements or programs (such as trade-in programs) with respect to newly launched products (or products in development) relative to our existing products, which could adversely affect sales of our existing products. The expenses or losses associated with unsuccessful product development or launch activities or lack of market acceptance of our new products could adversely affect our business, financial condition, or results of operations.

Reduction or delay in research and development budgets and government funding may adversely affect our revenue.

A substantial portion of our revenue is derived from genomic research centers, academic institutions, government laboratories, and clinical research organizations, as well as pharmaceutical, biotechnology, agrigenomics, and consumer genomics companies, and their capital spending budgets can have a significant effect on the demand for our products and services. These budgets are based on a wide variety of factors, including the allocation of available resources to make purchases, funding from government sources, the spending priorities among various types of research equipment, and policies regarding capital expenditures during recessionary periods. Any decrease in capital spending or change in spending priorities of our customers could significantly reduce our revenue. Moreover, we have no control over the timing and amount of purchases by our customers, and as a result, revenue from these sources may vary significantly due to factors that can be difficult to forecast. Any delay or reduction in purchases by our customers or our inability to forecast fluctuations in demand could harm our future operating results.

We depend on third-party manufacturers and suppliers for components and materials used in our products, and if shipments from these manufacturers or suppliers are delayed or interrupted, or if the quality of the components or materials supplied do not meet our requirements, we may not be able to launch, manufacture, or ship our products in a timely manner, or at all.

The complex nature of our products requires customized, precision-manufactured, components and materials that currently are available from a limited number of sources, and, in the case of some components

and materials, from only a single source. If deliveries from these vendors are delayed or interrupted for any reason, or if we are otherwise unable to secure a sufficient supply, we may not be able to obtain these components or materials timely or in sufficient quantities or qualities, or at all, in order to meet demand for our products. We may need to enter into contractual relationships with manufacturers for commercial-scale production of some of our products, or develop these capabilities internally, and we cannot ensure that we will be able to do this on a timely basis, in sufficient quantities, or on commercially reasonable terms. In addition, the lead time needed to establish a relationship with a new supplier can be lengthy, and we may experience delays in meeting demand in the event we must switch to a new supplier. The time and effort required to qualify a new supplier could result in additional costs, diversion of resources, or reduced manufacturing yields, any of which would negatively impact our operating results. Accordingly, we may not be able to establish or maintain reliable, high-volume manufacturing at commercially reasonable costs or at all. In addition, the manufacture or shipment of our products may be delayed or interrupted if the quality of the components or materials supplied by our vendors does not meet our requirements. Any delay or interruption to our manufacturing process or in shipping our products could result in lost revenue, which would adversely affect our business, financial condition, or results of operations.

If we are unable to increase our manufacturing capacity and develop and maintain operation of our manufacturing capability, we may not be able to launch or support our products in a timely manner, or at all.

We continue to rapidly increase our manufacturing capacity to meet the anticipated demand for our products. Although we have significantly increased our manufacturing capacity and we believe we have plans in place sufficient to ensure we have adequate capacity to meet our business plan for 2011, there are uncertainties inherent in expanding our manufacturing capabilities, and we may not be able to sufficiently increase our capacity in a timely manner. For example, manufacturing and product quality issues may arise as we increase production rates at our manufacturing facilities and launch new products. Also, we may not manufacture the right product mix to meet customer demand, especially as we introduce new products. As a result, we may experience difficulties in meeting customer, collaborator, and internal demand, in which case we could lose customers or be required to delay new product introductions, and demand for our products could decline. Additionally, in the past, we have experienced variations in manufacturing conditions and quality control issues that have temporarily reduced or suspended production of certain products. Due to the intricate nature of manufacturing complex instruments, consumables, and products that contain DNA, we may encounter similar or previously unknown manufacturing difficulties in the future that could significantly reduce production yields, impact our ability to launch or sell these products (or to produce them economically), prevent us from achieving expected performance levels, or cause us to set prices that hinder wide adoption by customers.

Additionally, we currently manufacture in a limited number of locations. Our manufacturing facilities are located in San Diego and Hayward, California; Singapore; and Little Chesterford, United Kingdom. These areas are subject to natural disasters such as earthquakes, wildfires, or floods. If a natural disaster were to damage one of our facilities significantly or if other events were to cause our operations to fail, we may be unable to manufacture our products, provide our services, or develop new products.

Also, many of our manufacturing processes are automated and are controlled by our custom-designed Laboratory Information Management System (LIMS). Additionally, the decoding process in our array manufacturing requires significant network and storage infrastructure. If either our LIMS system or our networks or storage infrastructure were to fail for an extended period of time, it may adversely impact our ability to manufacture our products on a timely basis and could prevent us from achieving our expected shipments in any given period.

Our acquisitions expose us to risks that could adversely affect our business, and we may not achieve the anticipated benefits of acquisitions of businesses or technologies.

As part of our strategy to develop and identify new products, services, and technologies, we have made, and may continue to make, acquisitions of technologies, products, or businesses. Acquisitions involve

numerous risks and operational, financial, and managerial challenges, including the following, any of which could adversely affect our business, financial condition, or results of operations:

- difficulties in integrating new operations, technologies, products, and personnel;
- lack of synergies or the inability to realize expected synergies and cost-savings;
- difficulties in managing geographically dispersed operations;
- underperformance of any acquired technology, product, or business relative to our expectations and the price we paid;
- negative near-term impacts on financial results after an acquisition, including acquisition-related earnings charges;
- the potential loss of key employees, customers, and strategic partners of acquired companies;
- claims by terminated employees and shareholders of acquired companies or other third parties related to the transaction;
- the issuance of dilutive securities, assumption or incurrence of additional debt obligations or expenses, or use of substantial portions of our cash;
- diversion of management's attention and company resources from existing operations of the business;
- inconsistencies in standards, controls, procedures, and policies;
- the impairment of intangible assets as a result of technological advancements, or worse-than-expected performance of acquired companies; and
- assumption of, or exposure to, unknown contingent liabilities or liabilities that are difficult to identify or accurately quantify.

In addition, the successful integration of acquired businesses requires significant efforts and expense across all operational areas, including sales and marketing, research and development, manufacturing, finance, legal, and information technologies. We cannot ensure that any of the acquisitions we make will be successful or will be, or will remain, profitable. Our failure to successfully address the above risks may prevent us from achieving the anticipated benefits from any acquisition in a reasonable time frame, or at all.

The timing and extent of funding provided by the American Recovery and Reinvestment Act of 2009 (the Recovery Act) could adversely affect our business, financial condition, or results of operations.

The Recovery Act was enacted in February 2009 to provide stimulus to the U.S. economy in the wake of the economic downturn. As part of the Recovery Act legislation, over $10 billion in funding was provided to the National Institute of Health to support the advancement of scientific research. A portion of the stimulus funding may support the analysis of genetic variation and biological function and have a significant positive impact on our business. If our customers are unable to obtain stimulus money they may reduce their research and development budgets resulting in a decrease in demand for our products. In addition, it is unclear what will happen to demand for our products after the stimulus funds from the Recovery Act have been allocated and spent. A decline in demand will reduce our revenues, which would adversely affect our business, financial condition, or results of operations.

Unfavorable global economic conditions could adversely affect our business, financial condition, or results of operations.

Our results of operations could be adversely affected by general conditions in the global economy and in the global financial markets. The recent global financial crisis caused extreme volatility and disruptions in the capital and credit markets. A severe or prolonged economic downturn, such as the recent global financial crisis, could result in a variety of risks to our business, including, in particular, reductions or delays in planned improvements to healthcare systems, research and development funding, and purchases of our products and

services, or cost-containment efforts by governments and private organizations that could adversely affect our business, financial condition, or results of operations. In addition, the liquidity of our investment portfolio could be impaired such as when more than $50 million of auction rate securities that we held for investment became illiquid in February 2008 because their scheduled auctions failed. Furthermore, as is the case for almost any other business, we face the following risks from a severe or prolonged economic downturn:

- severely limited access to financing over an extended period of time, which may limit our ability to fund our growth strategy, could result in a need to delay capital expenditures, acquisitions, or research and development projects;
- losses from our investment portfolio or to a counterparty's inability to fulfill its payment obligations;
- inability to refinance existing debt at competitive rates, reasonable terms, or sufficient amounts; and
- increased volatility or adverse movements in foreign currency exchange rates.

In addition, certain of our customers may face challenges gaining timely access to sufficient credit, which could result in an impairment of their ability to make timely payments to us. If that were to occur, our allowance for doubtful accounts and our days sales outstanding could increase. Additionally, these economic conditions may cause our smaller suppliers to be unable to supply in a timely manner sufficient quantities of customized components, which would impair our ability to manufacture on schedule and at commercially reasonable costs. Suppliers may also extend lead times, limit supplies, or increase prices due to capacity constraints or other factors.

An inability to manage our growth or the expansion of our operations could adversely affect our business, financial condition, or results of operations.

Our business has grown rapidly, with total revenues increasing from $73.5 million for the year ended January 1, 2006 to $902.7 million for the year ended January 2, 2011 and with the number of employees increasing from approximately 375 to approximately 2,100 during the same period. We expect to continue to experience rapid and substantial growth in order to achieve our operating plans. The rapid expansion of our business and addition of new personnel may place a strain on our management and operational systems. Our ability to effectively manage our operations and growth requires us to continue to expend funds to enhance our operational, financial, and management controls, reporting systems, and procedures and to attract and retain sufficient numbers of talented employees on a global basis. If we are unable to scale-up and implement improvements to our manufacturing process and control systems in an efficient or timely manner, or if we encounter deficiencies in existing systems and controls, then we will not be able to make available the products required to successfully commercialize our technology. Our future operating results will depend on the ability of our management to continue to implement and improve our research, product development, manufacturing, sales and marketing, and customer support programs, enhance our operational and financial control systems, expand, train, and manage our employee base, integrate acquired businesses, and effectively address new issues related to our growth as they arise. There can be no assurance that we will be able to manage our recent or any future expansion or acquisition successfully, and any inability to do so could adversely affect our business, financial condition, or results of operations.

If we lose our key personnel or are unable to attract and retain additional personnel, we may be unable to achieve our goals.

We are highly dependent on our management and scientific personnel, including Jay Flatley, our President and Chief Executive Officer. The loss of their services could adversely impact our ability to achieve our business objectives. In addition, we will need to hire additional qualified personnel with expertise in molecular biology, chemistry, biological information processing, sales, marketing, and technical support. We compete for qualified management and scientific personnel with other life science companies, universities, and research institutions, particularly those focusing on genomics. Competition for these individuals, particularly in the San Diego and San Francisco area, is intense, and the turnover rate can be high. Failure to attract and retain management and scientific personnel would prevent us from pursuing collaborations or developing our

products or technologies. Additionally, integration of acquired companies and businesses can be disruptive, causing key employees of the acquired business to leave. Further, we use stock options and restricted stock units to provide incentives for our key personnel to remain with us and to align their interests with those of the Company by building long-term stockholder value. If our stock price decreases, the value of these equity awards decreases and therefore reduces a key employee's incentive to stay.

Any inability to effectively protect our proprietary technologies could harm our competitive position.

Our success depends to a large extent on our ability to develop proprietary products and technologies and to obtain patents and maintain adequate protection of our intellectual property in the United States and other countries. If we do not protect our intellectual property adequately, competitors may be able to use our technologies and thereby erode our competitive advantage. The laws of some foreign countries do not protect proprietary rights to the same extent as the laws of the United States, and many companies have encountered significant challenges in establishing and enforcing their proprietary rights outside of the United States. These challenges can be caused by the absence of rules and methods for the establishment and enforcement of intellectual property rights outside of the United States.

The patent positions of companies developing tools for the life sciences, agricultural, and pharmaceutical industries, including our patent position, generally are uncertain and involve complex legal and factual questions. We will be able to protect our proprietary rights from unauthorized use by third parties only to the extent that our proprietary technologies are covered by valid and enforceable patents or are effectively maintained as trade secrets. In addition, certain patent applications in the United States may be maintained in secrecy until the patents issue, and publication of discoveries in the scientific or patent literature tend to lag behind actual discoveries by several months. We intend to apply for patents covering our technologies and products as we deem appropriate. However, our patent applications may be challenged and may not result in issued patents or may be invalidated or narrowed in scope after they are issued. Questions as to inventorship or ownership may also arise. Any finding that our patents or applications are unenforceable could harm our ability to prevent others from practicing the related technology, and a finding that others have inventorship or ownership rights to our patents and applications could require us to obtain certain rights to practice related technologies, which may not be available on favorable terms, if at all. Furthermore, as issued patents expire, we may lose some competitive advantage as others develop competing products, and, as a result, we may lose revenue.

In addition, our existing patents and any future patents we obtain may not be sufficiently broad to prevent others from practicing our technologies or from developing competing products. There is also the risk that others may independently develop similar or alternative technologies or design around our patented technologies. Also, our patents may fail to provide us with any competitive advantage. We may need to initiate lawsuits to protect or enforce our patents, or litigate against third party claims, which would be expensive, and, if we lose, may cause us to lose some of our intellectual property rights and reduce our ability to compete in the marketplace. Furthermore, these lawsuits may divert the attention of our management and technical personnel.

We also rely upon trade secrets and proprietary know-how protection for our confidential and proprietary information, and we have taken security measures to protect this information. These measures, however, may not provide adequate protection for our trade secrets, know-how, or other confidential information. Among other things, we seek to protect our trade secrets and confidential information by entering into confidentiality agreements with employees, collaborators, and consultants. There can be no assurance that any confidentiality agreements that we have with our employees, collaborators, and consultants will provide meaningful protection for our trade secrets and confidential information or will provide adequate remedies in the event of unauthorized use or disclosure of such information. Accordingly, there also can be no assurance that our trade secrets will not otherwise become known or be independently developed by competitors.

Litigation, other proceedings, or third party claims of intellectual property infringement could require us to spend significant time and money and could prevent us from selling our products or services.

Our success depends, in part, on our non-infringement of the patents or proprietary rights of third parties. Third parties have asserted and may in the future assert that we are employing their proprietary technology without authorization. As we enter new markets, we expect that competitors will likely claim that our products infringe their intellectual property rights as part of a business strategy to impede our successful entry into those markets. In addition, third parties may have obtained and may in the future obtain patents allowing them to claim that the use of our technologies infringes these patents. We could incur substantial costs and divert the attention of our management and technical personnel in defending ourselves against any of these claims. Any adverse ruling or perception of an adverse ruling in defending ourselves against these claims could have an adverse impact on our stock price, which may be disproportionate to the actual import of the ruling itself. Furthermore, parties making claims against us may be able to obtain injunctive or other relief, which effectively could block our ability to develop further, commercialize, or sell products or services, and could result in the award of substantial damages against us. In the event of a successful infringement claim against us, we may be required to pay damages and obtain one or more licenses from third parties, or be prohibited from selling certain products or services. In addition, we may be unable to obtain these licenses at a reasonable cost, if at all. We could therefore incur substantial costs related to royalty payments for licenses obtained from third parties, which could negatively affect our gross margins. In addition, we could encounter delays in product introductions while we attempt to develop alternative methods or products. Defense of any lawsuit or failure to obtain any of these licenses on favorable terms could prevent us from commercializing products, and the prohibition of sale of any of our products or services could adversely affect our ability to grow or maintain profitability.

Doing business internationally creates operational and financial risks for our business.

Conducting and launching operations on an international scale requires close coordination of activities across multiple jurisdictions and time zones and consumes significant management resources. If we fail to coordinate and manage these activities effectively, including the risks noted below, our business, financial condition, or results of operations could be adversely affected. We are focused on expanding our international operations in key markets. We have sales offices located internationally throughout Europe, the Asia-Pacific region, and Brazil as well as manufacturing facilities in the United Kingdom and Singapore. During 2010, the majority of our sales to international customers and purchases of raw materials from international suppliers were denominated in U.S. dollars. Shipments to customers outside the United States comprised 45%, 48%, and 51% of our total revenue for the years ended January 2, 2011, January 3, 2010, and December 28, 2008, respectively. We intend to continue to expand our international presence by selling to customers located outside of the United States and we expect the total amount of non-U.S. sales to continue to grow.

International sales entail a variety of risks, including:

- longer payment cycles and difficulties in collecting accounts receivable outside of the United States;
- longer sales cycles due to the volume of transactions taking place through public tenders;
- currency exchange fluctuations;
- challenges in staffing and managing foreign operations;
- tariffs and other trade barriers;
- unexpected changes in legislative or regulatory requirements of foreign countries into which we sell our products;
- difficulties in obtaining export licenses or in overcoming other trade barriers and restrictions resulting in delivery delays; and
- significant taxes or other burdens of complying with a variety of foreign laws.

Changes in the value of the relevant currencies may affect the cost of certain items required in our operations. Changes in currency exchange rates may also affect the relative prices at which we are able sell products in the same market. Our revenues from international customers may be negatively impacted as increases in the U.S. dollar relative to our international customers local currency could make our products more expensive, impacting our ability to compete. Our costs of materials from international suppliers may increase if in order to continue doing business with us they raise their prices as the value of the U.S. dollar decreases relative to their local currency. Foreign policies and actions regarding currency valuation could result in actions by the United States and other countries to offset the effects of such fluctuations. The recent global financial downturn has led to a high level of volatility in foreign currency exchange rates and that level of volatility may continue, which could adversely affect our business, financial condition, or results of operations.

We are subject to risks related to taxation in multiple jurisdictions and the possible loss of the tax deduction on our outstanding convertible notes.

We are subject to income taxes in both the United States and numerous foreign jurisdictions. Significant judgments based on interpretations of existing tax laws or regulations are required in determining the provision for income taxes. Our effective income tax rate could be adversely affected by various factors, including, but not limited to, changes in the mix of earnings in tax jurisdictions with different statutory tax rates, changes in the valuation of deferred tax assets and liabilities, changes in existing tax laws or tax rates, changes in the level of non-deductible expenses (including share-based compensation), changes in our future levels of research and development spending, mergers and acquisitions, or the result of examinations by various tax authorities. Although we believe our tax estimates are reasonable, if the IRS or other taxing authority disagrees with the positions taken by the Company on its tax returns, we could have additional tax liability, including interest and penalties. If material, payment of such additional amounts upon final adjudication of any disputes could have a material impact on our results of operations and financial position.

In addition, we could lose some or all of the tax deduction for interest expense associated with our $390 million aggregate principal amount of convertible notes due in 2014 if these notes are not subject to the special Treasury Regulations governing contingent payment debt instruments, the notes are converted, or we invest in non-taxable investments.

Our products, if used for the diagnosis of disease, could be subject to government regulation, and the regulatory approval and maintenance process for such products may be expensive, time-consuming, and uncertain both in timing and in outcome.

Our products are not currently subject to FDA clearance or approval if they are not intended to be used for the diagnosis of disease. However, as we expand our product line to encompass products that are intended to be used for the diagnosis of disease, certain of our products are likely to become subject to regulation by the FDA, or comparable agencies of other countries, including requirements for regulatory approval of such products before they can be marketed. Such regulatory approval processes or clearances may be expensive, time-consuming, and uncertain, and our failure to obtain or comply with such approvals and clearances could have an adverse effect on our business, financial condition, or operating results. In addition, changes to the current regulatory framework, including the imposition of additional or new regulations, could arise at any time during the development or marketing of our products, which may negatively affect our ability to obtain or maintain FDA or comparable regulatory approval of our products, if required.

Molecular diagnostic products, in particular, depending on their intended use, may be regulated as medical devices by the FDA and comparable agencies of other countries and may require either receiving clearance from the FDA following a pre-market notification process or premarket approval from the FDA, in each case prior to marketing. Obtaining the requisite regulatory approvals can be expensive and may involve considerable delay. If we fail to obtain, or experience significant delays in obtaining, regulatory approvals for molecular diagnostic products that we develop, we may not be able to launch or successfully commercialize such products in a timely manner, or at all.

In addition, the regulatory approval or clearance process required to manufacture, market, and sell our existing and future products that are intended for, and marketed and labeled as, "Research Use Only," or RUO, is uncertain if such products are used or could be used, even without our consent, for the diagnosis of disease. If the FDA or other regulatory authorities assert that any of our RUO products are subject to regulatory clearance or approval, our business, financial condition, or results of operations could be adversely affected.

Our operating results may vary significantly from period to period, and we may not be able to sustain operating profitability.

Our revenue is subject to fluctuations due to the timing of sales of high-value products and services, the effects of new product launches and related promotions, the impact of seasonal spending patterns, the timing and size of research projects our customers perform, the timing of our customers' funding, changes in overall spending levels in the life sciences industry, and other unpredictable factors that may affect customer ordering patterns. Given the difficulty in predicting the timing and magnitude of sales for our products and services, we may experience quarter-to-quarter fluctuations in revenue resulting in the potential for a sequential decline in quarterly revenue. While we anticipate future growth, there is some uncertainty as to the timing of revenue recognition on a quarterly basis. This is because a substantial portion of our quarterly revenue is typically recognized in the last month of a quarter and because the pattern for revenue generation during that month is normally not linear, with a concentration of orders in the final week of the quarter. In light of that, our revenue cut-off and recognition procedures, together with our manufacturing and shipping operations, may experience increased pressure and demand during the time period shortly before the end of a fiscal quarter.

A large portion of our expenses is relatively fixed, including expenses for facilities, equipment, and personnel. In addition, we expect operating expenses to continue to increase significantly in absolute dollars, and we expect that our research and development and selling and marketing expenses will increase at a higher rate in the future as a result of the development and launch of new products. Accordingly, our ability to sustain profitability will depend, in part, on the rate of growth, if any, of our revenue and on the level of our expenses, and if revenue does not grow as anticipated, we may not be able to maintain annual or quarterly profitability. Any significant delays in the commercial launch of our products, unfavorable sales trends in our existing product lines, or impacts from the other factors mentioned above, could adversely affect our future revenue growth or cause a sequential decline in quarterly revenue. In addition, non-cash share-based compensation expense and expenses related to prior and future acquisitions are also likely to continue to adversely affect our future profitability. Due to the possibility of significant fluctuations in our revenue and expenses, particularly from quarter to quarter, we believe that quarterly comparisons of our operating results are not a good indication of our future performance. If our operating results fluctuate or do not meet the expectations of stock market analysts and investors, our stock price could decline.

From time to time, we receive large orders that have a significant effect on our operating results in the period in which the order is recognized as revenue. The timing of such orders is difficult to predict, and the timing of revenue recognition from such orders may affect period to period changes in net sales. As a result, our operating results could vary materially from quarter to quarter based on the receipt of such orders and their ultimate recognition as revenue.

Changes in accounting standards and subjective assumptions, estimates, and judgments by management related to complex accounting matters could significantly affect our financial results or financial condition.

Generally accepted accounting principles and related accounting pronouncements, implementation guidelines, and interpretations with regard to a wide range of matters that are relevant to our business, such as revenue recognition, asset impairment and fair value determinations, inventories, business combinations and intangible asset valuations, and litigation, are highly complex and involve many subjective assumptions, estimates, and judgments. Changes in these rules or their interpretation or changes in underlying assumptions, estimates, or judgments could significantly change our reported or expected financial performance or financial condition.

Ethical, legal, and social concerns related to the use of genetic information could reduce demand for our products or services.

Our products may be used to provide genetic information about humans, agricultural crops, and other living organisms. The information obtained from our products could be used in a variety of applications, which may have underlying ethical, legal, and social concerns regarding privacy and the appropriate uses of the resulting information, including the genetic engineering or modification of agricultural products or testing genetic predisposition for certain medical conditions. Governmental authorities could, for social or other purposes, call for limits on or regulation of the use of genetic testing or prohibit testing for genetic predisposition to certain conditions, particularly for those that have no known cure. Similarly, such concerns may lead individuals to refuse to use genetics tests even if permissible. These and other ethical, legal, and social concerns about genetic testing may limit market acceptance of our technology for certain applications or reduce the potential markets for our technology, either of which could have an adverse effect on our business, financial condition, or results of operations.

The relocation of our corporate headquarters, which is expected to begin in late 2011, could adversely affect our business, financial condition, or results of operations.

During the fourth quarter of 2010, we entered into a lease agreement for a new corporate headquarters to meet our current and long-term expansion needs. We expect to begin relocating most of our San Diego-based operations to this new facility in late 2011. In addition to incurring a one-time non-cash charge of approximately $30 million related to the remaining lease obligations for our current corporate headquarters, we expect to incur additional expenses associated with the relocation itself. Although we expect to sublease our current corporate headquarters, we will continue to be subject to rent and lease obligations for our current facility through October 2023. Additional risks associated with the relocation, including, in particular, the relocation of oligo manufacturing that currently takes place at our corporate headquarters, may include delays in receiving necessary permits and approvals and business disruption as complex manufacturing equipment is moved.

Our strategic equity investments may result in losses.

We periodically make strategic equity investments in various public and private companies with businesses or technologies that may complement our business. The market values of these strategic equity investments may fluctuate due to market conditions and other conditions over which we have no control. Other-than-temporary declines in the market price and valuations of the securities that we hold in other companies would require us to record losses in proportion to our ownership interest. This could result in future charges to our earnings. It is uncertain whether or not we will realize any long-term benefits associated with these strategic investments.

Conversion of our outstanding convertible notes may result in losses.

As of January 2, 2011, we had $390.0 million aggregate principal amount of convertible notes outstanding. The notes are convertible into cash, and if applicable, shares of our common stock under certain circumstances, including trading price conditions related to our common stock. If the trading price of our common stock remains significantly above the conversion price of $21.83 per share, we expect that noteholders will elect to convert the notes. Upon conversion, we are required to record a gain or loss for the difference between the fair value of the notes to be extinguished and their corresponding net carrying value. The fair value of the notes to be extinguished depends on our current incremental borrowing rate. The net carrying value of our notes has an implicit interest rate of 8.27%. If our incremental borrowing rate at the time of conversion is lower than the implied interest rate of the notes, we will record a loss in our consolidated statement of income during the period in which the notes are converted.

Item 1B. ***Unresolved Staff Comments.***

None.

Item 2. ***Properties.***

The following chart summarizes the facilities we lease as of January 2, 2011, including the location and size of each principal facility, and their designated use. We believe our facilities are adequate for our current and near-term needs, and that we will be able to locate additional facilities as needed.

Location	Approximate Square Feet	Operation	Lease Expiration Dates
San Diego, CA	314,000	R&D, Manufacturing, Storage, Distribution and Administrative	2011 – 202
Hayward, CA	109,000	R&D, Manufacturing and Administrative	2013 – 201
Singapore	61,000	Manufacturing and Administrative	2013 – 2015
Eindhoven, the Netherlands	54,000	Distribution and Administrative	2011 – 201
Little Chesterford, United Kingdom	41,500	R&D, Manufacturing and Administrative	2024
Other	34,000	R&D, Manufacturing, Sales and Administrative	2011 – 201

In December 2010, we agreed to lease a facility in San Diego, California that will serve as our new corporate headquarters, which includes facilities for research and development and manufacturing. The lease covers existing buildings with approximately 346,600 rentable square feet and an additional building with approximately 123,400 rentable square feet to be built in the future. The lease has an initial term of 20 years. We excluded this lease from the table above as the lease will not commence until the second half of 2011. We plan to relocate from our present corporate headquarters to the new facility and expect the transition to begin during the fourth quarter of 2011.

Item 3. ***Legal Proceedings.***

From time to time, we are party to litigation and other legal proceedings in the ordinary course, and incidental to the conduct, of our business. While the results of any litigation or other legal proceedings are uncertain, management does not believe the ultimate resolution of any pending legal matters is likely to have a material adverse effect on our financial position or results of operations.

Item 4. ***Reserved.***

PART II

Item 5. ***Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.***

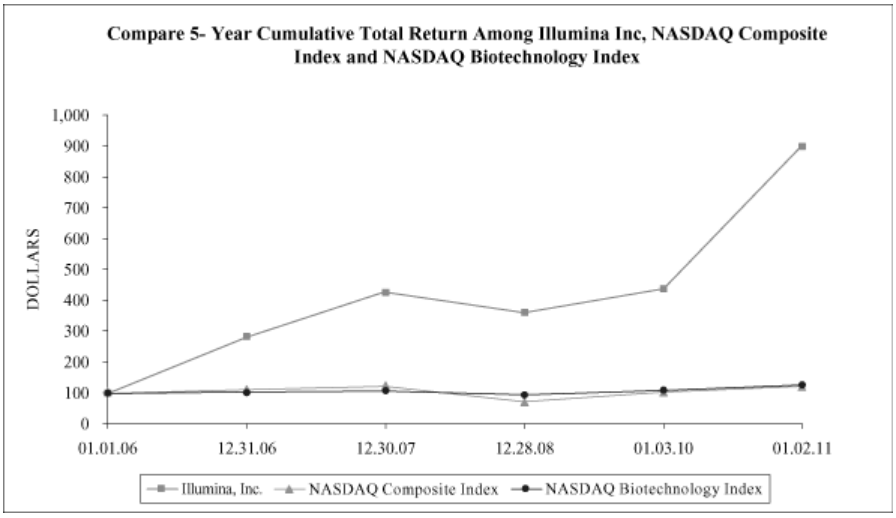
Market Information

Our common stock has been quoted on The NASDAQ Global Select Market under the symbol "ILMN" since July 28, 2000. Prior to that time, there was no public market for our common stock. The following table sets forth, for the fiscal periods indicated, the quarterly high and low sales prices per share of our common stock as reported on The NASDAQ Global Select Market.

	2010		2009	
	High	Low	High	Low
First Quarter	$ 40.90	$ 29.76	$ 38.95	$ 23.29
Second Quarter	45.72	36.70	39.92	33.17
Third Quarter	50.93	41.15	41.56	30.73
Fourth Quarter	66.59	47.70	44.07	25.59

Stock Performance Graph

The graph below compares the cumulative total stockholder returns on our common stock for the last five fiscal years with the cumulative total stockholder returns on the NASDAQ Composite Index and the NASDAQ Biotechnology Index for the same period. The graph assumes that $100 was invested on January 1, 2006 in our common stock and in each index and that all dividends were reinvested. No cash dividends have been declared on our common stock. Stockholder returns over the indicated period should not be considered indicative of future stockholder returns.



Holders

As of February 4, 2011 we had 348 record holders of our common stock.

Dividends

We have never paid cash dividends and have no present intention to pay cash dividends in the foreseeable future. In addition, the indenture for our convertible senior notes due 2014, which notes are convertible into

cash and, in certain circumstances, shares of our common stock, requires us to increase the conversion rate applicable to the notes if we pay any cash dividends.

Purchases of Equity Securities by the Issuer

In July 2010, our board of directors authorized a $200 million stock repurchase program, with $100 million allocated to repurchasing our common stock under a 10b5-1 plan over a 12 month period and $100 million allocated to repurchasing our common stock at management's discretion during open trading windows. The following table summarizes shares repurchased pursuant to this program during the quarter ended January 2, 2011:

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share(1)	Total Number of Shares Purchased as Part of Publicly Announced Programs(1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Programs(1)
October 4 – October 31, 2010	160,517	$ 49.84	160,517	$ 176,002,121
November 1 – November 28, 2010	139,738	57.25	139,738	168,002,146
November 29, 2010 – January 2, 2011	188,747	63.58	188,747	156,002,505
Total	489,002	$ 57.86	489,002	$ 156,002,505

(1) All shares purchased during the quarter ended January 2, 2011 were in connection with our stock repurchase programs authorized by our board of directors in July 2010. All stock repurchases were made under the 10b5-1 trading program.

Sales of Unregistered Securities

None during the fourth quarter of fiscal 2010.

Item 6. ***Selected Financial Data.***

The following table sets forth selected historical consolidated financial data for each of our last five fiscal years during the period ended January 2, 2011.

Statement of Operations Data

	Years Ended				
	January 2, 2011 (52 weeks)	January 3, 2010 (53 weeks)	December 28, 2008 (52 weeks)	December 30, 2007 (52 weeks)	December 31, 2006 (52 weeks)
	(In thousands, except per share data)				
Total revenue	$ 902,741	$ 666,324	$ 573,225	$ 366,799	$ 184,586
Income (loss) from operations(1),(2)	211,654	125,597	80,457	(301,201)	37,812
Net income (loss)	124,891	72,281	39,416	(287,305)	39,968
Net income (loss) per share:					
Basic	$ 1.01	$ 0.59	$ 0.34	$ (2.65)	$ 0.45
Diluted	$ 0.87	$ 0.53	$ 0.30	$ (2.65)	$ 0.41
Shares used in calculating net income (loss) per share:					
Basic	123,581	123,154	116,855	108,308	89,002
Diluted	143,433	137,096	133,607	108,308	97,508

Balance Sheet Data

	January 2, 2011	January 3, 2010	December 28, 2008	December 30, 2007	December 31, 2006
			(In thousands)		
Cash, cash equivalents and short-term investments(2),(3),(4),(5)	$ 894,289	$ 693,527	$ 640,075	$ 386,082	$ 130,804
Working capital	723,881	540,354	483,113	397,040	159,950
Total assets	1,839,113	1,429,937	1,327,171	929,981	300,584
Long-term debt, current portion(5)	311,609	290,202	276,889	16	—
Long-term debt, less current portion(5)	—	—	—	258,007	—
Total stockholders' equity(1),(2),(3),(4)	1,197,675	864,248	798,667	353,927	247,342

In addition to the following notes, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 8, "Financial Statements and Supplementary Data" for further information regarding our consolidated results of operations and financial position for periods reported therein and for known factors that will impact comparability of future results.

(1) The consolidated financial statements include results of operations of acquired companies commencing on their respective acquisition dates. As a result of prior acquisitions completed, we recorded charges to write-off acquired in-process research and development, or IPR&D, of $1.3 million, $11.3 million, $24.7 million, and $303.4 million during the years ended January 2, 2011, January 3, 2010, December 28, 2008, and December 30, 2007, respectively. See note "3. Acquisitions" in Part II, Item 8, Notes to Consolidated Financial Statements for further information.

(2) For the year ended December 30, 2007, we recorded a $54.0 million charge for the settlement of our litigation with Affymetrix. In January 2008, we paid $90.0 million related to the Affymetrix settlement.

(3) In August 2008, a total of 8,050,000 shares were sold to the public at a public offering price of $43.75 per share, raising net proceeds to us of $342.7 million. See note "9. Stockholders' Equity" in Part II, Item 8, Notes to Consolidated Financial Statements.

(4) For the years ended January 2, 2011, January 3, 2010, December 28, 2008 and December 30, 2007, we repurchased 0.8 million, 6.1 million, 3.1 million and 14.8 million shares, respectively, of common stock for $44.0 million, $175.1 million, $70.8 million and $251.6 million, respectively. See note "9. Stockholders' Equity" in Part II, Item 8, Notes to Consolidated Financial Statements.

(5) In February 2007, we issued $400.0 million principal amount of 0.625% Convertible Senior Notes due 2014. Due to the convertibility feature, we classify the principal amount of the notes as current in our consolidated balance sheet. See note "7. Convertible Senior Notes" in Part II, Item 8, Notes to Consolidated Financial Statements for further information.

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations.*

Certain statements set forth below constitute forward-looking statements. See "Special Note Regarding Forward-Looking Statements" for additional factors relating to such statements, and see "Risk Factors" in Item 1A of this report for a discussion of certain risk factors applicable to our business, financial condition, and results of operations.

Business Overview

We are a leading developer, manufacturer, and marketer of life science tools and integrated systems for the analysis of genetic variation and function. Using our proprietary technologies, we provide a comprehensive line of genetic analysis solutions, with products and services that serve a broad range of highly interconnected markets, including sequencing, genotyping, gene expression, and molecular diagnostics. Our customers include

leading genomic research centers, academic institutions, government laboratories, and clinical research organizations, as well as pharmaceutical, biotechnology, agrigenomics, and consumer genomics companies.

Our broad portfolio of systems, consumables, and analysis tools are designed to simplify genetic analysis. This portfolio addresses the range of genomic complexity, price points, and throughputs, enabling researchers to select the best solution for their scientific challenge. In 2007, through our acquisition of Solexa, Inc., we acquired our proprietary sequencing by synthesis (SBS) technology that is at the heart of our leading-edge sequencing instruments. These systems can be used to efficiently perform a range of nucleic acid (DNA, RNA) analyses on large numbers of samples. For more focused studies, our array-based solutions provide ideal tools to perform genome-wide association studies (GWAS) involving single-nucleotide polymorphism (SNP) genotyping and copy number variation (CNV) analyses, as well as gene expression profiling and other DNA, RNA, and protein studies. To further enhance our genetic analysis workflows, in January 2011 we acquired Epicentre Technologies Corporation, a leading provider of nucleic acid sample preparation reagents and specialty enzymes for sequencing and microarray applications. In 2010, through our acquisition of Helixis, Inc., we expanded our portfolio to include real-time polymerase chain reaction (PCR), one of the most widely used technologies in life sciences. Our new Eco Real-Time PCR System provides researchers with an affordable, full-featured system to perform targeted validation studies.

We are organized in two business segments, the Life Sciences Business Unit and the Diagnostics Business Unit. During 2010, our Diagnostics Business Unit had limited business activity and, accordingly, operating results are reported on an aggregate basis as one operating segment. At each reporting period end, we reassess our reportable operating segments, particularly as we continue to develop our molecular diagnostics business.

Our analysis presented below is organized to provide the information we believe will be useful for understanding the relevant trends going forward. However, this discussion should be read in conjunction with our consolidated financial statements and the notes thereto in Item 8 of this report.

Business Trends and Outlook

Our financial results have been, and will continue to be, impacted by several significant trends, which are described below. While these trends are important to understanding and evaluating our financial results, the other transactions, events, and trends discussed in "Risk Factors" in Item 1A of this report may also materially impact our business operations and financial results.

Next-Generation Sequencing

Growth in the sequencing market and enhancements in our product portfolio continue to drive both sequencing instrument and consumable sales. In Q1 2010, we began customer shipments of the HiSeq 2000, our newest high-throughput next-generation sequencing instrument. The HiSeq 2000 was developed over a three-year period and is designed to provide ultra-high sequencing throughput that will significantly lower the cost of sequencing. As a result of the launch, a substantial number of our customers who previously purchased the Genome Analyzer sequencing system ordered the HiSeq 2000 to replace their existing sequencer with this new system. As a result of strong demand, both from customers who desired to trade-in their existing Genome Analyzers and new customers who ordered the HiSeq 2000, our manufacturing capacity was constrained throughout all of 2010. During the year we significantly increased our manufacturing capacity for the HiSeq 2000 to meet growing demand. We now believe that we have increased our capacity to the point where we can begin reducing our backlog and fulfilling new orders in a more timely manner. Additionally, in the first half of 2011, we expect to further enhance the performance of the HiSeq 2000. We believe that these enhancements will enable customers to sequence whole human genomes for less than $5,000 in consumable costs. As we continue to make improvements that reduce the cost of sequencing we believe that more customers will use the HiSeq 2000, which generates more revenue per instrument time than the Genome Analyzer. We believe that this will increase our consumable pull-through, which is a measure of the annual consumable revenue generated from each instrument in the installed base.

In Q4 2011, we expect to begin volume customer shipments of our recently announced MiSeq, a low-cost personal sequencing system that we believe will provide individual researchers a platform with rapid turnaround time, high accuracy, and streamlined workflow. We believe the launch of the MiSeq will expand our presence in the lower throughput sequencing market.

Microarrays

As a complement to advances in sequencing technology, we believe microarrays offer a cheaper, faster, and more accurate technology for use when genetic content is known. The information content of microarrays is fixed and reproducible. As such, microarrays provide repeatable, standardized assays for certain subsets of nucleotide bases within the overall genome. During 2010, microarray product sales increased as compared to 2009, led by:

- the launch of the Omni 2.5, a four sample BeadChip enabling interrogation of approximately 2.5 million markers per sample;
- growth in sales of focused content arrays primarily from use for genetic screening in applied markets such as agriculture and fine mapping for follow up to GWAS projects; and
- the launch of the HiScanSQ, our instrument that integrates next-generation sequencing with genotyping and gene expression arrays.

As additional new rare variant content becomes available from the 1000 Genomes Project, an international research effort launched in 2008 to establish the most detailed catalog of human genetic variation, we plan to launch a microarray that will feature approximately five million markers per sample. We expect to begin customer shipments of this product in mid-2011. However, the launch of this product will depend on the timing of the release of new content from the 1000 Genomes Project. We believe new product introductions as new content becomes available will continue to drive growth in the sales of our microarray products.

American Recovery and Reinvestment Act of 2009 (the Recovery Act)

The Recovery Act was enacted in February 2009 to provide stimulus to the U.S. economy in the wake of the economic downturn. As part of the Recovery Act legislation, over $10.0 billion in funding was provided to the National Institutes of Health (NIH) to support the advancement of scientific research. While it is not possible to precisely quantify the net impact of orders resulting from the Recovery Act due to the uncertainty surrounding orders that would have been received in absence of stimulus, we believe approximately $70.4 million in orders during 2010 were directly related to Recovery Act grants. We believe Recovery Act funds will continue to be spent by our customers through 2012.

Gross Margin

Our gross profit as a percentage of revenue (gross margin) decreased during 2010 as compared to 2009 due to the effects of discounts provided to customers on the sales of HiSeq 2000s associated with promotional programs, including the Genome Analyzer trade-in program, and lower margins on our newer products, such as the HiSeq 2000. Over the course of 2011, we expect our gross margin to improve as the Genome Analyzer trade-in program is completed and sales of consumables, which generally carry a higher gross margin than instruments, increase as a percentage of total revenue. We also expect improved manufacturing efficiency for the HiSeq 2000 to improve gross margin in 2011.

Operating Expense

We expect to incur additional operating costs to support the expected growth in our business. We believe a substantial investment in research and development is essential to remain competitive and expand into additional markets. Accordingly, we expect our research and development expenses to increase in absolute dollars as we continue to expand our product base. Selling, general and administrative expenses are also

expected to increase in absolute dollars as we invest in staff and infrastructure to support top line growth and global expansion.

Income Taxes

The provision for income taxes is dependent on the mix of earnings in tax jurisdictions with different statutory tax rates and the other factors discussed in the risk factor "We are subject to risks related to taxation in multiple jurisdictions and the possible loss of the tax deduction on our outstanding convertible notes" in Item 1A of this Form 10-K. For 2011 and beyond, we anticipate increased earnings in higher tax jurisdictions, which may adversely impact the provision for income taxes.

Due to the expected utilization of the majority of our net operating loss carryforwards and U.S. federal research and development tax credit carryforwards, we anticipate significant income tax payments in 2011 and beyond.

Results of Operations

To enhance comparability, the following table sets forth audited consolidated statement of operations data for the years ended January 2, 2011, January 3, 2010 and December 28, 2008 stated as a percentage of total revenue.

	2010	2009	2008
Revenue:			
Product revenue	93%	94%	93%
Service and other revenue	7	6	7
Total revenue	100	100	100
Cost of revenue:			
Cost of product revenue	30	29	34
Cost of service and other revenue	2	2	2
Amortization of intangible assets	1	1	2
Impairment of manufacturing equipment	—	—	1
Total cost of revenue	33	32	39
Gross profit	67	68	61
Operating expense:			
Research and development	20	21	17
Selling, general and administrative	24	26	26
Acquisition related (gain) expense, net	(1)	2	4
Total operating expense	43	49	47
Income from operations	24	19	14
Other income (expense):			
Interest income	1	2	2
Interest expense	(3)	(4)	(4)
Other (expense) income, net	(1)	—	1
Total other expense, net	(3)	(2)	(1)
Income before income taxes	21	17	13
Provision for income taxes	7	6	6
Net income	14%	11%	7%

Comparison of 2010 and 2009

Our fiscal year is the 52 or 53 weeks ending the Sunday closest to December 31, with quarters of 13 or 14 weeks ending the Sunday closest to March 31, June 30, September 30, and December 31. The year ended January 2, 2011 was 52 weeks and the year ended January 3, 2010 was 53 weeks.

Revenue

	2010	2009	Change	% Change
	(In thousands)			
Product revenue	$ 842,510	$ 627,240	$ 215,270	34%
Service and other revenue	60,231	39,084	21,147	54
Total revenue	$ 902,741	$ 666,324	$ 236,417	35%
Total gross profit	$ 601,540	$ 453,875	$ 147,665	33%
Total gross margin	66.6%	68.1%		

Revenue

Product revenue consists primarily of revenue from the sale of consumables and instruments.

Consumable revenue increased $113.7 million, or 29%, to $505.0 million for 2010 compared to $391.3 million for 2009. Microarray consumable revenue, which constituted more than half of our total consumable revenue, increased $28.3 million primarily attributable to growth in sales of our Infinium BeadChips, which constituted a majority of our microarray consumable sales. Sales volume of our Infinium BeadChip products increased on a per sample basis during 2010 compared to 2009. The average selling price per sample, however, declined due to a change in product mix primarily attributable to growth in sales of our focused content arrays and a number of large sample volume purchase orders that incurred higher discounts. Revenue from sequencing consumables increased $85.4 million due to growth in the installed base of our sequencing systems.

Revenue from the sale of instruments increased $98.9 million, or 44%, to $324.6 million for 2010 compared to $225.7 million for 2009. Sequencing instrument revenue increased $85.7 million. We experienced increases in both the number of units sold and average selling prices per unit for our sequencing systems during 2010 compared to 2009. Unit growth was due to increased demand for next-generation sequencing systems. The increase in average selling prices was primarily attributable to the launch of the HiSeq 2000 in Q1 2010. Microarray instrument revenue increased $13.2 million primarily attributable to strong demand for our HiScanSQ instrument launched in 2010. The launch of this system resulted in increases in both the number of units sold and average selling prices per unit for our microarray instruments during 2010 compared to 2009.

The increase in service and other revenue, which includes extended warranty contracts and genotyping and sequencing services, was primarily attributable to an increase in extended warranty contracts for our growing installed base of sequencing systems.

Gross Margin

The decrease in gross margin was primarily attributable to the effect of discounts provided to customers on the sales of HiSeq 2000 associated with promotional programs, including the Genome Analyzer trade-in program, and lower margins on our newer products, such as the HiSeq 2000. See "Revenue Recognition" in note "1. Organization and Summary of Significant Accounting Policies" in Part II, Item 8, of this Form 10-K for additional information on the Genome Analyzer trade-in program. The impact of the promotional programs was partially offset by improved margins on sequencing consumables primarily attributable to improved overhead absorption from increased volumes and the benefit of decreased costs associated with chemistry improvements.

Operating Expense

	2010	2009	Change	% Change
	(In thousands)			
Research and development	$ 177,947	$ 140,616	$ 37,331	27%
Selling, general and administrative	220,990	176,337	44,653	25
Acquisition related (gain) expense, net	(9,051)	11,325	(20,376)	(180)
Total operating expense	$ 389,886	$ 328,278	$ 61,608	19%

The increase in research and development expenses was primarily attributable to a $25.9 million increase in personnel expenses, including salaries, non-cash share-based compensation, and benefits, and an increase in other non-personnel expenses of $13.3 million comprised mostly of lab and production supplies expenses. These increases were primarily attributable to investments in new product development and commercialization along with projects to sustain and optimize our existing product portfolio.

The increase in selling, general and administrative expenses was primarily attributable to a $31.8 million increase in personnel expenses, including salaries, non-cash share-based compensation, and benefits, associated with the growth of our business, and an increase in outside service expenses of $9.7 million comprised mostly of legal and marketing expenses.

During 2010, acquisition related (gain) expense, net, includes a gain of $10.4 million from a change in the fair value of contingent consideration related to an acquisition, partially offset by an acquired in-process research and development charge of $1.3 million related to a milestone payment made to the former shareholders of a company we acquired in 2008. During 2009, acquisition related (gain) expense, net, included acquired in-process research and development charges of $11.3 million related to milestone payments made to the former shareholders of the company we acquired in 2008.

Other Expense, Net

	2010	2009	Change	% Change
	(In thousands)			
Interest income	$ 8,378	$ 11,029	$ (2,651)	(24)%
Interest expense	(24,598)	(23,718)	(880)	4
Other (expense) income, net	(10,055)	1,217	(11,272)	(926)
Total other expense, net	$ (26,275)	$ (11,472)	$ (14,803)	129%

Interest income decreased despite an increase in our average cash and investment balance due to an overall decline in interest rates during 2010 compared to 2009. The increase in interest expense was due to the amortization of the discount on our convertible senior notes. The change in other (expense) income, net, was primarily attributable to a $13.2 million impairment charge recorded in Q4 2010 related to the impairment of a cost-method investment and a related note receivable (see note "5. Impairment" in Part II, Item 8 of this Form 10-K for additional information on this impairment) partially offset by a $2.9 million gain recognized in Q2 2010 on the acquisition of Helixis, Inc., which represented the difference between the carrying value of our cost-method investment in Helixis, Inc. prior to acquisition and the fair value of that investment at the time of acquisition.

Provision for Income Taxes

	2010	2009	Change	% Change
	(In thousands)			
Income before income taxes	$ 185,379	$ 114,125	$ 71,254	62%
Provision for income taxes	$ 60,488	$ 41,844	$ 18,644	45%
Effective tax rate	32.6%	36.7%		

The decrease in the effective tax rate was primarily attributable to the gain recorded on the change in the fair value of contingent consideration related to our acquisition of Helixis, Inc. that is excluded from taxable income and a decrease in nondeductible acquired IPR&D recognized for financial reporting purposes in 2010 as compared to 2009.

Comparison of 2009 and 2008

Our fiscal year is 52 or 53 weeks ending the Sunday closest to December 31, with quarters of 13 or 14 weeks ending the Sunday closest to March 31, June 30, September 30, and December 31. The year ended January 3, 2010 was 53 weeks and the year ended December 28, 2008 was 52 weeks.

Revenue

	2009	2008	Change	% Change
	(In thousands)			
Product revenue	$ 627,240	$ 532,390	$ 94,850	18%
Service and other revenue	39,084	40,835	(1,751)	(4)
Total revenue	$ 666,324	$ 573,225	$ 93,099	16%
Total gross profit	$ 453,875	$ 353,094	$ 100,781	29%
Total gross margin	68.1%	61.6%		

Revenue

Product revenue consists primarily of revenue from the sale of consumables and instruments.

Consumable revenue increased $57.6 million, or 17%, to $391.3 million for 2009 compared to $333.7 million for 2008. Microarray consumable revenue, which constituted more than half of our consumable revenue, declined $11.4 million primarily attributable to lower sales of whole-genome genotyping arrays partially offset by growth in focused content arrays. The decline was driven by customers delaying the start of new GWAS in anticipation of new and rare variant content from the 1000 Genome Project, order delays directly related to stimulus funding under the Recovery Act, and the impact of reduced foundation funding at a few key customers. Sales volume for our Infinium BeadChip product lines, which constituted a majority of our microarray consumable sales, was relatively flat on a sample basis during 2009 compared to 2008. The average selling price per sample, however, declined due to a change in product mix attributable to growth in the sales of our focused content arrays coupled with lower sales of whole-genome genotyping arrays.

Revenue from sequencing consumables increased $68.9 million driven by growth in the installed base of our Genome Analyzer systems and the progression of customer labs ramping to production scale. The increase was partially offset by a loss of sales related to a quality issue affecting our paired-end cluster kits that arose in September 2009 when some of our larger sequencing customers began experiencing higher than average error rates on the second read of their paired-end analysis. During the fourth quarter, we began shipping reformulated paired-end cluster kits at full capacity and cleared the related shipping backlog.

Revenue from the sale of instruments increased $40.0 million, or 22%, to $225.7 million for 2009 compared to $185.7 million for 2008 primarily due to a $56.4 million increase in sales of our sequencing systems. During 2009 as compared to 2008 units sold and average selling prices increased for our Genome Analyzer systems, which constituted a majority of sequencing instrument revenue. The increase in units sold was driven by increased demand for next-generation sequencing systems. The increase in average selling prices was attributable to the product transition from the Genome Analyzer I to the Genome Analyzer II in the second quarter of 2008 and technological improvements leading to the launch of the Genome Analyzer IIx in the second quarter of 2009. The increase in sequencing instrument revenue was partially offset by a $16.4 million decrease in the sales of our microarray systems, which declined primarily due to customers delaying the start of new GWAS in anticipation of new and rare variant content from the 1000 Genomes Project, order delays directly related to stimulus funding under the Recovery Act, and the impact of reduced foundation funding at a few key customers.

Gross Margin

The increase in gross margin was primarily attributable to lower costs for our sequencing consumables and instrumentation, a $4.1 million impairment charge recorded in 2008 for which there was no similar charge recognized in 2009, and a $3.8 million decrease in amortization expense. The gross margin on sequencing consumables increased primarily due to improved overhead absorption from increased volumes of sequencing consumables and the benefit of decreased costs associated with the reformulation of our sequencing kits launched at the end of the third quarter of 2008. The gross margin on sequencing instruments increased primarily due to production efficiencies and reduced material costs coupled with higher average selling prices.

Operating Expense

	2009	2008	Change	% Change
	(In thousands)			
Research and development	$ 140,616	$ 99,963	$ 40,653	41%
Selling, general and administrative	176,337	148,014	28,323	19
Acquisition related (gain) expense, net	11,325	24,660	(13,335)	(54)
Total operating expense	$ 328,278	$ 272,637	$ 55,641	20%

The increase in research and development was primarily attributable to a $22.9 million increase in personnel-related expenses, including salaries, non-cash share-based compensation and benefits, a $10.4 million increase to non-personnel related expenses, and an increase in outside services of $3.2 million attributable to consulting fees. These increases were primarily related to the growth in our efforts to optimize and commercialize our sequencing and BeadArray technologies.

The increase in selling, general and administrative expenses was primarily attributable to an increase of $26.6 million in personnel-related expenses associated with the growth of our business, including salaries, non-cash share-based compensation, and benefits.

During 2009 acquisition related (gain) expense, net, includes IPR&D charges of $11.3 million related to milestone payments made to the former shareholders of a company we acquired in 2008. During 2008 acquisition related (gain) expense, net, includes IPR&D charges of $24.7 million as a result of the same acquisition.

Other Expense, Net

	2009	2008	Change	% Change
	(In thousands)			
Interest income	$ 11,029	$ 12,519	$ (1,490)	(12)%
Interest expense	(23,718)	(22,210)	(1,508)	7
Other income (expense), net	1,217	1,921	(704)	(37)
Total other expense, net	$ (11,472)	$ (7,770)	$ (3,702)	48%

Interest income decreased despite an increase in our average cash and investment balance due to an overall decline in interest rates during 2009 compared to 2008. Interest expense increased due to the amortization of the discount on our convertible senior notes. Other income (expense), net, decreased due to a decrease of $1.5 million in gains on net foreign currency transactions, which was partially offset by a gain of $0.8 million on the conversion of a portion of our debt during the first quarter of 2009.

Provision for Income Taxes

	2009	2008	Change	% Change
	(In thousands)			
Income before income taxes	$ 114,125	$ 72,687	$ 41,438	57%
Provision for income taxes	$ 41,844	$ 33,271	$ 8,573	26%
Effective tax rate	36.7%	45.8%		

The decrease in the effective tax rate was primarily attributable to a decrease in nondeductible acquired IPR&D recognized for financial reporting purposes in 2009 compared to 2008. Additionally, the percentage of consolidated income before income taxes earned in foreign jurisdictions, which primarily have lower statutory tax rates than the U.S. statutory tax rate, increased from 36% in 2008 to 43% in 2009.

Liquidity and Capital Resources

Cash flow summary

	2010	2009	2008
		(In thousands)	
Net cash provided by operating activities	$ 272,573	$ 172,191	$ 87,882
Net cash used in investing activities	(285,053)	(256,569)	(277,249)
Net cash provided by (used in) financing activities	116,474	(98,862)	337,672
Effect of exchange rate changes on cash and cash equivalents	320	849	3,778
Net increase (decrease) in cash and cash equivalents	$ 104,314	$ (182,391)	$ 152,083

Operating Activities

Cash provided by operating activities in 2010 consists of net income of $124.9 million plus net non-cash adjustments of $149.8 million and a $2.1 million decrease in net operating assets. The primary non-cash expenses added back to net income included share based compensation of $71.6 million, depreciation and amortization expenses related to property and equipment and intangible assets of $42.0 million, and the amortization of the debt discount on our convertible notes totaling $21.4 million. The main drivers in the change in net operating assets included increases in accounts receivable, inventory, accounts payable and accrued liabilities. These increases were primarily related to the growth of our business.

Cash provided by operating activities in 2009 consists of net income of $72.3 million plus net non-cash adjustments of $115.7 million and an $15.8 million increase in net operating assets. The primary non-cash expenses added back to net income included share based compensation of $60.8 million and depreciation and amortization expense related to property and equipment, intangibles and the debt discount on our convertible notes totaling $51.5 million.

Investing Activities

Cash used in investing activities totaled $285.0 million in 2010. During the year we:

- purchased and sold available-for-sale securities totaling $846.2 million and $688.6 million, respectively;
- paid net cash of $98.2 million for acquisitions;
- sold trading securities totaling $54.9 million;
- used $49.8 million for capital expenditures primarily associated with the purchase of manufacturing equipment and infrastructure for additional production capacity and rental and loaner instruments; and
- made strategic investments totaling $27.7 million.

Cash used in investing activities totaled $256.6 million in 2009. We purchased and sold available-for-sale securities totaling $694.5 million and $514.2 million, respectively. We incurred $52.7 million in capital expenditures primarily associated with the expansion of our facilities and infrastructure at our San Diego, Hayward and UK locations.

Financing Activities

Cash provided by financing activities totaled $116.5 million in 2010. We received $118.0 million in proceeds from the issuance of our common stock through the exercise of stock options and warrants and under our Employee Stock Purchase Plan. We also received $42.4 million in incremental tax benefit related to stock options exercised. These increases were partially offset by common stock repurchases of $44.0 million.

Cash used in financing activities totaled $98.9 million in 2009. During the year we repurchased approximately 6.1 million shares of our common stock for $175.1 million, which was partially offset by $39.4 million in proceeds received from issuance of common stock through the exercise of stock options and under our Employee Stock Purchase Plan. We also received $39.3 million in incremental tax benefit related to stock options exercised.

Liquidity

We manage our business to maximize operating cash flows as the primary source of our liquidity. Our ability to generate cash from operations provides us with the financial flexibility we need to meet operating, investing, and financing needs. Historically, we have issued debt and equity securities to finance our requirements to the extent that cash provided by operating activities was not sufficient to fund our needs.

At January 2, 2011, we had approximately $894.3 million in cash and short-term investments. Our short-term investments include marketable securities consisting of debt securities in government sponsored entities, corporate debt securities, and U.S. treasury notes.

On February 16, 2007, we issued $400.0 million in principal of convertible senior notes that mature February 15, 2014. We pay 0.625% interest per annum on the principal amount of the notes, payable semi-annually in arrears in cash on February 15 and August 15 of each year. The notes are convertible into cash and, if applicable, shares of our common stock under certain circumstances as described in note "7. Convertible Senior Notes" in Part II, Item 8 of this Form 10-K. As of January 2, 2011, the principal amount of the notes was $390.0 million due to the conversion of $10.0 million of the notes during the first quarter of 2009. During the period from January 3, 2011 to February 28, 2011, certain noteholders notified us of their election to convert an aggregate of $251.1 million principal amount of the notes. See note "15. Subsequent Events" in Part II, Item 8, of this Form 10-K for additional information on these conversions.

Our primary short-term needs for capital, which are subject to change, include expenditures related to:

- potential strategic acquisitions and investments;
- support of our commercialization efforts related to our current and future products, including expansion of our direct sales force and field support resources both in the United States and abroad;
- the repurchase of our outstanding common stock;
- the continued advancement of research and development efforts;
- the acquisition of equipment and other fixed assets for use in our current and future manufacturing and research and development facilities; and
- the expansion needs of our facilities, including costs of leasing additional facilities.

We expect that our product revenue and the resulting operating income, as well as the status of each of our new product development programs, will significantly impact our cash management decisions.

We anticipate that our current cash and cash equivalents and income from operations will be sufficient to fund our operating needs for at least the next 12 months, barring unforeseen circumstances. Operating needs

include the planned costs to operate our business, including amounts required to fund working capital and capital expenditures. At the present time, we have no material commitments for capital expenditures. Our future capital requirements and the adequacy of our available funds will depend on many factors, including:

- our ability to successfully commercialize and further develop our technologies and create innovative products in our markets;
- scientific progress in our research and development programs and the magnitude of those programs;
- competing technological and market developments; and
- the need to enter into collaborations with other companies or acquire other companies or technologies to enhance or complement our product and service offerings.

Off-Balance Sheet Arrangements

We do not participate in any transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. During the fiscal year ended January 2, 2011, we were not involved in any "off-balance sheet arrangements" within the meaning of the rules of the SEC.

Contractual Obligations

Contractual obligations represent future cash commitments and liabilities under agreements with third parties, and exclude orders for goods and services entered into in the normal course of business that are not enforceable or legally binding. The following table represents our contractual obligations as of January 2, 2011, aggregated by type (amounts in thousands):

	Payments Due by Period(1)				
Contractual Obligation	**Total**	**Less Than 1 Year**	**1 – 3 Years**	**3 – 5 Years**	**More Than 5 Years**
Debt obligations(2)	$ 398,530	$ 2,437	$ 4,875	$ 391,218	$ —
Operating leases	499,261	13,965	37,737	40,985	406,574
Amounts due under executive deferred compensation plan	5,272	5,272	—	—	—
Total	$ 903,063	$ 21,674	$ 42,612	$ 432,203	$ 406,574

(1) The table excludes $22.7 million of uncertain tax benefits. We have not included this amount in the table because we cannot make a reasonably reliable estimate regarding the timing of settlements with taxing authorities, if any. See note "11. Income Taxes" in Part II, Item 8 of this Form 10-K for further discussion of our uncertain tax positions. The table also excludes $35.0 million in contingent consideration related to acquisitions. We have not included this amount in the table because we cannot make a reasonably reliable estimate regarding whether the milestones required for these payments will be achieved. See note "3. Acquisitions" in Part II, Item 8 of this Form 10-K for further discussion of our contingent consideration.

(2) Debt obligations include the principal amount of our convertible senior notes and interest payments totaling 0.625% per annum. Although these notes mature in 2014, we classify the principal amount of the notes as current in our consolidated balance sheet due to the convertibility feature. In addition, during the period from January 3, 2011 to February 28, 2011, certain noteholders notified us of their election to convert an aggregate of $251.1 million principal amount of the notes in exchange for the repayment of the principal amount and a certain number of shares of the Company's common stock. See note "7. Convertible Senior Notes" and note 15 "Subsequent Events" in Part II, Item 8 of this Form 10-K for further discussion of the terms of the convertible senior notes and the conversion notices in the subsequent period.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes. Management bases its estimates on historical experience, market and other conditions, and various other assumptions it believes to be reasonable. Although these estimates are based on management's best knowledge of current events and actions that may impact us in the future, the estimation process is, by its nature, uncertain given that estimates depend on events over which we may not have control. If market and other conditions change from those that we anticipate, our consolidated financial statements may be materially affected. In addition, if our assumptions change, we may need to revise our estimates, or take other corrective actions, either of which may also have a material effect on our consolidated financial statements.

We believe that the following critical accounting policies and estimates have a higher degree of inherent uncertainty and require our most significant judgments. In addition, had we used estimates different from any of these, our consolidated financial statements could have been materially different from those presented. Members of our senior management have discussed the development and selection of our critical accounting policies and estimates, and our disclosure regarding them, with the audit committee of our board of directors. Our accounting policies are more fully described in note "1. Organization and Significant Accounting Policies" in Part II, Item 8 of this Form 10-K.

Revenue Recognition

Our revenue is generated primarily from the sale of products and services. Product revenue primarily consists of sales of instruments and consumables used in genetic analysis. Service and other revenue primarily consists of revenue received for performing genotyping and sequencing services, extended warranty sales, and amounts earned under research agreements with government grants, which are recognized in the period during which the related costs are incurred. The timing of revenue recognition and the amount of revenue actually recognized in each case depends upon a variety of factors, including the specific terms of each arrangement and the nature of our deliverables and obligations. Determination of the appropriate amount of revenue recognized involves significant judgments and estimates and actual results may differ from our estimates.

We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the seller's price to the buyer is fixed or determinable, and collectibility is reasonably assured. In instances where final acceptance of the product or system is required, revenue is deferred until all the acceptance criteria have been met. All revenue is recorded net of any discounts.

Revenue for product sales is recognized generally upon transfer of title to the customer, provided that no significant obligations remain and collection of the receivable is reasonably assured. Revenue for genotyping and sequencing services is recognized when earned, which is generally at the time the genotyping or sequencing analysis data is made available to the customer or agreed upon milestones are reached.

In order to assess whether the price is fixed or determinable, we evaluate whether refund rights exist. If there are refund rights or payment terms based on future performance, we defer revenue recognition until the price becomes fixed or determinable. We assess collectibility based on a number of factors, including past transaction history with the customer and the creditworthiness of the customer. If we determine that collection of a payment is not reasonably assured, revenue recognition is deferred until receipt of payment.

We regularly enter into contracts where revenue is derived from multiple deliverables including any mix of products or services. These products or services are generally delivered within a short time frame, approximately three to six months, of the contract execution date. Revenue recognition for contracts with multiple deliverables is based on the individual units of accounting determined to exist in the contract. A delivered item is considered a separate unit of accounting when the delivered item has value to the customer on a stand-alone basis. Items are considered to have stand-alone value when they are sold separately by any vendor or when the customer could resell the item on a stand-alone basis.

For transactions entered into in 2009 and 2010, consideration is allocated at the inception of the contract to all deliverables based on their relative selling price. The relative selling price for each deliverable is determined using vendor specific objective evidence (VSOE) of selling price or third-party evidence of selling price if VSOE does not exist. If neither VSOE nor third-party evidence exists, we use best estimate of the selling price for the deliverable.

For transactions entered into prior to 2009, consideration was generally allocated to each unit of accounting based upon its relative fair value when objective and reliable evidence of fair value existed for all units of accounting in an arrangement. The fair value of an item was generally the price charged for the product, if the item was regularly sold on a stand-alone basis. In those instances when objective and reliable evidence of fair value existed for the undelivered items but not for the delivered items, the residual method was used to allocate the arrangement consideration. Under the residual method, the amount of arrangement consideration allocated to the delivered items equaled the total arrangement consideration less the aggregate fair value of the undelivered items. When we were unable to establish stand-alone value for delivered items or when fair value of undelivered items had not been established, revenue was deferred until all elements were delivered and services had been performed, or until fair value could objectively be determined for any remaining undelivered elements.

In order to establish VSOE of selling price, we must regularly sell the product or service on a standalone basis with a substantial majority priced within a relatively narrow range. VSOE of selling price is usually the midpoint of that range. If there are not a sufficient number of standalone sales and VSOE of selling price cannot be determined, then we consider whether third party evidence can be used to establish selling price. Due to the lack of similar products and services sold by other companies within the industry, we have rarely established selling price using third-party evidence. If neither VSOE nor third party evidence of selling price exists, we determine our best estimate of selling price using average selling prices over a rolling 12-month period coupled with an assessment of current market conditions. If the product or service has no history of sales or if the sales volume is not sufficient, we rely upon prices set by our pricing committee adjusted for applicable discounts. We recognize revenue for delivered elements only when we determine there are no uncertainties regarding customer acceptance.

In the first quarter of 2010, we offered an incentive with the launch of the HiSeq 2000 that enabled existing Genome Analyzer customers to trade in their Genome Analyzer and receive a discount on the purchase of a HiSeq 2000. The incentive was limited to customers who had purchased a Genome Analyzer as of the date of the announcement and was the first significant trade-in program we have offered. We will account for HiSeq 2000 discounts related to the Genome Analyzer trade-in program in the period in which the HiSeq 2000 revenue is recognized.

Investments

We determine the fair value of our assets and liabilities based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs. We use a fair value hierarchy with three levels of inputs, of which the first two are considered observable and the last unobservable, to measure fair value:

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

In using this fair value hierarchy, management may be required to make assumptions of pricing by market participants and assumptions about risk, specifically when using unobservable inputs to determine fair value. These assumptions are judgmental in nature and may significantly affect our results of operations.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We evaluate the collectibility of our accounts receivable based on a combination of factors. We regularly analyze customer accounts, review the length of time receivables are outstanding, review historical loss rates and assess current economic trends that may impact the level of credit losses in the future. Our allowance for doubtful accounts has generally been adequate to cover our actual credit losses. However, since we cannot reliably predict future changes in the financial stability of our customers and we may need to increase our reserves if the financial conditions of our customers deteriorate.

Inventory Valuation

We record adjustments to inventory for potentially excess, obsolete, or impaired goods in order to state inventory at net realizable value. We must make assumptions about future demand, market conditions, and the release of new products that will supersede old ones. We regularly review inventory for excess and obsolete products and components, taking into account product life cycles, quality issues, historical experience, and usage forecasts. If actual market conditions are less favorable than anticipated, additional inventory adjustments could be required.

Contingencies

We are subject to legal proceedings primarily related to intellectual property matters. We routinely assess the likelihood of adverse judgments or outcomes to these matters, as well as ranges of probable losses, to the extent losses are reasonably estimable. If losses are probable and reasonably estimable, we will record a liability and an expense for the estimated loss. Disclosure for specific legal contingencies is provided if the likelihood of occurrence is probable and the exposure is considered material to the consolidated financial statements. In making determinations of likely outcomes of litigation matters, management considers many factors. These factors include, but are not limited to, past history, scientific and other evidence, and the specifics and status of each matter. We may change our estimates if our assessment of the various factors changes, which may result in the recording of an accrual or a change in a previously recorded accrual. Predicting the outcome of claims and litigation, and estimating related costs and exposure involves substantial uncertainties that could cause actual costs to vary materially from estimates and accruals.

Business Combinations

Under the acquisition method of accounting, we allocate the fair value of the total consideration transferred to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values on the date of acquisition. The fair values assigned, defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants, are based on estimates and assumptions determined by management. We record the excess consideration over the aggregate fair value of tangible and intangible assets, net of liabilities assumed, as goodwill. These valuations require us to make significant estimates and assumptions, especially with respect to intangible assets.

In connection with certain of our acquisitions, additional contingent consideration is earned by the sellers upon completion of certain future performance milestones. Prior to fiscal year 2009, the Company recognized contingent consideration as an additional element of the cost of the acquisition, generally goodwill, when the contingency was resolved beyond a reasonable doubt and the additional consideration was issued or became issuable. Due to changes in the accounting standards regarding business combinations, for all acquisitions consummated on or after December 29, 2008, a liability is recorded on the acquisition date for an estimate of the acquisition date fair value of the contingent consideration by applying the income approach utilizing

variable factors such as anticipated future cash flows, risk-free adjusted discount rates and nonperformance risk. Any change in the fair value of the contingent consideration subsequent to the acquisition date is recognized in acquisition related (gain) expense, net, a component of operating expenses, in the consolidated statements of income. This method requires significant management judgment, including the probability of achieving certain future milestones and discount rates. Future changes in our estimates could result in expenses or gains.

Management uses a discounted cash flow method to value our acquired intangible assets. This method requires significant management judgment to forecast future operating results and establish residual growth rates and discount factors. The estimates we use to value and amortize intangible assets are consistent with the plans and estimates that we use to manage our business and are based on available historical information and industry estimates and averages. If the subsequent actual results and updated projections of the underlying business activity change compared with the assumptions and projections used to develop these values, we could experience impairment charges. In addition, we have estimated the economic lives of certain acquired assets and these lives are used to calculate depreciation and amortization expense. If our estimates of the economic lives change, depreciation or amortization expenses could be accelerated or slowed.

Intangible Assets and Other Long-Lived Assets — Impairment Assessments

We estimate the fair value of intangible assets and other long-lived assets that have finite useful lives whenever an event or change in circumstances indicates that the carrying value of the asset may not be recovered through undiscounted future operating cash flows.

In order to estimate the fair value of purchased intangible assets and other long-lived assets that have finite useful lives, we estimate the present value of future cash flows from those assets. The key assumptions that we use in our discounted cash flow model are the amount and timing of estimated future cash flows to be generated by the asset over an extended period of time and a rate of return that considers the relative risk of achieving the cash flows, the time value of money, and other factors that a willing market participant would consider. Significant judgment is required to estimate the amount and timing of future cash flows and the relative risk of achieving those cash flows. We had a total of $129.9 million in net property and equipment and $70.0 million in net intangible assets on our balance sheet at January 2, 2011.

Assumptions and estimates about future values and remaining useful lives are complex and often subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy and our internal forecasts. For example, if our future operating results do not meet current forecasts or if we experience a sustained decline in our market capitalization that is determined to be indicative of a reduction in fair value of one or more of our reporting units, we may be required to record future impairment charges for purchased intangible assets. Impairment charges could materially decrease our future net income and result in lower asset values on our balance sheet.

Share-Based Compensation

We are required to measure and recognize compensation expense for all share-based payments made to employees and directors based on estimated fair value. We estimate the fair value of stock options granted and stock purchases under our employee stock purchase plan using the Black-Scholes-Merton (BSM) option-pricing model. The fair value of our restricted stock units is based on the market price of our common stock on the date of grant.

The determination of fair value of share-based awards using the BSM model requires the use of certain estimates and highly judgmental assumptions that affect the amount of share-based compensation expense recognized in our consolidated statements of income. These include estimates of the expected volatility of our stock price, expected life of an award, expected dividends, and the risk-free interest rate. We determine the volatility of our stock price by equally weighing the historical and implied volatility of our common stock. The historical volatility of our common stock over the most recent period is generally commensurate with the estimated expected life of our stock awards, adjusted for the impact of unusual fluctuations not reasonably

expected to recur, and other relevant factors. Implied volatility is calculated from the implied market volatility of exchange-traded call options on our common stock. The expected life of an award is based on historical forfeiture experience, exercise activity, and on the terms and conditions of the stock awards. We determined expected dividend yield to be 0% given we have never declared or paid any cash dividends on our common stock and we currently do not anticipate paying such cash dividends. The risk-free interest rate is based upon U.S. Treasury securities with remaining terms similar to the expected term of the share-based awards. We amortize the fair value of share-based compensation on a straight-line basis over the requisite service periods of the awards. If any of the assumptions used in the BSM model change significantly, share-based compensation expense may differ materially from what we have recorded in the current period.

Income Taxes

Our provision for income taxes, deferred tax assets and liabilities, and reserves for unrecognized tax benefits reflect our best assessment of estimated future taxes to be paid. Significant judgments and estimates based on interpretations of existing tax laws or regulations in the U.S. and the numerous foreign jurisdictions where we are subject to income tax are required in determining our provision for income taxes. Changes in tax laws, statutory tax rates, and estimates of the company's future taxable income could impact the deferred tax assets and liabilities provided for in the consolidated financial statements and would require an adjustment to the provision for income taxes.

Deferred tax assets are regularly assessed to determine the likelihood they will be recovered from future taxable income. A valuation allowance is established when we believe it is more likely than not the future realization of all or some of a deferred tax asset will not be achieved. In evaluating our ability to recover deferred tax assets within the jurisdiction which they arise we consider all available positive and negative evidence. Factors reviewed include the cumulative pre-tax book income for the past three years, scheduled reversals of deferred tax liabilities, our history of earnings and reliable forecasting, projections of pre-tax book income over the foreseeable future, and the impact of any feasible and prudent tax planning strategies. Based on the available evidence as of January 2, 2011, we were not able to conclude it is more likely than not certain U.S. and foreign deferred tax assets will be realized. Therefore, we recorded a valuation allowance of $1.9 million and $3.1 million against certain U.S. and foreign deferred tax assets, respectively.

We recognize the impact of a tax position in our financial statements only if that position is more likely than not of being sustained upon examination by taxing authorities, based on the technical merits of the position. Tax authorities regularly examine our returns in the jurisdictions in which we do business and we regularly assess the tax risk of the company's return filing positions. Due to the complexity of some of the uncertainties, the ultimate resolution may result in payments that are materially different from our current estimate of the tax liability. These differences, as well as any interest and penalties, will be reflected in the provision for income taxes in the period in which they are determined.

Warranties

We generally provide a one-year warranty on instruments. Additionally, we provide a warranty on consumables through the expiry date, which generally ranges from six to twelve months after the manufacture date. We establish an accrual for estimated warranty expenses based on historical experience as well as anticipated product performance. We periodically review the adequacy of our warranty reserve, and adjust, if necessary, the warranty percentage and accrual based on actual experience and estimated costs to be incurred. If our estimates of warranty obligation change or if actual product performance is below our expectations we may incur additional warranty expense.

Item 7A. ***Quantitative and Qualitative Disclosures about Market Risk.***

Interest Rate Sensitivity

Our investment portfolio is exposed to market risk for changes in interest rates. The fair market value of fixed rate securities may be adversely impacted by fluctuations in interest rates while income earned on floating rate securities may decline as a result of decreases in interest rates. Under our current policies, we do

not use interest rate derivative instruments to manage exposure to interest rate changes. We attempt to ensure the safety and preservation of our invested principal funds by limiting default risk, market risk, and reinvestment risk. We mitigate default risk by investing in investment grade securities. We have historically maintained a relatively short average maturity for our investment portfolio, and we believe a hypothetical 100 basis point adverse move in interest rates along the entire interest rate yield curve would not materially affect the fair value of our interest sensitive financial instruments. In addition, if a 100 basis point change in overall interest rates were to occur in 2011, our interest income would change by approximately $8.9 million in relation to amounts we would expect to earn, based on our cash, cash equivalents, and short-term investments as of January 2, 2011.

Changes in interest rates may also impact gains or losses from the conversion of our outstanding convertible senior notes. As of January 2, 2011, we had $390.0 million aggregate principal amount of convertible notes outstanding. The notes are convertible into cash, and if applicable, shares of our common stock under certain circumstances, including trading price conditions related to our common stock. If the trading price of our common stock remains significantly above the conversion price of $21.83 per share, we expect that noteholders will elect to convert the notes. Upon conversion, we are required to record a gain or loss for the difference between the fair value of the debt to be extinguished and its corresponding net carrying value. The fair value of the debt to be extinguished depends on our current incremental borrowing rate. The net carrying value of the notes has an implicit interest rate of 8.27%. If our incremental borrowing rate at the time of conversion is higher or lower than the implied interest rate of the notes, we will record a gain or loss in our consolidated statement of income during the period in which the notes are converted. An incremental borrowing rate that is a hypothetical 100 basis points lower than the implicit interest rate upon conversion of $100 million aggregate principal amount of the notes would result in a loss of approximately $3.5 million.

Market Price Sensitive Instruments

In order to reduce potential equity dilution, in connection with the issuance (and potential conversion) of our convertible notes, we entered into convertible note hedge transactions, entitling us to purchase up to 18,322,320 shares of our common stock at a strike price of $21.83 per share, subject to adjustment. In addition, we sold to the hedge transaction counterparties warrants exercisable on a net-share basis, for up to 18,322,320 shares of our common stock at a strike price of $31.435 per share, subject to adjustment. The anti-dilutive effect of the note hedge transactions, if any, could be partially or fully offset to the extent the trading price of our common stock exceeds the strike price of the warrants on the exercise dates of the warrants, which occur during 2014, assuming the warrants are exercised.

Foreign Currency Exchange Risk

We conduct a portion of our business in currencies other than the entity's U.S. dollar functional currency. These transactions give rise to monetary assets and liabilities that are denominated in currencies other than the entity's functional currency. The value of these monetary assets and liabilities are subject to changes in currency exchange rates from the time the transactions are originated until settlement in cash. Our foreign currency exposures are primarily concentrated in the Euro, Yen, British pound sterling, Australian dollar, and Singapore dollar. Both realized and unrealized gains or losses on the value of these monetary assets and liabilities are included in the determination of net income. We recorded a net currency exchange gain on business transactions, net of hedging transactions, of $1.0 million for each of the years ended January 2, 2011 and January 3, 2010, which are included in other (expense) income, net, in the consolidated statements of income.

We use forward exchange contracts to manage a portion of the foreign currency exposure risk for foreign subsidiaries with monetary assets and liabilities denominated in currencies other than the entity's functional currency. We only use derivative financial instruments to reduce foreign currency exchange rate risks; we do not hold any derivative financial instruments for trading or speculative purposes. We primarily use forward exchange contracts to hedge foreign currency exposures, and they generally have terms of one month or less. Realized and unrealized gains or losses on the value of financial contracts entered into to hedge the exchange rate exposure of these monetary assets and liabilities are also included in the determination of net income, as they have not been designated for hedge accounting. These contracts, which settle monthly, effectively fix the exchange rate at which these specific monetary assets and liabilities will be settled, so that gains or losses on the forward contracts offset the losses or gains from changes in the value of the underlying monetary assets and liabilities. At January 2, 2011, we had $20.0 million of foreign currency forward contracts outstanding to hedge foreign currency risk.

Item 8. ***Financial Statements and Supplementary Data.***

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of
Illumina, Inc.

We have audited the accompanying consolidated balance sheets of Illumina, Inc. as of January 2, 2011 and January 3, 2010, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended January 2, 2011. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Illumina, Inc. at January 2, 2011 and January 3, 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended January 2, 2011, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, Illumina, Inc. changed its method of accounting for business combinations effective December 29, 2008.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Illumina, Inc.'s internal control over financial reporting as of January 2, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Diego, California
February 28, 2011

ILLUMINA, INC.

CONSOLIDATED BALANCE SHEETS

	January 2, 2011	January 3, 2010
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 248,947	$ 144,633
Short-term investments	645,342	548,894
Accounts receivable, net	165,598	157,751
Inventory, net	142,211	92,776
Deferred tax assets, current portion	19,378	20,021
Prepaid expenses and other current assets	36,922	17,515
Total current assets	1,258,398	981,590
Property and equipment, net	129,874	117,188
Goodwill	278,206	213,452
Intangible assets, net	70,024	43,788
Deferred tax assets, long-term portion	39,497	47,371
Other assets	63,114	26,548
Total assets	$ 1,839,113	$ 1,429,937
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 66,744	$ 52,781
Accrued liabilities	156,164	98,253
Long-term debt, current portion	311,609	290,202
Total current liabilities	534,517	441,236
Other long-term liabilities	28,531	24,656
Commitments and contingencies		
Conversion option subject to cash settlement	78,390	99,797
Stockholders' equity:		
Preferred stock, $0.01 par value, 10,000,000 shares authorized, no shares issued at January 2, 2011 and January 3, 2010	—	—
Common stock, $0.01 par value, 320,000,000 shares authorized, 151,512,837 shares issued at January 2, 2011, 143,544,265 shares issued at January 3, 2010	1,516	1,436
Additional paid-in capital	1,891,288	1,637,751
Accumulated other comprehensive income	1,765	2,830
Accumulated deficit	(155,335)	(280,226)
Treasury stock, at cost (24,904,564 shares at January 2, 2011 and 24,068,450 shares at January 3, 2010)	(541,559)	(497,543)
Total stockholders' equity	1,197,675	864,248
Total liabilities and stockholders' equity	$ 1,839,113	$ 1,429,937

See accompanying notes to consolidated financial statements

ILLUMINA, INC.

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
	(In thousands, except per share amounts)		
Revenue:			
Product revenue	$ 842,510	$ 627,240	$ 532,390
Service and other revenue	60,231	39,084	40,835
Total revenue	902,741	666,324	573,225
Cost of revenue:			
Cost of product revenue	271,997	190,714	192,868
Cost of service and other revenue	21,399	15,055	12,756
Amortization of intangible assets	7,805	6,680	10,438
Impairment of manufacturing equipment	—	—	4,069
Total cost of revenue	301,201	212,449	220,131
Gross profit	601,540	453,875	353,094
Operating expense:			
Research and development	177,947	140,616	99,963
Selling, general and administrative	220,990	176,337	148,014
Acquisition related (gain) expense, net	(9,051)	11,325	24,660
Total operating expense	389,886	328,278	272,637
Income from operations	211,654	125,597	80,457
Other income (expense):			
Interest income	8,378	11,029	12,519
Interest expense	(24,598)	(23,718)	(22,210)
Other (expense) income, net	(10,055)	1,217	1,921
Total other expense, net	(26,275)	(11,472)	(7,770)
Income before income taxes	185,379	114,125	72,687
Provision for income taxes	60,488	41,844	33,271
Net income	$ 124,891	$ 72,281	$ 39,416
Net income per basic share	$ 1.01	$ 0.59	$ 0.34
Net income per diluted share	$ 0.87	$ 0.53	$ 0.30
Shares used in calculating basic net income per share	123,581	123,154	116,855
Shares used in calculating diluted net income per share	143,433	137,096	133,607

See accompanying notes to consolidated financial statements

ILLUMINA, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Treasury Stock Shares	Treasury Stock Amount	Total Stockholders' Equity
				(In thousands)				
Balance as of December 30, 2007	125,608	$ 1,256	$ 994,869	$ 1,347	$ (391,923)	(14,819)	$(251,622)	$ 353,927
Components of comprehensive income:								
Net income	—	—	—	—	39,416	—	—	39,416
Unrealized gain on available-for-sale securities, net of deferred tax	—	—	—	920	—	—	—	920
Foreign currency translation adjustment	—	—	(16)	155	—	—	—	139
Comprehensive income								40,475
Issuance of common stock in conjunction with secondary offering, net of issuance costs	8,050	80	342,570	—	—	—	—	342,650
Issuance of common stock under employee stock plans	4,923	49	44,281	—	—	—	—	44,330
Warrants exercised	356	4	2,987	—	—	—	—	2,991
Share-based compensation	—	—	47,695	—	—	—	—	47,695
Incremental tax benefit related to stock options exercised	—	—	18,501	—	—	—	—	18,501
Repurchases of common stock	—	—	—	—	—	(3,109)	(70,785)	(70,785)
Remeasurement of convertible debt	—	—	18,883	—	—	—	—	18,883
Balance as of December 28, 2008	138,937	1,389	1,469,770	2,422	(352,507)	(17,928)	(322,407)	798,667
Components of comprehensive income:								
Net income	—	—	—	—	72,281	—	—	72,281
Unrealized gain on available-for-sale securities, net of deferred tax	—	—	—	408	—	—	—	408
Comprehensive income								72,689
Issuance of common stock	3,569	36	39,343	—	—	—	—	39,379
Warrants exercised	954	10	7,566	—	—	—	—	7,576
Share-based compensation	—	—	60,813	—	—	—	—	60,813
Incremental tax benefit related to stock options exercised	—	—	39,319	—	—	—	—	39,319
Repurchases of common stock	—	—	—	—	—	(6,140)	(175,136)	(175,136)
Remeasurement of convertible debt	84	1	20,940	—	—	—	—	20,941
Balance as of January 3, 2010	143,544	1,436	1,637,751	2,830	(280,226)	(24,068)	(497,543)	864,248
Components of comprehensive income:								
Net income	—	—	—	—	124,891	—	—	124,891
Unrealized loss on available-for-sale securities, net of deferred tax	—	—	—	(1,065)	—	—	—	(1,065)
Comprehensive income								123,826
Issuance of common stock	6,391	64	101,952	—	—	—	—	102,016
Warrants exercised	1,578	16	16,013	—	—	—	—	16,029
Share-based compensation	—	—	71,725	—	—	—	—	71,725
Incremental tax benefit related to stock options exercised	—	—	42,445	—	—	—	—	42,445
Repurchases of common stock	—	—	—	—	—	(836)	(44,016)	(44,016)
Remeasurement of convertible debt	—	—	21,402	—	—	—	—	21,402
Balance as of January 2, 2011	151,513	$ 1,516	$ 1,891,288	$ 1,765	$ (155,335)	(24,904)	$(541,559)	$ 1,197,675

See accompanying notes to consolidated financial statements

ILLUMINA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
	(In thousands)		
Cash flows from operating activities:			
Net income	$ 124,891	$ 72,281	$ 39,416
Adjustments to reconcile net income to net cash provided by operating activities:			
Acquired in-process research and development	1,325	11,325	24,660
Amortization of intangible assets	7,805	6,680	10,438
Amortization of debt discount	21,407	20,286	18,883
Change in fair value of contingent consideration	(10,376)	—	—
Impairment of cost-method investment	13,223	—	—
Gain on acquisition	(2,914)	—	—
Depreciation expense	34,204	24,504	17,285
Share-based compensation expense	71,645	60,811	47,688
Incremental tax benefit related to stock options exercised	(42,445)	(39,319)	(18,501)
Deferred income taxes	48,696	29,704	31,533
Impairment of manufacturing equipment	—	—	4,069
Other non-cash adjustments	7,239	1,721	803
Changes in operating assets and liabilities:			
Accounts receivable	(7,844)	(18,578)	(57,672)
Inventory	(48,583)	(20,557)	(19,560)
Prepaid expenses and other current assets	2,554	(3,429)	2,322
Other assets	(3,566)	(2,670)	(1,815)
Accounts payable	23,150	11,778	4,840
Accrued liabilities	32,028	19,997	31,716
Other long-term liabilities	(113)	814	6,313
Litigation settlements payable	—	—	(54,536)
Unrealized gain (loss) on foreign exchange	247	(3,157)	—
Net cash provided by operating activities	272,573	172,191	87,882
Cash flows from investing activities:			
Purchases of available-for-sale securities	(846,208)	(694,487)	(568,707)
Sales and maturities of available-for-sale securities	688,611	514,216	411,817
Sales and maturities of trading securities	54,900	1,000	—
Net cash paid for acquisitions	(98,211)	(1,325)	(24,666)
Purchases of investments	(27,677)	(19,900)	—
Purchases of property and equipment	(49,818)	(52,673)	(59,693)
Cash paid for intangible assets	(6,650)	(3,400)	(36,000)
Net cash used in investing activities	(285,053)	(256,569)	(277,249)
Cash flows from financing activities:			
Payments on current portion of long-term debt	—	(10,000)	(15)
Incremental tax benefit related to stock options exercised	42,445	39,319	18,501
Common stock repurchases	(44,016)	(175,136)	(70,785)
Proceeds from secondary offering, net of issuance cost	—	—	342,650
Proceeds from the exercise of warrants	16,029	7,576	2,991
Proceeds from issuance of common stock	102,016	39,379	44,330
Net cash provided by (used in) financing activities	116,474	(98,862)	337,672
Effect of exchange rate changes on cash and cash equivalents	320	849	3,778
Net increase (decrease) in cash and cash equivalents	104,314	(182,391)	152,083
Cash and cash equivalents at beginning of period	144,633	327,024	174,941
Cash and cash equivalents at end of period	$ 248,947	$ 144,633	$ 327,024
Supplemental disclosures of cash flow information:			
Cash paid for interest	$ 2,437	$ 2,437	$ 2,553
Cash paid (refunded) for income taxes	$ 31,566	$ 10,361	$ (1,653)

See accompanying notes to consolidated financial statements

ILLUMINA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unless the context requires otherwise, references in this report to "Illumina," "we," "us," the "Company," and "our" refer to Illumina, Inc. and its consolidated subsidiaries.

1. Organization and Summary of Significant Accounting Policies

Organization and Business

Illumina, Inc. (the Company) is a leading developer, manufacturer, and marketer of life science tools and integrated systems for the analysis of genetic variation and biological function. Using the Company's proprietary technologies, Illumina provides a comprehensive line of genetic analysis solutions, with products and services that serve a broad range of highly interconnected markets, including sequencing, genotyping, gene expression, and molecular diagnostics. The Company's customers include leading genomic research centers, academic institutions, government laboratories, and clinical research organizations, as well as pharmaceutical, biotechnology, agrigenomics, and consumer genomics companies.

Basis of Presentation

The consolidated financial statements of the Company have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) and include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Fiscal Year

The Company's fiscal year is 52 or 53 weeks ending the Sunday closest to December 31, with quarters of 13 or 14 weeks ending the Sunday closest to March 31, June 30, September 30, and December 31. The year ended January 2, 2011 was 52 weeks; the year ended January 3, 2010 was 53 weeks; the year ended December 28, 2008 was 52 weeks.

Use of Estimates

The preparation of financial statements requires that management make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Segment Information

The Company is organized in two business segments, the Life Sciences Business Unit and Diagnostics Business Unit. The Life Sciences Business Unit includes all products and services that are primarily related to the research market, namely the product lines based on the Company's sequencing, BeadArray, VeraCode, and real-time polymerase chain reaction (PCR) technologies, and the Diagnostics Business Unit focuses on the emerging opportunity in molecular diagnostics. During all periods presented, the Company had limited activity related to the Diagnostics Business Unit. Accordingly, the Company's operating results for both units are reported on an aggregate basis as one reportable segment during these periods. The Company will begin reporting in two segments once revenues, operating profit or loss, or assets of the Diagnostics Business Unit exceed 10% of the consolidated amounts.

Acquisitions

Effective December 29, 2008, the Company adopted the FASB's revised authoritative guidance for business combinations. This revised guidance requires an acquiring company to measure all assets acquired and liabilities assumed, including contingent considerations and all contractual contingencies, at fair value as of the acquisition date. In addition, an acquiring company is required to capitalize in-process research and development (IPR&D) and either amortize it over the life of the product upon commercialization, or write it

off if the project is abandoned or impaired. Previously, post-acquisition adjustments related to business combination deferred tax asset valuation allowances and liabilities for uncertain tax positions were generally required to be recorded as an increase or decrease to Goodwill. The revised guidance does not permit this accounting and, generally, requires any such changes to be recorded in current period income tax expense. Thus, all changes to valuation allowances and liabilities for uncertain tax positions established in acquisition accounting, regardless of the guidance used to initially account for the business combination, will be recognized in current period income tax expense. Additionally, this guidance requires that contingent purchase consideration be remeasured to estimated fair value at each reporting period with the change in fair value recorded in the results of operations. The impact of the adoption of this guidance did not have an impact on the consolidated financial statements for the year ended January 3, 2010. As a result of acquisitions completed in the year ended January 2, 2011, the Company capitalized $21.4 million of IPR&D that would have been expensed under the previous guidance. In addition the Company recorded $14.1 million of contingent consideration liability at fair value at the acquisition date which was remeasured with a net consolidated statement of income impact of $10.4 million recorded in acquisition related (gain) expense, net, a component of operating expenses.

For an acquisition consummated prior to December 29, 2008, the Company recognizes additional contingent consideration as an additional element of the cost of the acquisition when the contingency is resolved beyond a reasonable doubt and the additional consideration is issued or becomes issuable, in accordance with the accounting guidance effective at the acquisition date. This results in additional IPR&D charges in periods subsequent to the acquisition recorded in acquisition related (gain) expense, net.

Cash Equivalents and Short-Term Investments

Cash equivalents are comprised of short-term, highly liquid investments with maturities of 90 days or less at the date of purchase.

Short-term investments consist of U.S. Treasury and U.S. government agency securities, corporate notes and bonds, and commercial paper. Management classifies short-term investments as available-for-sale at the time of purchase and reevaluates such classification as of each balance sheet date. All short-term investments are recorded at estimated fair value. Unrealized gains and losses for available-for-sale securities are included in accumulated other comprehensive income, a component of stockholders' equity. The Company evaluates its investments to assess whether those with unrealized loss positions are other than temporarily impaired. Impairments are considered to be other than temporary if they are related to deterioration in credit risk or if it is likely that the Company will sell the securities before the recovery of their cost basis. Realized gains and losses and declines in value judged to be other than temporary are determined based on the specific identification method and are reported in other (expense) income, net in the consolidated statements of income.

Fair Value Measurements

The carrying amounts of financial instruments such as cash and cash equivalents, accounts receivable, prepaid expenses and other current assets, accounts payable, and accrued liabilities, excluding acquisition related contingent consideration liability noted below, approximate the related fair values due to the short-term maturities of these instruments. The estimated fair value of the convertible senior notes is determined by using available market information as of the latest trading date prior to the Company's fiscal year-end provided by a third party financial institution. The par value and approximate fair value of the Company's convertible notes was $390.0 million and $1,142.5 million, respectively, at January 2, 2011, and $390.0 million and $553.2 million, respectively, at January 3, 2010.

The Company determines the fair value of its assets and liabilities based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most

advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs. The Company uses a fair value hierarchy with three levels of inputs, of which the first two are considered observable and the last unobservable, to measure fair value:

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

The following table presents the Company's fair value hierarchy for assets and liability measured at fair value on a recurring basis as of January 2, 2011 and January 3, 2010, respectively (in thousands):

	January 2, 2011			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds (cash equivalent)	$ 148,822	$ —	$ —	$ 148,822
Debt securities in government sponsored entities	—	261,697	—	261,697
Corporate debt securities	—	330,758	—	330,758
U.S. Treasury securities	52,887	—	—	52,887
Total assets measured at fair value	$ 201,709	$ 592,455	$ —	$ 794,164
Liability:				
Acquisition related contingent consideration liability	$ —	$ —	$ 3,738	$ 3,738

	January 3, 2010			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds (cash equivalent)	$ 81,153	$ —	$ —	$ 81,153
Debt securities in government sponsored entities	—	289,701	—	289,701
Corporate debt securities	—	192,821	—	192,821
Auction rate securities	—	—	54,900	54,900
U.S. Treasury securities	11,472	—	—	11,472
Total assets measured at fair value	$ 92,625	$ 482,522	$ 54,900	$ 630,047

The Company measures the fair value of debt securities in government sponsored entities and corporate debt securities on a recurring basis primarily using quoted prices for similar assets in active markets.

Included in the total consideration transferred for the Company's acquisition of Helixis, Inc. (Helixis), was contingent consideration payments that could range from $0 to $35 million based on the achievement of certain revenue-based milestones by December 31, 2010 and by December 31, 2011. On the acquisition date, a liability of $14.1 million was recorded at the estimated fair value of the contingent consideration. The December 31, 2010 milestone was not achieved and the likelihood of paying the remaining contingent consideration of up to $30 million declined. Accordingly, the Company reassessed the fair value of the

contingent consideration at $3.7 million and recorded the change in fair value of $10.4 million in acquisition related (gain) expense, net, in the consolidated statements of income in the fourth quarter of 2010.

This fair value measurement is a Level 3 measurement as it is based on unobservable inputs that are supported by little or no market activity. Significant assumptions used in the measurement include probabilities of achieving the remaining milestone and the discount rates used in the income approach of valuation, which ranged from 27% to 52% depending on the likelihood assessed. Future changes in the fair value of the contingent consideration as a result of changes in these significant inputs could have a significant effect on the consolidated statements of income and the financial position in the period of the change.

The following table includes a summary of the changes in estimated fair value of the contingent consideration liability (in thousands) during the year ended January 2, 2011:

	Contingent Consideration Liability (Level 3 Measurement)
Balance at January 3, 2010	$ —
Acquisition of Helixis	14,114
Gain recorded in acquisition related (gain) expense, net	(10,376)
Balance at January 2, 2011	$ 3,738

Accounts Receivable

Trade accounts receivable are recorded at the net invoice value and are not interest bearing. The Company considers receivables past due based on the contractual payment terms. The Company reviews its exposure to amounts receivable and reserves specific amounts if collectibility is no longer reasonably assured. The Company also reserves a percentage of its trade receivable balance based on collection history and current economic trends that might impact the level of future credit losses. The Company re-evaluates such reserves on a regular basis and adjusts its reserves as needed.

Concentrations of Risk

The Company operates in markets that are highly competitive and rapidly changing. Significant technological changes, shifting customer needs, the emergence of competitive products or services with new capabilities, and other factors could negatively impact the Company's operating results.

The Company is also subject to risks related to its financial instruments including its cash and cash equivalents, investments, and accounts receivable. Most of the Company's cash and cash equivalents as of January 2, 2011 were deposited with financial institutions in the United States. The Company's investment policy restricts the amount of credit exposure to any one issuer to 5% of the portfolio at the time of purchase and to any one industry sector, as defined by Bloomberg classifications, to 25% of the portfolio at the time of purchase. There is no limit to the percentage of the portfolio that may be maintained in U.S. treasury obligations, U.S. government agencies, and money market funds. The Company performs a regular review of customer activity and associated credit risks and do not require collateral or enter into netting arrangements. The Company has historically not experienced significant credit losses from investments and accounts receivable.

The Company's products require customized components that currently are available from a limited number of sources. The Company obtains certain key components included in its products from single vendors.

Shipments to customers outside the United States comprised 45%, 48%, and 51% of the Company's revenue for the years ended January 2, 2011, January 3, 2010, and December 28, 2008, respectively. Customers outside the United States represented 59% and 46% of the Company's gross trade accounts receivable balance as of January 2, 2011 and January 3, 2010, respectively. Sales to territories outside of the United States are generally denominated in U.S. dollars. International sales entail a variety of risks, including currency exchange fluctuations, longer payment cycles, and greater difficulty in accounts receivable collection. The Company is also subject to general geopolitical risks, such as political, social and economic instability, and changes in diplomatic and trade relations. The risks of international sales are mitigated in part by the extent to which sales are geographically distributed.

Inventory

Inventory is stated at the lower of cost (on a first in, first out basis) or market. Inventory includes raw materials and finished goods that may be used in the research and development process and such items are expensed as consumed or expired. Provisions for slow moving, excess, and obsolete inventories are estimated based on product life cycles, quality issues, historical experience, and usage forecasts.

Property and Equipment

Property and equipment are stated at cost, subject to review of impairment, and depreciated over the estimated useful lives of the assets (generally three to seven years) using the straight-line method. Amortization of leasehold improvements is computed over the shorter of the lease term or the estimated useful life of the related assets. Maintenance and repairs are charged to operations as incurred. When assets are sold, or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is included in operating expense.

Goodwill, Intangible Assets and Other Long-Lived Assets

Goodwill represents the excess of cost over fair value of net assets acquired. The change in the carrying value of goodwill during the year ended January 2, 2011 was due to goodwill recorded in connection with acquisitions consummated in the year. Intangible assets include acquired technology, customer relationships, other license agreements, and licensed technology (capitalized as part of the Affymetrix litigation). The cost of identified intangible assets is amortized on a straight-line basis over periods ranging from three to ten years.

The Company regularly performs reviews to determine if the carrying values of the long-lived assets are impaired. Goodwill and other intangible assets that have indefinite useful lives, such as IPR&D, are reviewed for impairment at least annually during the second fiscal quarter, or more frequently if an event occurs indicating the potential for impairment. The performance of the goodwill impairment test is a two-step process. The first step of the impairment test involves comparing the estimated fair value of the reporting unit with its carrying value, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the Company performs the second step of the goodwill impairment test to determine the amount of loss, which involves comparing the implied fair value of the goodwill with the carrying value of the goodwill. The Company performed its annual impairment test of goodwill in May of 2010, noting no impairment and has determined there have been no impairment indicators for goodwill through January 2, 2011. A review of intangible assets that have finite useful lives and other long-lived assets is performed when an event occurs indicating the potential for impairment. If indicators of impairment exist, the Company assesses the recoverability of the affected long-lived assets by determining whether the carrying amount of such assets exceeds the undiscounted expected future cash flows. If impairment is indicated, the Company compares the carrying amount to the estimated fair value of the asset and adjusts the value of the asset accordingly. Factors that would necessitate an impairment assessment include a significant decline in the Company's stock price

and market capitalization compared to its net book value, significant changes in the ability of a particular asset to generate positive cash flows, and significant changes in the Company's strategic business objectives and utilization of the asset.

Reserve for Product Warranties

The Company generally provides a one-year warranty on instruments. Additionally, the Company provides a warranty on its consumables through the expiry date, which generally ranges from six to twelve months after the manufacture date. The Company establishes an accrual for estimated warranty expenses based on historical experience as well as anticipated product performance. The Company periodically reviews the adequacy of its warranty reserve, and adjusts, if necessary, the warranty percentage and accrual based on actual experience and estimated costs to be incurred. Warranty expense is recorded as a component of cost of product revenue. Warranty expenses associated with extended maintenance contracts for systems are recorded as cost of service and other revenue as incurred. See note "6. Warranties" for further detailed discussion.

Revenue Recognition

The Company's revenue is generated primarily from the sale of products and services. Product revenue primarily consists of sales of instrumentation and consumables used in genetic analysis. Service and other revenue primarily consists of revenue received for performing genotyping and sequencing services, extended warranty sales, and amounts earned under research agreements with government grants, which are recognized in the period during which the related costs are incurred.

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the seller's price to the buyer is fixed or determinable, and collectibility is reasonably assured. In instances where final acceptance of the product or system is required, revenue is deferred until all the acceptance criteria have been met. All revenue is recorded net of any discounts.

Revenue for product sales is recognized generally upon transfer of title to the customer, provided that no significant obligations remain and collection of the receivable is reasonably assured. Revenue for genotyping and sequencing services is recognized when earned, which is generally at the time the genotyping or sequencing analysis data is made available to the customer or agreed upon milestones are reached.

In order to assess whether the price is fixed or determinable, the Company evaluates whether refund rights exist. If there are refund rights or payment terms based on future performance, the Company defers revenue recognition until the price becomes fixed or determinable. The Company assesses collectibility based on a number of factors, including past transaction history with the customer and the creditworthiness of the customer. If the Company determines that collection of a payment is not reasonably assured, revenue recognition is deferred until receipt of payment.

The Company regularly enters into contracts where revenue is derived from multiple deliverables including any mix of products or services. These products or services are generally delivered within a short time frame, approximately three to six months, of the contract execution date. Revenue recognition for contracts with multiple deliverables is based on the individual units of accounting determined to exist in the contract. A delivered item is considered a separate unit of accounting when the delivered item has value to the customer on a stand-alone basis. Items are considered to have stand-alone value when they are sold separately by any vendor or when the customer could resell the item on a stand-alone basis.

For transactions entered into in 2009 and 2010, consideration is allocated at the inception of the contract to all deliverables based on their relative selling price. The relative selling price for each deliverable is determined using vendor specific objective evidence (VSOE) of selling price or third-party evidence of selling

price if VSOE does not exist. If neither VSOE nor third-party evidence exists, the Company uses its best estimate of the selling price for the deliverable.

For transactions entered into prior to 2009, consideration was generally allocated to each unit of accounting based upon its relative fair value when objective and reliable evidence of fair value existed for all units of accounting in an arrangement. The fair value of an item was generally the price charged for the product, if the item was regularly sold on a stand-alone basis. In those instances when objective and reliable evidence of fair value existed for the undelivered items but not for the delivered items, the residual method was used to allocate the arrangement consideration. Under the residual method, the amount of arrangement consideration allocated to the delivered items equaled the total arrangement consideration less the aggregate fair value of the undelivered items. When the Company was unable to establish stand-alone value for delivered items or when fair value of undelivered items had not been established, revenue was deferred until all elements were delivered and services had been performed, or until fair value could objectively be determined for any remaining undelivered elements.

In order to establish VSOE of selling price, the Company must regularly sell the product or service on a standalone basis with a substantial majority priced within a relatively narrow range. VSOE of selling price is usually the midpoint of that range. If there are not a sufficient number of standalone sales and VSOE of selling price cannot be determined, then the Company considers whether third party evidence can be used to establish selling price. Due to the lack of similar products and services sold by other companies within the industry, the Company has rarely established selling price using third-party evidence. If neither VSOE nor third party evidence of selling price exists, the Company determines its best estimate of selling price using average selling prices over a rolling 12-month period coupled with an assessment of current market conditions. If the product or service has no history of sales or if the sales volume is not sufficient, the Company relies upon prices set by the Company's pricing committee adjusted for applicable discounts. The Company recognizes revenue for delivered elements only when it determines there are no uncertainties regarding customer acceptance.

In the first quarter of 2010, the Company offered an incentive with the launch of the HiSeq 2000 that enabled existing Genome Analyzer customers to trade in their Genome Analyzer and receive a discount on the purchase of a HiSeq 2000. The incentive was limited to customers who had purchased a Genome Analyzer as of the date of the announcement and was the first significant trade-in program offered by the Company. The Company accounts for HiSeq 2000 discounts related to the Genome Analyzer trade-in program in the period in which the HiSeq 2000 revenue is recognized.

Shipping and Handling Expenses

Shipping and handling expenses are included in cost of product revenue.

Research and Development

Research and development expenses consist of costs incurred for internal and grant-sponsored research and development. Research and development expenses include personnel expenses, contractor fees, facilities costs, and utilities. Expenditures relating to research and development are expensed in the period incurred.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising costs were $6.9 million, $4.2 million, and $3.4 million for the years ended January 2, 2011, January 3, 2010, and December 28, 2008, respectively.

ILLUMINA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Leases

Leases are reviewed and classified as capital or operating at their inception. For leases that contain rent escalations, the Company records the total rent payable on a straight-line basis over the term of the lease, which includes the construction build-out period but excludes lease extension periods. The difference between rent payments and straight-line rent expense is recorded in other long-term liabilities. Landlord allowances are also recorded in other long-term liabilities, which are amortized on a straight-line basis over the lease term as a reduction to rent expense.

Income Taxes

The provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for the expected future tax benefit to be derived from tax loss and credit carryforwards. Deferred tax assets and liabilities are determined using the enacted tax rates in effect for the years in which those tax assets are expected to be realized. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the provision for income taxes in the period that includes the enactment date.

Deferred tax assets are regularly assessed to determine the likelihood they will be recovered from future taxable income. A valuation allowance is established when the Company believes it is more likely than not the future realization of all or some of a deferred tax asset will not be achieved. In evaluating the ability to recover deferred tax assets within the jurisdiction which they arise the Company considers all available positive and negative evidence. Factors reviewed include the cumulative pre-tax book income for the past three years, scheduled reversals of deferred tax liabilities, history of earnings and reliable forecasting, projections of pre-tax book income over the foreseeable future, and the impact of any feasible and prudent tax planning strategies.

The Company recognizes excess tax benefits associated with share-based compensation to stockholders' equity only when realized. When assessing whether excess tax benefits relating to share-based compensation have been realized, the Company follows the with-and-without approach excluding any indirect effects of the excess tax deductions. Under this approach, excess tax benefits related to share-based compensation are not deemed to be realized until after the utilization of all other tax benefits available to the Company.

The Company recognizes the impact of a tax position in the financial statements only if that position is more likely than not of being sustained upon examination by taxing authorities, based on the technical merits of the position. Any interest and penalties related to uncertain tax positions will be reflected in income tax expense.

Functional Currency

Prior to the third quarter of 2008, the Company identified the local currency as the functional currency in each of its foreign subsidiaries, with all translation adjustments recorded as part of other comprehensive income. Beginning in the third quarter of 2008, the Company reorganized its international structure to execute a more efficient relationship among product development, product manufacturing, and sales. This reorganization increased the foreign subsidiaries' dependence on the U.S. entity for management decisions, financial support, production assets, and inventory, thereby making the foreign subsidiaries a direct and integral component of the U.S. entity's operations. As a result, the Company reassessed the primary economic environment of its foreign subsidiaries, resulting in a U.S. dollar functional currency determination. Beginning in the third quarter of 2008, the Company remeasures its foreign subsidiaries' assets and liabilities and revenue and expense accounts related to monetary assets and liabilities to the U.S. dollar and records the net gains or losses resulting from remeasurement in other (expense) income, net in the consolidated statements of

income. Gains or (losses) resulting from remeasurement were $0.6 million, $(2.3) million, and $3.8 million for the years ended January 2, 2011, January 3, 2010 and December 28, 2008, respectively.

Derivatives

The Company is exposed to foreign exchange rate risks in the normal course of business. To manage a portion of the accounting exposure resulting from changes in foreign currency exchange rates, the Company enters into foreign exchange contracts to hedge monetary assets and liabilities that are denominated in currencies other than the U.S. dollar. These foreign exchange contracts are carried at fair value and do not qualify for hedge accounting treatment and are not designated as hedging instruments. Changes in the value of the derivative are recognized in other (expense) income, net, in the consolidated statements of income for the current period, along with an offsetting gain or loss on the underlying assets or liabilities.

Share-Based Compensation

The Company uses the Black-Scholes-Merton option-pricing model to estimate the fair value of stock options granted and stock purchases under the Employee Stock Purchase Plan (ESPP). This model incorporates various assumptions including expected volatility, expected life of an award, expected dividends, and the risk-free interest rates. The Company determines volatility by equally weighing the historical and implied volatility of the Company's common stock. The historical volatility of the Company's common stock over the most recent period is generally commensurate with the estimated expected life of the Company's stock awards, adjusted for the impact of unusual fluctuations not reasonably expected to recur and other relevant factors. The implied volatility is calculated from the implied market volatility of exchange-traded call options on the Company's common stock. The expected life of an award is based on historical forfeiture experience, exercise activity, and on the terms and conditions of the stock awards. The fair value of restricted stock units granted is based on the market price of our common stock on the date of grant. The Company amortizes the fair value of share-based compensation on a straight-line basis over the requisite service periods of the awards.

The assumptions used for the specified reporting periods and the resulting estimates of weighted-average fair value per share of options granted and for stock purchases under the ESPP during those periods are as follows:

	Years Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
Interest rate — stock options	2.05 - 2.73%	1.69 - 1.97%	2.31 -3.52%
Interest rate — stock purchases	0.17 - 0.48%	0.28 - 2.90%	1.88 -4.71%
Volatility — stock options	46 - 48%	55 - 58%	51 - 65%
Volatility — stock purchases	46 - 48%	48 - 58%	53 - 69%
Expected life — stock options	6 years	5 years	5 - 6 years
Expected life — stock purchases	6 - 12 months	6 - 12 months	6 - 12 months
Expected dividend yield	0%	0%	0%
Weighted average fair value per share of options granted	$18.82	$14.79	$18.31
Weighted average fair value per share of employee stock purchases	$11.10	$9.24	$11.45

As of January 2, 2011, approximately $151.8 million of total unrecognized compensation cost related to stock options, restricted stock units, and ESPP shares issued to date is expected to be recognized over a weighted-average period of approximately 2.47 years.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Total share-based compensation expense for all stock awards consists of the following (in thousands):

	Years Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
Cost of product revenue	$ 5,378	$ 4,776	$ 4,710
Cost of service and other revenue	470	514	400
Research and development	25,428	19,960	14,086
Selling, general and administrative	40,369	35,561	28,492
Share-based compensation expense before taxes	71,645	60,811	47,688
Related income tax benefits	(25,231)	(20,121)	(15,844)
Share-based compensation expense, net of taxes	$ 46,414	$ 40,690	$ 31,844

Net Income per Share

On July 22, 2008, the Company announced a two-for-one stock split in the form of a 100% stock dividend with a record date of September 10, 2008 and a distribution date of September 22, 2008. Share and per share amounts have been restated to reflect the stock split for all periods presented.

Basic net income or loss per share is computed by dividing net income or loss by the weighted-average number of common shares outstanding during the reporting period. Diluted net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the reporting period increased to include dilutive potential common shares using the treasury stock method. Dilutive potential common shares consist of stock options with combined exercise prices and unrecognized compensation expense that are less than the average market price of the Company's common stock, restricted stock units with unrecognized compensation expense, convertible debt when the average market price of the Company's common stock is above the conversion price of $21.83 and warrants with exercise prices that are less than the average market price of the Company's common stock. Under the treasury stock method, the amount that must be paid to exercise stock options and warrants, the average amount of compensation expense for future services that the Company has not yet recognized for stock options and restricted stock units, and the amount of estimated tax benefits that will be recorded in additional paid-in capital when the awards become deductible are assumed to be used to repurchase shares. In loss periods, basic net loss per share and diluted net loss per share are identical since the effect of dilutive potential common shares is anti-dilutive and therefore excluded.

The following table presents the calculation of weighted average shares used to calculate basic and diluted net income per share (in thousands):

	Years Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
Weighted average shares outstanding	123,581	123,154	116,855
Plus: Effect of dilutive Convertible Senior Notes	9,058	6,497	6,653
Plus: Effect of dilutive equity awards	4,674	4,335	5,373
Plus: Effect of dilutive warrants sold in connection with the Convertible Senior Notes	5,317	1,566	2,487
Plus: Effect of dilutive warrants assumed in the acquisition of Solexa	803	1,544	2,239
Weighted-average shares used in calculating diluted net income per share	143,433	137,096	133,607
Weighted average shares excluded from calculation due to anti-dilutive effect	1,934	924	370

Accumulated Other Comprehensive Income

Comprehensive income is comprised of net income and other comprehensive income. The Company has disclosed comprehensive income as a component of stockholders' equity. Accumulative other comprehensive income on the consolidated balance sheets at January 2, 2011 and January 3, 2010 includes accumulated foreign currency translation adjustments and unrealized gains and losses on the Company's available-for-sale securities.

The components of accumulated other comprehensive income are as follows (in thousands):

	January 2, 2011	January 3, 2010
Foreign currency translation adjustments	$ 1,338	$ 1,338
Unrealized gain on available-for-sale securities, net of deferred tax	427	1,492
Total accumulated other comprehensive income	$ 1,765	$ 2,830

2. Balance Sheet Account Details

Investments

The following is a summary of short-term investments (in thousands):

	January 2, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
Debt securities in government sponsored entities	$ 261,890	$ 106	$ (299)	$ 261,697
Corporate debt securities	329,823	1,170	(235)	330,758
U.S. treasury securities	52,938	70	(121)	52,887
Total available-for-sale securities	$ 644,651	$ 1,346	$ (655)	$ 645,342

ILLUMINA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	January 3, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
Debt securities in government sponsored entities	$ 289,101	$ 702	$ (102)	$ 289,701
Corporate debt securities	190,949	2,039	(166)	192,822
U.S. treasury securities	11,487	12	(28)	11,471
Total available-for-sale securities	491,537	2,753	(296)	493,994
Trading securities:				
Auction rate securities	54,900	—	(6,129)	48,771
Put option	—	6,129	—	6,129
Total trading securities	54,900	6,129	(6,129)	54,900
Total short-term investments	$ 546,437	$ 8,882	$ (6,425)	$ 548,894

Available-For-Sale Securities

As of January 2, 2011 the Company had 83 available-for-sale securities in a gross unrealized loss position, all of which had been in such position for less than twelve months. There were no unrealized losses due to credit issues for the periods presented. There were no impairments considered other-than-temporary as it is more likely than not the Company will hold the securities until maturity or a recovery of the cost basis. The following table shows the fair values and the gross unrealized losses of the Company's available-for- sale securities that were in an unrealized loss position as of January 2, 2011 and January 3, 2010 aggregated by investment category (in thousands):

	January 2, 2011		January 3, 2010	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Debt securities in government sponsored entities	$ 127,756	$ (299)	$ 73,783	$ (102)
Corporate debt securities	92,199	(235)	26,488	(166)
U.S. treasury securities	13,490	(121)	4,471	(28)
Total	$ 233,445	$ (655)	$ 104,742	$ (296)

Realized gains and losses are determined based on the specific identification method and are reported in interest income in the consolidated statements of income. Gross realized gains on sales of available-for sale securities for the year ended January 2, 2011 were $1.7 million and gross realized losses were immaterial. Gross realized gains and losses on sales of available-for-sale securities were immaterial for each of the years ended January 3, 2010 and December 28, 2008.

Contractual maturities of available-for-sale securities as of January 2, 2011 were as follows (in thousands):

	Estimated Fair Value
Due within one year	$ 230,421
After one but within five years	414,921
Total	$ 645,342

Trading Securities

As of January 3, 2010, the Company's short-term investments included $54.9 million (at cost) of auction rate securities issued primarily by municipalities and universities. In November 2008, the Company signed an agreement granting the Company an option to sell all of its auction rate securities at par value to UBS during the period of June 30, 2010 through July 2, 2012. To account for the option, the Company recorded a separate freestanding asset (put option). On July 1, 2010, the Company exercised its option to sell all of its remaining auction rate securities at par. From January 3, 2010 through July 1, 2010 the increase in the fair value of the auction rate securities was equal to the decrease in the fair value of the put option. As such, no gain or loss was recorded as a result of the exercise of the put option and the sale of the auction rate securities.

Changes in the fair value of the Company's auction rate securities and put option from January 3, 2010 through January 2, 2011 are as follows (in thousands):

Fair value of auction rate securities and put option as of January 3, 2010	54,900
Auction rate securities redeemed by issuer	(32,100)
Auction rate securities sold upon the exercise of put option on July 1, 2010	(22,800)
Fair value as of January 2, 2011	$ —

Cost-Method Investments

As of January 2, 2011 and January 3, 2010, the aggregate carrying amounts of the Company's cost-method investments in non-publicly traded companies were $32.0 million and $19.9 million, respectively. The Company's cost-method investments are assessed for impairment quarterly. The Company does not estimate the fair value of cost-method investments if there are no identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investments. See "Investments" in note "5. Impairment" for more information on the impairment of cost-method investments. The Company includes cost-method investments in other long term assets in the consolidated balance sheets.

Accounts Receivable

Accounts receivable consist of the following (in thousands):

	January 2, 2011	January 3, 2010
Accounts receivable from product and service sales	$ 165,117	$ 157,536
Other receivables	2,167	1,613
Total accounts receivable, gross	167,284	159,149
Allowance for doubtful accounts	(1,686)	(1,398)
Total accounts receivable, net	$ 165,598	$ 157,751

ILLUMINA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Inventory

Inventory, net, consists of the following (in thousands):

	January 2, 2011	January 3 2010
Raw materials	$ 56,435	$ 39,839
Work in process	73,759	52,059
Finished goods	24,290	11,475
Total inventory, gross	154,484	103,373
Reserve for inventory	(12,273)	(10,597)
Total inventory, net	$ 142,211	$ 92,776

Property and Equipment

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

	January 2, 2011	January 3, 2010
Leasehold improvements	$ 55,681	$ 55,322
Manufacturing and laboratory equipment	114,108	92,956
Computer equipment and software	41,500	37,071
Furniture and fixtures	6,732	5,993
Leased equipment	13,357	—
Total property and equipment, gross	231,378	191,342
Accumulated depreciation	(101,504)	(74,154)
Total property and equipment, net	$ 129,874	$ 117,188

Depreciation expense was $34.2 million, $24.5 million and $17.3 million for the years ended January 2, 2011, January 3, 2010, and December 28, 2008, respectively.

Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	January 2, 2011	January 3, 2010
Accrued compensation expenses	$ 49,368	$ 32,487
Deferred revenue, current portion	45,863	27,445
Reserve for product warranties	16,761	10,215
Customer deposits	14,900	6,121
Accrued taxes payable	13,277	12,109
Acquisition related contingent consideration liability	3,738	—
Accrued royalties	2,781	2,552
Other accrued expenses	9,476	7,324
Total accrued liabilities	$ 156,164	$ 98,253

3. Acquisitions

On April 30, 2010, the Company completed the acquisition of Helixis, a company developing a high-performance, low-cost, real time PCR system used for nucleic acid analysis. Total consideration for the acquisition at the closing date was approximately $86.7 million, including $70.0 million in cash (net of $2.6 million of cash acquired) and $14.1 million for the fair value of contingent consideration payments that could range from $0 to $35 million based on the achievement of certain revenue-based milestones by December 31, 2011. Using information available at the close of the acquisition, the Company allocated approximately $2.3 million of the consideration to tangible assets, net of liabilities, and approximately $28.0 million to identified intangible assets that will be amortized over a useful life of 10 years. The Company also recorded a $10.7 million deferred tax liability to reflect the tax impact of the identified intangible assets that will not generate tax deductible amortization expense and an $8.7 million deferred tax asset which primarily relates to acquired net operating loss carryforwards. The Company recorded the excess consideration of approximately $58.4 million as goodwill, which is not deductible for income tax purposes.

Prior to the acquisition, the Company had an equity interest in Helixis with a cost basis of $2.0 million that was accounted for under the cost method of accounting. The Company recognized a gain of $2.9 million, which was included in other (expense) income, net, in its consolidated statement of income as a result of revaluing the Company's equity interest in Helixis on the acquisition date.

On July 28, 2010, the Company completed an acquisition of another privately-held, development stage entity. Total consideration for the acquisition was $22.0 million. As a result of this transaction, the company recorded an in-process research and development (IPR&D) asset of $21.4 million in other assets (long-term). In determining the fair value of the IPR&D, various factors were considered, such as future revenue contributions, additional research and development costs to be incurred, and contributory asset charges. The fair value of the IPR&D was calculated using an income approach, and the rate used to discount net future cash flows to their present values was based on a risk-adjusted rate of return of approximately 28%. Significant factors considered in the calculation of the rate of return include the weighted average cost of capital, the weighted average return on assets, the internal rate of return, as well as the risks inherent in the development process for development-stage entities of similar sizes.

IPR&D will not be amortized until the development efforts are complete and until then, the Company will perform an annual impairment test of the asset, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test will involve a comparison of the fair value of the asset with its carrying amount. If its carrying amount exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess. Upon completion of the related development efforts, the Company will start amortizing the IPR&D based on an estimated useful life. Through January 2, 2011, there was no indication of impairment of IPR&D and no impairment loss has been recorded.

In 2008, the Company completed an acquisition of another development-stage company. At the time of the acquisition, the Company paid $25.8 million in cash, including transaction costs. In accordance with the applicable accounting guidance effective at that time, the Company recorded a charge of $24.7 million for purchased in-process research and development (IPR&D). As part of the acquisition agreement, Illumina agreed to pay the former shareholders of the entity up to an additional $35.0 million in contingent cash consideration based on the achievement of certain milestones. As contingent consideration payments are made,

they are recorded as IPR&D charges and compensation expenses. IPR&D and compensation expenses related to such contingent consideration recorded in the past three years are as follows (in thousands):

	Years Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
IPR&D(1)	$ 1,325	$ 11,325	$ 24,660
Compensation expense(2)	3,675	3,675	1,531

(1) IPR&D expense is included in acquisition related (gain) expense, net in the consolidated statements of income.
(2) Compensation expense associated with the acquisition is included in research and development expenses in the consolidated statements of income.

4. Intangible Assets

The Company's intangible assets, excluding goodwill, are comprised primarily of licensed technology from the Affymetrix settlement entered into on January 9, 2008, acquired core technology and customer relationships from the acquisition of Solexa, and acquired core technology from the acquisition of Helixis. As a result of the Affymetrix settlement, the Company agreed, without admitting liability, to make a one-time payment to Affymetrix, of which $36.0 million was recorded as licensed technology and classified as an intangible asset. The effective life of the licensed technology extends through 2015, the final expiry date of all patents considered in valuing the intangible asset. Amortization related to the Affymetrix licensed technology is recorded on a straight-line basis.

In connection with the acquisition of Helixis. in April 2010, the Company recorded an additional core technology of $28.0 million with a useful life of approximately 10 years. Acquired core technologies and customer relationships are being amortized on a straight-line basis over their useful lives.

The following is a summary of the Company's amortizable intangible assets as of the respective balance sheet dates (in thousands):

	January 2, 2011				January 3, 2010			
	Weighted Average Useful Life	Gross Carrying Amount	Accumulated Amortization	Intangibles, Net	Weighted Average Useful Life	Gross Carrying Amount	Accumulated Amortization	Intangibles, Net
Licensed technology	8.0	$ 36,000	$ (15,849)	$ 20,151	8.0	$ 36,000	$ (11,820)	$ 24,180
Core technology	10.0	51,500	(10,604)	40,896	10.0	23,500	(6,854)	16,646
Customer relationships	3.0	900	(900)	—	3.0	900	(875)	25
License agreements	8.9	10,654	(1,677)	8,977	7.2	4,456	(1,519)	2,937
Total intangible assets, net		$ 99,054	$ (29,030)	$ 70,024		$ 64,856	$ (21,068)	$ 43,788

Amortization expense associated with the intangible assets was $7.8 million, $6.7 million, and $10.4 million for the years ended January 2, 2011, January 3, 2010, and December 28, 2008, respectively.

The estimated annual amortization of intangible assets for the next five years is shown in the following table (in thousands). Actual amortization expense to be reported in future periods could differ from these estimates as a result of acquisitions, divestitures, asset impairments, and other factors.

2011	$	10,071
2012		10,285
2013		10,270
2014		10,251
2015		10,251
Thereafter		18,896
Total	$	70,024

5. Impairment

Investments

During the fourth quarter of 2010, the Company determined that a $6.0 million cost-method investment and a related $6.8 million note receivable with interest receivable of $0.4 million were below carrying value and the impairment was other-than-temporary. This determination was based upon continued shortfalls from revenue plans coupled with events in the fourth quarter of fiscal 2010 that created uncertainty regarding the entity's ability to obtain additional funding in a required timeframe for the entity to continue operations. As a result, the Company recorded an impairment charge of $13.2 million in other (expense) income, net in the consolidated statements of income for the year ended January 2, 2011.

Manufacturing Equipment

During the year ended December 28, 2008, the Company implemented next-generation imaging and decoding systems to be used in manufacturing. These systems were developed to increase existing capacity and allow the Company to transition to the Infinium High-Density (HD) product line. As a result of this transition, the demand for products manufactured on the previous infrastructure was reduced and certain systems were no longer being utilized. A non-cash impairment charge of $4.1 million was recorded in the year ended December 28, 2008 for the excess machinery. This charge is included as a separate line item in the Company's consolidated statement of income. There was no change to useful lives and related depreciation expenses of the remaining assets as the Company believes these estimates are currently reflective of the period the assets will be used in operations.

6. Warranties

The Company generally provides a one-year warranty on instruments. Additionally, the Company provides a warranty on its consumables through the expiry date, which generally ranges from six to twelve months after the manufacture date. At the time revenue is recognized, the Company establishes an accrual for estimated warranty expenses based on historical experience as well as anticipated product performance. The Company periodically reviews the adequacy of our warranty reserve, and adjusts, if necessary, the warranty percentage and accrual based on actual experience and estimated costs to be incurred. Warranty expense is recorded as a component of cost of product revenue. Estimated warranty expenses associated with extended maintenance contracts for systems are recorded as a cost of service and other revenue as incurred.

Changes in the Company's reserve for product warranties from January 1, 2008 through January 2, 2011 are as follows (in thousands):

Balance as of January 1, 2008	$	3,716
Additions charged to cost of revenue		13,044
Repairs and replacements		(8,557)
Balance as of December 28, 2008		8,203
Additions charged to cost of revenue		14,613
Repairs and replacements		(12,601)
Balance as of January 3, 2010		10,215
Additions charged to cost of revenue		25,146
Repairs and replacements		(18,600)
Balance as of January 2, 2011	$	16,761

7. Convertible Senior Notes

On February 16, 2007, the Company issued $400.0 million principal amount of 0.625% convertible senior notes due 2014. The net proceeds from the offering, after deducting the initial purchasers' discount and offering expenses, were approximately $390.3 million. The Company pays 0.625% interest per annum on the principal amount of the notes, payable semi-annually in arrears in cash on February 15 and August 15 of each year. The notes mature on February 15, 2014.

The notes are convertible into cash and, if applicable, shares of the Company's common stock, $0.01 par value per share, based on a conversion rate, subject to adjustment, of 45.8058 shares per $1,000 principal amount of notes (which represents a conversion price of approximately $21.83 per share), only in the following circumstances and to the following extent: (1) during the five business-day period after any five consecutive trading-day period (the measurement period) in which the trading price per note for each day of such measurement period was less than 97% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such day; (2) during any calendar quarter, if the last reported sale price of the Company's common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 130% of the applicable conversion price in effect on the last trading day of the immediately preceding calendar quarter; (3) upon the occurrence of specified events; and (4) at any time on or after November 15, 2013 through the third scheduled trading day immediately preceding the maturity date. The requirements of the second condition above were satisfied during each of the calendar quarters of 2010 and the first, second and third quarters of 2009. Accordingly, the notes were and continue to be convertible during the period from, and including, April 1, 2009 through, and including, December 31, 2009 and again during the period April 1, 2010 through, and including, March 31, 2011. Additionally, these same requirements were satisfied during the third quarter of 2008, and, as a result, the notes were convertible during the period from, and including, October 1, 2008 through, and including, December 31, 2008. On December 29, 2008, a noteholder converted notes in an aggregate principal amount of $10.0 million. On February 4, 2009, the settlement date, we paid the noteholder the conversion value of the notes in cash, up to the principal amount of the notes. The excess of the conversion value over the principal amount, totaling $2.9 million, was paid in shares of common stock. This equity dilution upon conversion of the notes was offset by the reacquisition of the shares under the convertible note hedge transactions entered into in connection with the offering of the notes.

The hedge transaction entered with the initial purchasers and/or their affiliates (the hedge counterparties) entitles the Company to purchase up to 18,322,320 shares of the Company's common stock at a strike price of approximately $21.83 per share, subject to adjustment. In addition, the Company sold to these hedge

counterparties warrants exercisable, on a cashless basis, for up to 18,322,320 shares of the Company's common stock at a strike price of $31.435 per share, subject to adjustment. The cost of the hedge transaction that was not covered by the proceeds from the sale of the warrants was approximately $46.6 million and was reflected as a reduction of additional paid-in capital. The hedge transaction is expected to reduce the potential equity dilution upon conversion of the notes to the extent the Company exercises the hedge to purchase shares from the hedge counterparties to deliver to converting noteholders. However, the warrants could have a dilutive effect on the Company's earnings per share to the extent that the price of the Company's common stock exceeds the strike price of the warrants.

As of January 2, 2011, the principal amount of the convertible senior notes was $390.0 million due to conversion of $10.0 million of the notes during the first quarter of 2009. The unamortized discount was $78.4 million resulting in a net carrying amount of the liability component of $311.6 million. As of January 3, 2010, the principal amount of the notes was $390.0 million and the unamortized discount was $99.8 million, resulting in a net carrying amount of the liability of $290.2 million. Upon the conversion, the Company recorded a gain of $0.8 million in the first quarter of 2009, calculated as the difference between the carrying amount of the converted notes and their estimated fair value as of the settlement date. To measure the fair value of the converted notes as of the settlement date, the Company calculated an interest rate of 11.3% using Level 2 Observable Inputs. This rate was applied to the converted notes and coupon interest rate using the same present value technique used in the issuance date valuation. The remaining period over which the discount on the liability component will be amortized is 3.12 years.

8. Commitments

Operating Leases

The Company leases office and manufacturing facilities under various noncancellable operating lease agreements. Facility leases generally provide for periodic rent increases, and many contain escalation clauses and renewal options. Certain leases require the Company to pay property taxes and routine maintenance. The Company is headquartered in San Diego, California and leases facilities in San Diego, California; Hayward, California; Carlsbad, California; Branford, Connecticut; the United Kingdom; the Netherlands; Japan; Singapore; Australia; and China.

Annual future minimum payments under these operating leases as of January 2, 2011 were as follows (in thousands):

2011	$	13,965
2012		15,237
2013		22,500
2014		20,926
2015		20,059
Thereafter		406,574
Total	$	499,261

Rent expense, net of amortization of the deferred gain on sale of property, was $14.7 million, $13.6 million, and $10.7 million for the years ended January 2, 2011, January 3, 2010, and December 28, 2008, respectively.

On December 30, 2010, the Company entered into a lease agreement for a new corporate headquarters facility located in San Diego, California. The lease has a target commencement date of November 1, 2011 and has an initial term of 20 years with four five-year options to extend. There is a one-time option to terminate the lease after 15 years in exchange for an early termination fee. The lease includes two existing office

buildings and a central plant building with approximately 346,600 square feet. The Company has also agreed to lease a third office building to be built at this facility containing approximately 123,400 rentable square feet. The Company has the right to further expand the premises and lease one or more of three additional office buildings that may be built at this facility. Included in the table above are future minimum lease payments during the initial term of the lease, which are expected to total approximately $355.9 million, excluding further expansion beyond the third building, and taking no consideration of tenant improvement allowances of approximately $21.9 million. The Company will capitalize the leasehold improvements and amortize them over the shorter of the lease term or their expected useful life. The leasehold improvement allowances will reduce rent expense over the initial lease term.

Lease commitments of $108.3 million related to the lease for the Company's current headquarters are also included in the table above. The Company plans to cease the use of the facility near the end of 2011 and the Company is further obligated for certain ongoing operating costs prior to any sublease that may be obtained. Upon cease-use of the facility, the Company will record an estimated loss for the present value of the expected shortfall between the remaining lease payments obligation and estimated sublease rental during the remaining lease period, adjusted for deferred rents and leasehold improvements.

9. Stockholders' Equity

Common Stock

On July 22, 2008, the Company announced a two-for-one stock split in the form of a 100% stock dividend with a record date of September 10, 2008 and a distribution date of September 22, 2008. Share and per share amounts have been restated to reflect the stock split for all periods presented.

On August 12, 2008, a total of 8,050,000 shares were sold to the public at a public offering price of $43.75 per share, raising net proceeds to the Company of $342.7 million, after deducting underwriting discounts and commissions and offering expenses.

On January 2, 2011, the Company had 126,606,851 shares of common stock outstanding, excluding treasury shares.

Stock Options

On January 2, 2011, the Company had three active stock plans: the 2005 Stock and Incentive Plan (the 2005 Stock Plan), the 2005 Solexa Equity Incentive Plan (the 2005 Solexa Equity Plan), and the New Hire Stock and Incentive Plan. As of January 2, 2011, options to purchase 7,535,584 shares remained available for future grant under the 2005 Stock Plan and 2005 Solexa Equity Plan. There is no set number of shares reserved for issuance under the New Hire Stock and Incentive Plan.

Stock options granted at the time of hire primarily vest over a four or five-year period, with 20% or 25% of options vesting on the first anniversary of the grant date and the remaining options vesting monthly over the remaining vesting period. Stock options granted subsequent to hiring primarily vest monthly over a four or five-year period. Each grant of options has a maximum term of ten years, measured from the applicable grant date, subject to earlier termination if the optionee's service with us ceases. Vesting in all cases is subject to the individual's continued service to us through the vesting date. The Company satisfies option exercises through the issuance of new shares.

ILLUMINA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company's stock option activity under all stock option plans from January 1, 2008 through January 2, 2011 is as follows:

	Options	Weighted-Average Exercise Price	Weighted Average Grant-Date Fair Value per Share
Outstanding at January 1, 2008	20,847,868	$ 12.13	$ 8.13
Granted	3,091,108	34.23	18.01
Exercised	(4,571,855)	8.52	6.02
Cancelled	(1,232,917)	19.93	11.18
Outstanding at December 28, 2008	18,134,204	16.26	10.08
Granted	1,560,024	28.86	14.74
Exercised	(2,965,606)	10.56	7.21
Cancelled	(639,184)	14.88	9.82
Outstanding at January 3, 2010	16,089,438	18.59	11.07
Granted	2,045,489	39.11	18.82
Exercised	(5,541,276)	16.65	10.08
Cancelled	(711,350)	21.76	11.78
Outstanding at January 2, 2011	11,882,301	$ 22.83	$ 12.82

At January 2, 2011, outstanding options to purchase 6,950,184 shares were exercisable with a weighted average per share exercise price of $17.70. The weighted average remaining life in years of options outstanding and exercisable is 6.51 years and 5.67 years, respectively, as of January 2, 2011.

The aggregate intrinsic value of options outstanding and options exercisable as of January 2, 2011 and January 3, 2010 was $481.4 million and $317.2 million, respectively. Aggregate intrinsic value represents the difference between the Company's closing stock price per share on the last trading day of the fiscal period, which was $63.34 as of December 31, 2010, and the exercise price multiplied by the number of options outstanding. Total intrinsic value of options exercised was $156.9 million, $73.4 million, and $136.6 million for the years ended January 2, 2011, January 3, 2010, and December 28, 2008, respectively.

Employee Stock Purchase Plan

In February 2000, the board of directors and stockholders adopted the 2000 ESPP. A total of 15,467,426 shares of the Company's common stock have been reserved for issuance under the ESPP. The ESPP permits eligible employees to purchase common stock at a discount, but only through payroll deductions, during defined offering periods.

The price at which stock is purchased under the ESPP is equal to 85% of the fair market value of the common stock on the first or last day of the offering period, whichever is lower. The initial offering period commenced in July 2000. In addition, beginning with fiscal 2001, the ESPP provides for annual increases of shares available for issuance by the lesser of 3% of the number of outstanding shares of the Company's common stock on the last day of the immediately preceding fiscal year, 3,000,000 shares or such lesser amount as determined by the Company's board of directors. Shares totaling 372,544, 359,713, and 276,198 were issued under the ESPP during fiscal 2010, 2009, and 2008, respectively. As of January 2, 2011 and January 3, 2010, there were 16,061,905 shares and 13,434,499 shares available for issuance under the ESPP, respectively.

ILLUMINA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Restricted Stock Units

In 2007 the Company began granting restricted stock units (RSUs), pursuant to its 2005 Stock and Incentive Plan as part of its periodic employee equity compensation review program. RSUs are share awards that, upon vesting, will deliver to the holder shares of the Company's common stock. RSUs generally vest 15% on the first anniversary of the grant date, 20% on the second anniversary of the grant date, 30% on the third anniversary of the grant date, and 35% on the fourth anniversary of the grant date. The Company satisfies RSU vesting through the issuance of new shares.

A summary of the Company's RSU activity and related information from January 1, 2008 through January 2, 2011 is as follows:

	Restricted Stock Units(1)	Weighted Average Grant-Date Fair Value per Share
Outstanding at January 1, 2008	394,500	$ 25.68
Awarded	1,287,504	34.53
Vested	(55,638)	25.67
Cancelled	(47,090)	32.85
Outstanding at December 28, 2008	1,579,276	32.68
Awarded	1,292,473	32.25
Vested	(246,055)	32.33
Cancelled	(116,986)	33.19
Outstanding at January 3, 2010	2,508,708	32.45
Awarded	1,353,583	50.74
Vested	(510,113)	32.10
Cancelled	(242,946)	33.36
Outstanding at January 2, 2011	3,109,232	$ 40.39

(1) Each RSU represents the fair market value of one share of common stock.

Based on the closing price per share of the Company's common stock of $63.34 and $30.68 on December 31, 2010 and December 31, 2009, respectively, the total pretax intrinsic value of all outstanding RSUs as of January 2, 2011 and January 3, 2010 was $125.6 million and $81.1 million, respectively.

Warrants

In conjunction with its acquisition of Solexa, Inc. on January 26, 2007, the Company assumed 4,489,686 warrants issued by Solexa prior to the acquisition. During the year ended January 2, 2011, there were 1,577,712 warrants exercised, resulting in cash proceeds to the Company of approximately $16.0 million.

A summary of all warrants outstanding as of January 2, 2011 is as follows:

Number of Shares	Exercise Price	Expiration Date
505,442	$ 10.91	1/19/2011
18,322,320(1)	$ 31.44	2/15/2014
18,827,762		

(1) Represents warrants sold in connection with the offering of the Company's convertible senior notes (See note "7. Convertible Senior Notes").

Treasury Stock

In October 2008, the board of directors authorized a $120.0 million stock repurchase program. In fiscal 2008, the Company repurchased 3.1 million shares for $70.8 million under the program.

In July 2009, the board of directors authorized a $75.0 million stock repurchase program and concurrently terminated the $120.0 million stock repurchase program authorized in October 2008. In November 2009, upon the completion of the repurchase program authorized in July 2009, our board of directors authorized an additional $100.0 million stock repurchase program. In fiscal 2009, the

Company repurchased a total of 6.1 million shares for $175.1 million, under both programs in open-market transactions or through privately negotiated transactions in compliance with Rule 10b-18 under the Securities Exchange Act of 1934. This program expired at the end of 2009.

In July 2010, the Company's board of directors authorized a $200 million stock repurchase program, with $100 million allocated to repurchasing Company common stock under a 10b5-1 plan over a 12 month period and $100 million allocated to repurchasing Company common stock at management's discretion during open trading windows. In fiscal 2010, the Company repurchased 0.8 million shares for $44.0 million under the program authorized in July 2010.

Stockholder Rights Plan

On May 3, 2001, the board of directors of the Company declared a dividend of one preferred share purchase right (a Right) for each outstanding share of common stock of the Company. The dividend was payable on May 14, 2001 to the stockholders of record on that date. Each Right entitles the registered holder to purchase from the Company one unit consisting of one-thousandth of a share of its Series A Junior Participating Preferred Stock at a price of $100 per unit. The Rights will be exercisable if a person or group hereafter acquires beneficial ownership of 15% or more of the outstanding common stock of the Company or announces an offer for 15% or more of the outstanding common stock. If a person or group acquires 15% or more of the outstanding common stock of the Company, each Right will entitle its holder to purchase, at the exercise price of the Right, a number of shares of common stock having a market value of two times the exercise price of the Right. If the Company is acquired in a merger or other business combination transaction after a person acquires 15% or more of the Company's common stock, each Right will entitle its holder to purchase, at the Right's then-current exercise price, a number of common shares of the acquiring company which at the time of such transaction have a market value of two times the exercise price of the Right. The board of directors will be entitled to redeem the Rights at a price of $0.01 per Right at any time before any such person acquires beneficial ownership of 15% or more of the outstanding common stock. The Rights expire on May 14, 2011 unless such date is extended or the Rights are earlier redeemed or exchanged by the Company.

10. Legal Proceedings

From time to time, the Company is party to litigation and other legal proceedings in the ordinary course, and incidental to the conduct, of its business. While the results of any litigation or other legal proceedings are uncertain, the Company does not believe the ultimate resolution of any pending legal matters is likely to have a material adverse effect on its financial position or results of operations.

ILLUMINA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

11. Income Taxes

The income before income taxes summarized by region is as follows (in thousands):

	Years Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
United States	$ 109,068	$ 65,081	$ 46,205
Foreign	76,311	49,044	26,482
Total income before income taxes	$ 185,379	$ 114,125	$ 72,687

The provision for income taxes consists of the following (in thousands):

	Years Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
Current:			
Federal	$ 39,476	$ 43,565	$ 13,868
State	8,607	2,511	2,134
Foreign	6,330	6,204	5,042
Total current provision	54,413	52,280	21,044
Deferred:			
Federal	6,557	(14,607)	11,700
State	(6,808)	5,184	901
Foreign	6,326	(1,013)	(374)
Total deferred provision (benefit)	6,075	(10,436)	12,227
Total tax provision	$ 60,488	$ 41,844	$ 33,271

The provision for income taxes reconciles to the amount computed by applying the federal statutory rate to income before taxes as follows (in thousands):

	Years Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
Tax at federal statutory rate	$ 64,881	$ 39,944	$ 25,440
State, net of federal benefit	6,231	4,275	3,461
Research and other credits	(5,859)	(4,050)	(4,060)
Acquired in-process research & development	517	4,386	9,508
Change in valuation allowance	(9,497)	(1,967)	(6,892)
Permanent differences	1,397	2,093	1,449
Change in fair value of contingent consideration	(3,632)	—	—
Impact of foreign operations	7,597	(5,400)	4,124
Other	(1,147)	2,563	241
Total tax provision	$ 60,488	$ 41,844	$ 33,271

ILLUMINA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Significant components of the Company's deferred tax assets and liabilities are as follows (in thousands):

	January 2, 2011	January 3, 2010
Deferred tax assets:		
Net operating losses	$ 11,898	$ 15,869
Tax credits	18,329	18,681
Other accruals and reserves	22,134	17,813
Stock compensation	23,829	25,442
Impairment of cost-method investment	5,058	—
Other amortization	4,893	4,216
Other	4,643	14,980
Total deferred tax assets	90,784	97,001
Valuation allowance on deferred tax assets	(4,986)	(14,852)
Net deferred tax assets	85,798	82,149
Deferred tax liabilities:		
Purchased intangible amortization	(22,605)	(5,043)
Accrued litigation settlements	(3,276)	(3,810)
Convertible debt	(3,191)	(3,901)
Other	(3,861)	(2,810)
Total deferred tax liabilities	(32,933)	(15,564)
Net deferred tax assets	$ 52,865	$ 66,585

A valuation allowance is established when it is more likely than not the future realization of all or some of the deferred tax assets will not be achieved. The evaluation of the need for a valuation allowance is performed on a jurisdiction-by-jurisdiction basis, and includes a review of all available positive and negative evidence. During 2010, the valuation allowance decreased by $9.9 million primarily due to increased profitability of certain foreign subsidiaries related to the corporate restructuring implemented during the fourth quarter. Based on the available evidence as of January 2, 2011, the Company was not able to conclude it is more likely than not certain U.S. and foreign deferred tax assets will be realized. Therefore, the Company recorded a valuation allowance of $1.9 million and $3.1 million against certain U.S. and foreign net deferred tax assets, respectively.

As of January 2, 2011, the Company had net operating loss carryforwards for federal and state tax purposes of $37.5 million and $161.7 million, respectively, which begin to expire in 2020 and 2017, respectively, unless utilized prior. In addition, the Company also had U.S. federal and state research and development tax credit carryforwards of $13.7 million and $28.7 million, respectively, which begin to expire in 2027 and 2019, respectively, unless utilized prior.

Pursuant to Section 382 and 383 of the Internal Revenue Code, utilization of the Company's net operating loss and credits may be subject to annual limitations in the event of any significant future changes in its ownership structure. These annual limitations may result in the expiration of net operating losses and credits prior to utilization. The deferred tax assets as of January 2, 2011 are net of any previous limitations due to Section 382 and 383.

The Company recognizes excess tax benefits associated with share-based compensation to stockholders' equity only when realized. When assessing whether excess tax benefits relating to share-based compensation

have been realized, the Company follows the with-and-without approach excluding any indirect effects of the excess tax deductions. Under this approach, excess tax benefits related to share-based compensation are not deemed to be realized until after the utilization of all other tax benefits available to the Company. During 2010, the Company realized $42.4 million of such excess tax benefits, and accordingly recorded a corresponding credit to additional paid in capital. As of January 2, 2011, the Company has $16.7 million of unrealized excess tax benefits associated with share-based compensation. These tax benefits will be accounted for as a credit to additional paid-in capital, if and when realized, rather than a reduction of the provision for income taxes.

The Company's manufacturing operations in Singapore operate under various tax holidays and incentives that begin to expire in 2018. For the year ended January 2, 2011, these tax holidays and incentives resulted in an approximate $2.3 million decrease to the provision for income taxes and an increase to net income per diluted share of $0.02.

Residual U.S. income taxes have not been provided on $66.0 million of undistributed earnings of foreign subsidiaries as of January 2, 2011, since the earnings are considered to be indefinitely invested in the operations of such subsidiaries.

The following table summarizes the gross amount of the Company's uncertain tax positions (in thousands):

	January 2, 2011	January 3, 2010	December 28, 2008
Balance at beginning of year	$ 11,760	$ 9,402	$ 7,000
Increases related to prior year tax positions	5,066	—	—
Increases related to current year tax positions	5,903	2,358	2,402
Balance at end of year	$ 22,729	$ 11,760	$ 9,402

As of January 2, 2011, $18.3 million of the Company's uncertain tax positions would reduce the Company's annual effective tax rate, if recognized.

The Company does not expect its uncertain tax positions to change significantly over the next 12 months. Any interest and penalties related to uncertain tax positions will be reflected in income tax expense. As of January 2, 2011, minimal interest was accrued related to the Company's uncertain tax positions. Tax years 1995 to 2010 remain subject to future examination by the major tax jurisdictions in which the Company is subject to tax.

12. Employee Benefit Plans

Retirement Plan

The Company has a 401(k) savings plan covering substantially all of its employees. Company contributions to the plan are discretionary. During the years ended January 2, 2011, January 3, 2010, and December 28, 2008, the Company made matching contributions of $4.2 million, $3.3 million, and $2.6 million, respectively.

Deferred Compensation Plan

The Company adopted the Illumina, Inc. Deferred Compensation Plan (the Plan) that became effective January 1, 2008. Eligible participants, which include the Company's senior level employees and members of the board of directors, can contribute up to 80% of their base salary and 100% of all other forms of compensation into the Plan, including bonus, equity awards, commission and director fees. The Company has agreed to credit the participants' contributions with earnings that reflect the performance of certain

independent investment funds. On a discretionary basis, the Company may also make employer contributions to participant accounts in any amount determined by the Company. The vesting schedules of employer contributions are at the sole discretion of the Compensation Committee. However, all employer contributions shall become 100% vested upon the occurrence of the participant's disability, death or retirement or a change in control of the Company. The benefits under this plan are unsecured. Participants are generally eligible to receive payment of their vested benefit at the end of their elected deferral period or after termination of their employment with the Company for any reason or at a later date to comply with the restrictions of Section 409A. As of January 2, 2011, no employer contributions were made to the Plan.

In January 2008, the Company also established a rabbi trust for the benefit of the participants under the Plan. In accordance with authoritative guidance related to consolidation of variable interest entities and accounting for deferred compensation arrangements where amounts earned are held in a rabbi trust and invested, the Company has included the assets of the rabbi trust in its consolidated balance sheet since the trust's inception. As of January 2, 2011 and January 3, 2010, the assets of the trust were $6.1 million and $4.0 million, respectively, and liabilities of the Company were $5.3 million and $4.0 million, respectively. The assets and liabilities are classified as other assets and accrued liabilities, respectively, on the Company's consolidated balance sheets. Changes in the values of the assets held by the rabbi trust are recorded in other (expense) income, net in the consolidated statement of income.

13. Segment Information, Geographic Data, and Significant Customers

The Company is organized in two business segments, the Life Sciences Business Unit and Diagnostics Business Unit. The Life Sciences Business Unit includes all products and services that are primarily related to the research market, namely the product lines based on the Company's sequencing, BeadArray, VeraCode, and real-time PCR technologies. The Diagnostics Business Unit focuses on the emerging opportunity in molecular diagnostics. During all periods presented, the Company had limited activity related to the Diagnostics Business Unit. Accordingly, the Company's operating results for both units were reported on an aggregate basis as one reportable segment during these periods. The Company will begin reporting in two segments once revenues, operating profit or loss, or assets of the Diagnostics Business Unit exceed 10% of the consolidated amounts.

The Company had revenue in the following regions for the years ended January 2, 2011, January 3, 2010, and December 28, 2008 (in thousands):

	Years Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
United States	$ 498,981	$ 347,195	$ 280,064
United Kingdom	60,521	55,854	67,973
Other European countries	163,062	140,931	127,397
Asia-Pacific	143,441	96,396	72,740
Other markets	36,736	25,948	25,051
Total	$ 902,741	$ 666,324	$ 573,225

Net revenues are attributable to geographic areas based on the region of destination.

The majority of our product sales consist of consumables and instruments. For the years ended January 2, 2011, January 3, 2010, and December 28, 2008, consumable sales represented 56%, 59%, and 58%, respectively, of total revenues and instrument sales comprised 36%, 34%, and 32%, respectively, of total revenues. The Company's customers include leading genomic research centers, academic institutions, government laboratories, and clinical research organizations, as well as pharmaceutical, biotechnology,

agrigenomics, and consumer genomics companies. The Company had no customers that provided more than 10% of total revenue in the years ended January 2, 2011, January 3, 2010, and December 28, 2008.

Net long-lived assets exclude goodwill and other intangible assets since they are not allocated on a geographic basis. The Company had net long-lived assets consisting of property and equipment in the following regions as of January 2, 2011 and January 3, 2010 (in thousands):

	January 2, 2011	January 3, 2010
United States	$ 75,206	$ 75,095
United Kingdom	26,578	27,862
Other European countries	1,709	864
Singapore	14,739	12,599
Other Asia-Pacific countries	11,642	768
Total	$ 129,874	$ 117,188

14. Quarterly Financial Information (unaudited)

The following financial information reflects all normal recurring adjustments, except as noted below, which are, in the opinion of management, necessary for a fair statement of the results and cash flows of interim periods. All quarters for fiscal years 2010 and 2009 ended January 2, 2011 and January 3, 2010, respectively were 13 weeks except for the fourth quarter of fiscal year 2009, which was 14 weeks. Summarized quarterly data for fiscal years 2010 and 2009 are as follows (in thousands except per share data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2010:				
Total revenue	$ 192,131	$ 212,003	$ 237,309	$ 261,298
Gross profit	132,178	146,091	157,145	166,126
Net income	21,208	29,796	35,447	38,440
Net income per share, basic	0.18	0.24	0.28	0.31
Net income per share, diluted	0.16	0.21	0.24	0.25
2009:				
Total revenue	$ 165,757	$ 161,643	$ 158,360	$ 180,564
Gross profit	110,065	111,158	107,126	125,526
Net income	18,811	24,688	17,077	11,705
Net income per share, basic	0.15	0.20	0.14	0.10
Net income per share, diluted	0.14	0.18	0.12	0.09

15. Subsequent Events

On January 10, 2011, the Company acquired Epicentre Biotechnologies, Inc., a provider of nucleic acid sample preparation reagents and specialty enzymes used in sequencing and microarray applications. Total consideration exchanged for the acquisition includes $60 million in cash, $15 million in stock that is subject to forfeiture if certain non-revenue based milestones are not met, and up to $15 million in contingent consideration payments based on the achievement of certain revenue-based milestones by January 10, 2013. Due to the limited time since the acquisition date, the Company has not completed the initial purchase accounting for this acquisition, including the assessment of fair values of consideration exchanged, assets acquired, and liabilities assumed.

ILLUMINA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

During the period from January 3, 2011 to February 28, 2011, certain noteholders notified the Company of their election to convert an aggregate of $251.1 million principal amount of our convertible senior notes in exchange for the repayment of the principal amount and a certain number of shares of the Company's common stock representing the "in the money" amount of the notes. The number of shares of common stock to be delivered upon conversion is based on the Company's volume weighted average price over a twenty-day observation period that begins following the date of the election to convert. In connection with the conversions, the Company expects to exercise its right under the convertible note hedge with its hedging counterparties to repurchase the same amount of shares as exchanged in the conversions. The majority of the notified conversions have not been executed as the twenty-day observation period has not concluded as of February 28, 2011.

Upon conversion, the Company will record a gain or loss for the difference between the fair value of the notes to be extinguished and its corresponding carrying value, net of unamortized debt issuance costs. The fair value of the notes to be extinguished depends on the Company's current incremental borrowing rate. The net carrying value of the notes has an implicit interest rate of 8.27%. As the interest rate applicable at the time of conversion is likely to be lower than the implied interest rate of the notes, the Company will likely record a loss in its consolidated statement of income during the first quarter of 2011.

Item 9. ***Changes In and Disagreements with Accountants on Accounting and Financial Disclosure.***

None.

Item 9A. ***Controls and Procedures.***

We design our internal controls to provide reasonable assurance that (1) our transactions are properly authorized; (2) our assets are safeguarded against unauthorized or improper use; and (3) our transactions are properly recorded and reported in conformity with U.S. generally accepted accounting principles. We also maintain internal controls and procedures to ensure that we comply with applicable laws and our established financial policies.

We have carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Securities Exchange Act), as of January 2, 2011. Based upon that evaluation, our principal executive officer and principal financial officer concluded that, as of January 2, 2011, our disclosure controls and procedures were effective to ensure that (a) the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (b) such information is accumulated and communicated to our management, including our principal executive officer and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management have concluded that the disclosure controls and procedures are effective at the reasonable assurance level. Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected.

An evaluation was also performed under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of any change in our internal control over financial reporting that occurred during the fourth quarter of 2010 and that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. The evaluation did not identify any such change.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

We conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control — Integrated Framework, our management concluded that our internal control over financial reporting was effective as of January 2, 2011. The effectiveness of our internal control over financial reporting as of January 2, 2011 has been audited by Ernst & Young LLP, an independent registered accounting firm, as stated in their report which is included herein.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of
Illumina, Inc.

We have audited Illumina, Inc.'s internal control over financial reporting as of January 2, 2011, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Illumina, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Illumina, Inc. maintained, in all material respects, effective internal control over financial reporting as of January 2, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the accompanying consolidated balance sheets of Illumina, Inc. as of January 2, 2011 and January 3, 2010, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended January 2, 2011 of Illumina, Inc. and our report dated February 28, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Diego, California
February 28, 2011

Item 9B. ***Other Information.***

None.

PART III

Item 10. ***Directors, Executive Officers, and Corporate Governance.***

(a) Identification of Directors. Information concerning our directors is incorporated by reference from the section entitled "Proposal One: Election of Directors," "Information About Directors," "Director Compensation" and "Board of Directors and Corporate Governance" to be contained in our definitive Proxy Statement with respect to our 2011 Annual Meeting of Stockholders to be filed with the SEC no later than April 9, 2011.

(b) Identification of Executive Officers. Information concerning our executive officers is incorporated by reference from the section entitled "Executive Officers" to be contained in our definitive Proxy Statement with respect to our 2011 Annual Meeting of Stockholders to be filed with the SEC no later than April 9, 2011.

(c) Compliance with Section 16(a) of the Exchange Act. Information concerning compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated by reference from the section entitled "Section 16(a) Beneficial Ownership Reporting Compliance" to be contained in our definitive Proxy Statement with respect to our 2011 Annual Meeting of Stockholders to be filed with the SEC no later than April 9, 2011.

(d) Information concerning the audit committee financial expert as defined by the SEC rules adopted pursuant to the Sarbanes-Oxley Act of 2002 is incorporated by reference from the section entitled "Board of Directors and Corporate Governance" to be contained in our definitive Proxy Statement with respect to our 2011 Annual Meeting of Stockholders to be filed with the SEC no later than April 9, 2010.

Code of Ethics

We have adopted a code of ethics for our directors, officers and employees, which is available on our website at www.illumina.com in the Corporate Governance portal of the Investor Relations section under "Company." A copy of the Code of Ethics is available in print free of charge to any stockholder who requests a copy. Interested parties may address a written request for a printed copy of the Code of Ethics to: Corporate Secretary, Illumina, Inc., 9885 Towne Centre Dr., San Diego, California 92121. We intend to satisfy the disclosure requirement regarding any amendment to, or a waiver from, a provision of the Code of Ethics for our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, by posting such information on our website. The information on, or that can be accessed from, our website is not incorporated by reference into this report.

Item 11. ***Executive Compensation.***

Information concerning executive compensation is incorporated by reference from the sections entitled "Compensation Discussion and Analysis," "Director Compensation" and "Executive Compensation" to be contained in our definitive Proxy Statement with respect to our 2011 Annual Meeting of Stockholders to be filed with the SEC no later than April 9, 2011.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.***

Information concerning the security ownership of certain beneficial owners and management and information covering securities authorized for issuance under equity compensation plans is incorporated by reference from the sections entitled "Stock Ownership of Principal Stockholders and Management," "Executive Compensation" and "Equity Compensation Plan Information" to be contained in our definitive

Proxy Statement with respect to our 2011 Annual Meeting of Stockholders to be filed with the SEC no later than April 9, 2011.

Item 13. ***Certain Relationships and Related Transactions, and Director Independence.***

Information concerning certain relationships and related transactions, and director independence is incorporated by reference from the sections entitled "Proposal One: Election of Directors," "Information About Directors," "Director Compensation," "Executive Compensation" and "Certain Relationships and Related Party Transactions" to be contained in our definitive Proxy Statement with respect to our 2011 Annual Meeting of Stockholders to be filed with the SEC no later than April 9, 2011.

Item 14. ***Principal Accountant Fees and Services.***

Information concerning principal accountant fees and services is incorporated by reference from the sections entitled "Proposal Two: Ratification of Appointment of Independent Registered Public Accountants" and "Independent Registered Public Accountants" to be contained in our definitive Proxy Statement with respect to our 2011 Annual Meeting of Stockholders to be filed with the SEC no later than April 9, 2011.

PART IV

Item 15. ***Exhibits, Financial Statement Schedules.***

1. *Financial Statements:* See "Index to Consolidated Financial Statements" in Part II, Item 8 of this Form 10-K.

2. *Financial Statement Schedule:* See "Schedule II — Valuation and Qualifying Accounts and Reserves" in this section of this Form 10-K.

3. *Exhibits:* The exhibits listed in the accompanying index to exhibits are filed or incorporated by reference as part of this Form 10-K.

Schedule

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

	Balance at Beginning of Period	Additions Charged to Expense/ Revenue(1)	Deductions(2)	Balance at End of Period
		(In thousands)		
Year ended January 2, 2011				
Allowance for doubtful accounts	$ 1,398	341	(53)	$ 1,686
Reserve for inventory	10,597	9,559	(7,883)	12,273
Year ended January 3, 2010				
Allowance for doubtful accounts	$ 1,138	828	(568)	$ 1,398
Reserve for inventory	6,431	8,403	(4,237)	10,597
Year ended December 28, 2008				
Allowance for doubtful accounts	$ 540	893	(295)	$ 1,138
Reserve for inventory	2,089	7,154	(2,812)	6,431

(1) Additions to the allowance for doubtful accounts and reserve for inventory are charged to selling, general and administrative expense and cost of product revenue respectively.

(2) Deductions for allowance for doubtful accounts and reserve for inventory are for accounts receivable written off and disposal of obsolete inventory.

INDEX TO EXHIBITS

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File Number	Exhibit	Filing Date	
3.1	Amended and Restated Certificate of Incorporation	8-K	000-30361	3.1	09/23/08	
3.2	Amended and Restated Bylaws	8-K	000-30361	3.2	04/27/10	
3.3	Certificate of Designation for Series A Junior Participating Preferred Stock (included as Exhibit A to exhibit 4.3)	8-A	000-30361	4.3	05/14/01	
4.1	Specimen Common Stock Certificate	S-1/A	333-33922	4.1	07/03/00	
4.2	Rights Agreement, dated as of May 3, 2001, between Illumina and Equiserve Trust Company, N.A.	8-A	000-30361	4.3	05/14/01	
4.3	Indenture related to the 0.625% Convertible Senior Notes due 2014, dated as of February 16, 2007, between Illumina and The Bank of New York, as trustee	8-K	000-30361	4.1	02/16/07	
+10.1	Form of Indemnification Agreement between Illumina and each of its directors and officers	S-1/A	333-33922	10.1	07/03/00	
+10.2	1998 Incentive Stock Plan	S-1/A	333-33922	10.2	07/03/00	
+10.3	2000 Employee Stock Purchase Plan, as amended and restated through October 28, 2009	10-K	000-30361	10.3	02/26/10	
+10.4	2000 Stock Plan, as amended and restated through March 21, 2002	10-Q	000-30361	10.22	05/13/02	
+10.5	2005 Stock and Incentive Plan, as amended and restated through October 28, 2009	10-K	000-30361	10.5	02/26/10	
+10.6	Form of Restricted Stock Unit Agreement for Non-Employee Directors under 2005 Stock and Incentive Plan	10-K	000-30361	10.35	02/26/09	
+10.7	New Hire Stock and Incentive Plan, as amended and restated through October 28, 2009	10-K	000-30361	10.7	02/26/10	
10.8	License Agreement, effective as of May 6, 1998, between Tufts University and Illumina	10-Q	000-30361	10.5	05/03/07	
+10.9	The Solexa Unapproved Company Share Option Plan	8-K	000-30361	99.3	11/26/07	
+10.10	The Solexa Share Option Plan for Consultants	8-K	000-30361	99.4	11/26/07	
+10.11	Solexa Limited Enterprise Management Incentive Plan	8-K	000-30361	99.5	11/26/07	
+10.12	Amended and Restated Solexa 2005 Equity Incentive Plan	10-K	000-30361	10.25	02/26/09	
+10.13	Amended and Restated Solexa 1992 Stock Option Plan	10-K	000-30361	10.26	02/26/09	
10.14	License Agreement, dated June 24, 2002, between Dade Behring Marburg GmbH and Illumina (with certain confidential portions omitted)	S-3/A	333-111496	10.23	03/02/04	
10.15	Non-exclusive License Agreement, dated January 24, 2002, between Amersham Biosciences Corp. and Illumina (with certain confidential portions omitted)	S-3/A	333-111496	10.24	03/02/04	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File Number	Exhibit	Filing Date	
10.16	Amended and Restated Lease between BMR-9885 Towne Centre Drive LLC and Illumina for the 9885 Towne Centre Drive property, dated January 26, 2007	10-Q	000-30361	10.41	05/03/07	
10.17	Settlement and Cross License Agreement dated August 18, 2004 between Applera Corporation and Illumina (with certain confidential portions omitted)	10-Q	000-30361	10.27	11/12/04	
10.18	Collaboration Agreement, dated December 17, 2004, between Invitrogen Corporation and Illumina (with certain confidential portions omitted)	10-K	000-30361	10.28	03/08/05	
+10.19	Offer letter for Christian O. Henry dated April 26, 2005	10-Q	000-30361	10.33	08/08/05	
10.20	Joint Development and Licensing Agreement, dated May 15, 2006, between deCODE genetics, ehf. and Illumina (with certain confidential portions omitted)	10-Q	000-30361	10.32	08/02/06	
+10.21	Amended and Restated Change in Control Severance Agreement between Illumina and Jay T Flatley, dated October 22, 2008	10-K	000-30361	10.33	02/26/09	
+10.22	Form of Amended and Restated Change in Control Severance Agreement between Illumina and its executive officers	10-K	000-30361	10.34	02/26/09	
+10.23	Form of Restricted Stock Unit Agreement for Non-Employee Directors under Illumina's 2005 Stock and Incentive Plan	10-K	000-30361	10.35	02/26/09	
10.24	Lease between BMR-9885 Towne Centre Drive LLC and Illumina for the 9865 Towne Centre Drive property, dated January 26, 2007	10-Q	000-30361	10.42	05/03/07	
10.25	Settlement and Release Agreement between Affymetrix, Inc. and Illumina, dated January 9, 2008	10-K	000-30361	10.44	02/26/08	
10.26	Confirmation of Convertible Bond Hedge Transaction, dated February 12, 2007, by and between Illumina and Goldman, Sachs & Co.	8-K	000-30361	10.1	02/16/07	
10.27	Confirmation of Convertible Bond Hedge Transaction, dated February 12, 2007, by and between Illumina and Deutsche Bank AG London	8-K	000-30361	10.2	02/16/07	
10.28	Confirmation Issuer Warrant Transaction, dated February 12, 2007, by and between Illumina and Goldman, Sachs & Co.	8-K	000-30361	10.3	02/16/07	
10.29	Confirmation Issuer Warrant Transaction, dated February 12, 2007, by and between Illumina and Deutsche Bank AG London	8-K	000-30361	10.4	02/16/07	
10.30	Amendment to the Confirmation of Issuer Warrant Transaction, dated February 13, 2007, by and between Illumina and Goldman, Sachs & Co.	8-K	000-30361	10.5	02/16/07	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File Number	Exhibit	Filing Date	
10.31	Amendment to the Confirmation of Issuer Warrant Transaction, dated February 13, 2007, by and between Illumina and Deutsche Bank AG London	8-K	000-30361	10.6	02/16/07	
+10.32	Indemnification Agreement between Illumina and Gregory F. Heath	10-Q	000-30361	10.55	07/25/08	
+10.33	Indemnification Agreement between Illumina and Joel McComb	10-Q	000-30361	10.56	07/25/08	
+10.34	Severance and Release Agreement between Illumina and Joel McComb	10-K	000-30361	10.34	02/26/10	
10.35	Lease Agreement, dated December 30, 2010, between ARE-SD Region No. 32, LLC and Illumina					X
21.1	Subsidiaries of Illumina					X
23.1	Consent of Independent Registered Public Accounting Firm					X
24.1	Power of Attorney (included on the signature page)					X
31.1	Certification of Jay T. Flatley pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
31.2	Certification of Christian O. Henry pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
32.1	Certification of Jay T. Flatley pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
32.2	Certification of Christian O. Henry pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Extension Schema					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase					X
101.LAB	XBRL Taxonomy Extension Label Linkbase					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase					X

+ Management contract or corporate plan or arrangement

Supplemental Information

No Annual Report to stockholders or proxy materials has been sent to stockholders as of the date of this report. The Annual Report to stockholders and proxy material will be furnished to our stockholders subsequent to the filing of this Annual Report on Form 10-K and we will furnish such material to the SEC at that time.

SIGNATURES

Pursuant to the requirements of the Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 28, 2011.

Illumina, Inc.

By /s/ Jay T. Flatley
Jay T. Flatley
President and Chief Executive Officer

February 28, 2011

POWER OF ATTORNEY

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Jay T. Flatley Jay T. Flatley	President, Chief Executive Officer and Director (Principal Executive Officer)	February 28, 2011
/s/ Christian O. Henry Christian O. Henry	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	February 28, 2011
/s/ William H. Rastetter William H. Rastetter	Chairman of the Board of Directors	February 28, 2011
/s/ A. Blaine Bowman A. Blaine Bowman	Director	February 28, 2011
/s/ Daniel M. Bradbury Daniel M. Bradbury	Director	February 28, 2011
/s/ Karin Eastham Karin Eastham	Director	February 28, 2011

/s/ Paul Grint Paul Grint	Director	February 28, 2011
Gerald Möller	Director	February 28, 2011
/s/ David R. Walt David R. Walt	Director	February 28, 2011
/s/ Roy Whitfield Roy Whitfield	Director	February 28, 2011

Exhibit 10.35

LEASE AGREEMENT

THIS LEASE AGREEMENT (this "**Lease**") is made this 30th day of December, 2010, between **ARE-SD REGION NO. 32, LLC**, a Delaware limited liability company ("**Landlord**"), and **ILLUMINA, INC.**, a Delaware corporation ("**Tenant**").

Address: 5200 Research Place, San Diego, California

Premises: That certain portion of the Project consisting of (i) a building containing approximately 171,340 rentable square feet ("**Building 1**"), (ii) a building containing approximately 159,272 rentable square feet ("**Building 2**"), (iii) that certain to be constructed office building containing approximately 123,429 rentable square feet ("**Building 3**"), and (iv) a central plant building containing approximately 15,969 rentable square feet ("**Central Plant Building**"), all as shown on **Exhibit A**. Building 1, Building 2, Building 3 and the Central Plant Building are collectively referred to herein as the "**Buildings**".

Project: The real property on which the Buildings are located together with all improvements now or in the future located thereon and appurtenances thereto as described on **Exhibit B**.

Base Rent: $3.15 per rentable square foot of the Premises per month, subject to adjustment as provided for in this Lease.

Rentable Area of Premises: 470,010 rentable square feet, subject to adjustment as provided for in this Lease.

Rentable Area of Project: 470,010 rentable square feet, subject to adjustment as provided for in this Lease.

Tenant's Share of Operating Expenses: 100%, subject to adjustment as provided for in this Lease.

Security Deposit: None

Target Initial Commencement Date: November 1, 2011 for Building 1, Building 2 and the Central Plant Building.

Bi-Annual Rent Adjustment Percentage: 6%

Base Term: Beginning on the Initial Commencement Date and ending 240 months thereafter, subject to adjustment as provided for in Section 39 hereof.

Permitted Use: Research and development laboratory, office and other legally permitted uses consistent with the character of the Project as a Class A office and laboratory project and otherwise in compliance with the provisions of Section 7 hereof.

Address for Rent Payment:
DEPT LA 23447
Pasadena, CA 91185-3447

Landlord's Notice Address:
385 E. Colorado Boulevard, Suite 299
Pasadena, CA 91101
Attention: Corporate Secretary

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Tenant's Notice Address:

Following Initial Commencement Date:

5200 Research Place San Diego, CA 92122 Attention: General Counsel

with a copy to:

5200 Research Place San Diego, CA 92122 Attention: Director of Facilities

Prior to Initial Commencement Date:

9885 Towne Center Drive San Diego, CA 92124 Attention: General Counsel

with a copy to:

9885 Towne Center Drive San Diego, CA 92124 Attention: Director of Facilities

The following Exhibits and Addenda are attached hereto and incorporated herein by this reference:

☑ **EXHIBIT A** — Premises Description
☑ **EXHIBIT B** — Description of Project
☑ **EXHIBIT C** — Building 3 Work Letter
☑ **EXHIBIT D** — Commencement Date
☑ **EXHIBIT E** — Rules and Regulations
☑ **EXHIBIT F** — Tenant' s Personal Property
☑ **EXHIBIT G** — Building 1 and 2 Work Letter
☑ **EXHIBIT H** — Project Site Plan
☑ **EXHIBIT I** — Expansion Building Specifications
☑ **EXHIBIT J** — Expansion Building Work Letter
☑ **EXHIBIT K** — Tenant Improvement Specifications
☑ **EXHIBIT L** — Form of Memorandum of Lease
☑ **EXHIBIT M** — Landlord' s Property
☑ **EXHIBIT N** — Warehouse Building Specifications
☑ **EXHIBIT O** — Parking Garage Description
☑ **EXHIBIT P** — Excluded Premises Description

1. **Lease of Premises**. Upon and subject to all of the terms and conditions hereof, Landlord hereby leases the Premises to Tenant and Tenant hereby leases the Premises from Landlord. The portions of the Project which are designated by Landlord for the non-exclusive use of tenants of the Project are collectively referred to herein as the "**Common Areas**." Landlord reserves the right, subject to the restrictions expressly provided for in this Lease, to reasonably modify Common Areas; provided, however, that Tenant is not precluded from accessing the Premises, the parking areas and/or otherwise having beneficial use of the Premises.

2. **Delivery; Acceptance of Premises; Commencement Date**.

(a) **Buildings 1 and 2**. Landlord shall use reasonable efforts to deliver Building 1, Building 2 and the Central Plant Building to Tenant on or before the Target Initial Commencement Date. Except as otherwise provided for in this Lease, if Landlord fails to timely deliver Building 1, Building 2 and the Central Plant Building, Landlord shall not be liable to Tenant for any loss or damage resulting therefrom, and this Lease shall not be void or voidable.

Notwithstanding anything to the contrary contained herein, if Landlord is successful in entering into a lease termination agreement with Biogen Idec Inc. ("**Biogen Idec**"), the existing tenant in Building 1 and Building 2, which lease termination agreement is acceptable to both Biogen Idec and Landlord, each in their sole and absolute discretion (the "**Existing Lease Termination Agreement**"), which provides for,

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among other things, an early termination of Biogen Idec' s lease with respect to Building 1 and Building 2 (as well as the Central Plant Building), Landlord shall deliver Building 1, Building 2 and the Central Plant Building to Tenant prior to the Target Initial Commencement Date. The period between the date that Landlord delivers any portion of the Premises for continuous and uninterrupted access to Tenant and the Initial Commencement Date is referred to herein as the "**Early Access Period**". The Early Access Period shall be extended 1 day for each day of Landlord Delay (as defined in the Building 1 and 2 Work Letter) and for up to 60 days in the aggregate for Force Majeure delays occurring during the Early Access Period which prevent Tenant from constructing the Building 1 and Building 2 Tenant Improvements (as defined in the Building 1 and 2 Work Letter) which were planned to be constructed during the Early Access Period (collectively, the "**Access Extension Period**"). Landlord shall, as part of the negotiation of the Existing Lease Termination Agreement, require Biogen Idec surrender Building 1 and Building 2 with its furniture, fixtures and equipment described on **Exhibit M** ("**Landlord's Property**") in place. If Landlord delivers Building 1 and Building 2 to Tenant prior to the Target Initial Commencement Date, (i) Tenant shall not be required to pay Base Rent with respect to Building 1, Building 2 or the Central Plant Building until the Initial Commencement Date (as defined below), and (ii) Tenant shall not be required to pay Operating Expenses (as defined in Section 5) with respect to Building 1, Building 2 or the Central Plant Building prior to the Initial Commencement Date unless Tenant commences business operations in any portion(s) of Building 1 or Building 2 in which case Tenant shall commence paying a proportionate share of Operating Expenses (but not Base Rent) reasonably allocable to the portion(s) of the Premises in which Tenant has commenced conducting business operations.

The **"Initial Commencement Date**" shall be the later of (i) the date Landlord delivers Building 1, Building 2 and the Central Plant Building to Tenant, and (ii) the Target Initial Commencement Date; provided, however, that in no event shall the Initial Commencement Date occur until the Early Access Period for Building 1 and Building 2 equals 6 months (plus the Access Extension Period, if any) except for the portion of the Premises depicted as Phase 3 on **Exhibit P** attached hereto (the "**Excluded Premises**") for which the Early Access Period need only equal 4 months (plus the Access Extension Period, if any, is actually applicable to such Excluded Premises). If Tenant so elects, Tenant may, during the Early Access Period, construct the Building 1 and 2 Tenant Improvements and otherwise prepare Building 1 and Building 2 for Tenant' s use and occupancy.

If Landlord fails to deliver any portion of Building 1 or Building 2 to Tenant within 6 months after the Target Initial Commencement Date (as extended by delays caused by Force Majeure, the "**Outside Date**"), Tenant shall in addition to the Rent Abatement be entitled, starting on the first day of the 13th month of the Base Term, to occupy such portion of the Premises, without the obligation to pay Base Rent, 2 days for each day following the Outside Date until such portion of the Premises was delivered to Tenant. If Landlord fails to deliver Building 1 or Building 2 to Tenant within 10 months of the Target Initial Commencement Date (as extended by delays caused by Force Majeure), this Lease may be terminated by Tenant by written notice to Landlord, and if so terminated by Tenant, neither Landlord nor Tenant shall have any further rights, duties or obligations under this Lease, except with respect to provisions which expressly survive termination of this Lease. If Tenant does not elect to terminate this Lease within 6 business days of the lapse of such 10 month period (as extended by Force Majeure), such right to terminate this Lease shall be waived and this Lease shall remain in full force and effect. As used in this paragraph, in no event may any "delays caused by Force Majeure" extend the date of the applicable delivery by more than 90 days in the aggregate except in the case of any matter covered by the provisions of Sections 18 and 19 hereof.

(b) **Building 3**. Landlord shall use reasonable efforts to deliver the 1st floor lobby and floors 3 and 4 containing approximately 61,715 rentable square feet of Building 3 ("**Initial Building 3 Premises**") to Tenant on or before June 1, 2013, with Landlord' s Work in the Initial Building 3 Premises Substantially TI Completed, and to deliver the balance of Building 3 ("**Subsequent Building 3 Premises**") to Tenant on or before January 1, 2014, with Landlord' s Work in the Subsequent Building 3 Premises Substantially TI Completed. Except as provided herein, if Landlord fails to timely deliver the Initial Building 3 Premises or the Subsequent Building 3 Premises, as applicable, Landlord shall not be liable to Tenant for any loss or damage resulting therefrom, and this Lease shall not be void or voidable.

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As used in this paragraph, the terms "**Landlord's Work**" and "**Substantially TI Completed**" shall have the meanings set forth for such terms in the Building 3 Work Letter.

The "**Initial Building 3 Commencement Date**" shall be the earlier of the date that Landlord delivers the Initial Building 3 Premises to Tenant Substantially TI Completed or the date that Landlord could have delivered the Initial Building 3 Premises Substantially TI Completed but for Tenant Delay (as defined in the Building 3 Work Letter) and which shall in no event be prior to June 1, 2013, and the "**Subsequent Building 3 Commencement Date**" shall be the date which is the later of (i) 6 months following the Initial Building 3 Commencement Date and (ii) the date Landlord delivers the Subsequent Building 3 Premises to Tenant, in each case with the applicable Landlord' s Work Substantially TI Completed.

If Landlord fails to deliver the 1st floor lobby and the Initial Building 3 Premises to Tenant by December 1, 2013 (as extended by delays caused by Force Majeure and Tenant Delay (as defined in the Building 3 Work Letter), the "**Building 3 Outside Date**"), Tenant shall be entitled, starting on the Initial Building 3 Commencement Date, to occupy the Initial Building 3 Premises, without the obligation to pay Base Rent, 2 days for each day following the Building 3 Outside Date until such time as the 1st floor lobby is substantially completed and the Initial Building 3 Premises was delivered to Tenant. If Landlord fails to substantially complete the 1st floor lobby and deliver the Initial Building 3 Premises to Tenant by April 1, 2014 (as extended by delays caused by Force Majeure and Tenant Delay (as defined in the Building 3 Work Letter)), this Lease with respect to Building 3 only may be terminated by Tenant by written notice to Landlord, and if so terminated by Tenant, neither Landlord nor Tenant shall have any further rights, duties or obligations under this Lease with respect to the Building 3, except with respect to provisions which expressly survive termination of this Lease. If Tenant does not elect to terminate this Lease with respect to Building 3 within 6 business days of the lapse of April 1, 2014 (as extended by delays caused by Tenant Delay (as defined in the Building 3 Work Letter) and Force Majeure), such right to terminate this Lease respect to the Building 3 shall be waived and this Lease shall remain in full force and effect. As used in this paragraph, in no event may any "delays caused by Force Majeure" extend the date of the applicable delivery by more than 90 days in the aggregate except in the case of any matter covered by the provisions of Sections 18 and 19 hereof.

Notwithstanding anything to the contrary contained herein, Tenant acknowledges that Landlord reserves the right to reasonably modify, among other things, the site plan, building size, configuration and location within the Project of Building 3; provided, however, that such modifications do not materially and adversely impact Tenant' s use of Building 3 and associated parking at the Project, materially reduce or increase the rentable square footage of Building 3, materially and adversely affect the configuration of Building 3, and/or materially increase Tenant' s obligations under this Lease. Landlord shall request Tenant' s prior approval with respect to any changes to the location of Building 3, which approval shall not be unreasonably withheld, conditioned or delayed.

(c) **Term; Acknowledgment of Commencement Date**. The "**Term**" of this Lease shall be the Base Term, as defined above on the first page of this Lease (as may be extended pursuant to Section 39), and any Extension Terms which Tenant may elect pursuant to Section 40 hereof. Upon request of either Landlord or Tenant, the other party shall execute and deliver a factually correct written acknowledgment of the Initial Commencement Date, the Initial Building 3 Commencement Date, the Subsequent Building 3 Commencement Date and the expiration date of the Base Term as and when such may be established in the form of the "Acknowledgement of Commencement Date" attached to this Lease as **Exhibit D**; provided, however, that either party' s failure to execute and deliver such acknowledgment shall not affect the other party' s rights hereunder.

(d) **Acceptance of Premises**. Except as set forth in the Building 1 and 2 Work Letter or the Building 3 Work Letter, as applicable: (i) Tenant shall accept Building 1 and Building 2 in their condition as of delivery of Building 1 and Building 2; (ii) Tenant shall accept the Initial Building 3 Premises in their condition as of the Initial Building 3 Commencement Date; and (iii) Tenant shall accept the Subsequent Building 3 Premises in their condition as of the Subsequent Premises 3 Commencement Date; and

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(iv) except as otherwise provided for in this Lease, the Building 1 and 2 Work Letter or Building 3 Work Letter, Landlord shall have no obligation for any defects in the Premises; and (v) Tenant' s taking possession of the Premises shall be conclusive evidence that Tenant accepts the Premises. Tenant shall in addition be entitled to receive the benefit of all of Landlord' s construction warranties and manufacturer' s equipment warranties, if any, relating to the Premises. Any access to or occupancy of any portion of the Premises by Tenant before the commencement of the Base Term for such portion of the Premises shall be subject to all of the terms and conditions of this Lease (other than the payment of Base Rent and, except as otherwise provided for herein, Operating Expenses).

Tenant shall have the right, during the Term, at no additional cost to Tenant, to use Landlord' s Property. Tenant shall accept Landlord' s Property in its "as is" lien free condition as of such delivery and shall return Landlord' s Property to Landlord upon the expiration or earlier termination of this Lease in the same condition as received, ordinary wear and tear excepted. Notwithstanding the foregoing and provided that there is no early termination of the Term of this Lease, Tenant may elect, by delivery of written notice to Landlord no later than 60 days prior to the expiration of the Term, to purchase for $1.00 any of Landlord' s Property other than any furniture, fixtures, equipment and/or laboratory improvements that are affixed or attached in any way to the Premises. Tenant shall have the right, from time to time during the Term but in no event more than once in each calendar quarter, to remove from the Premises or replace, at Tenant' s cost, any of Landlord' s Property that Tenant has the right to purchase at the expiration of the Term; provided, however, that in the event Tenant elects to dispose of any of the same, Tenant shall provide written notice to Landlord and Landlord shall have the right to elect to take possession of the same. If Landlord fails to respond to any such notice within 15 business days, then Tenant shall provide Landlord with a second written notice stating in bold and all caps 12 point font that Landlord' s failure to respond within 5 business days after Landlord' s receipt of the second notice shall be deemed Landlord' s election not to take possession of the same. Tenant shall be required to repair or restore, at Tenant' s cost, any damage to the Premises or the Project caused by Tenant' s removal of any of Landlord' s Property which Tenant is permitted hereunder to remove.

Tenant agrees and acknowledges that neither Landlord nor any agent of Landlord has made any representation or warranty with respect to the condition of all or any portion of Landlord' s Property, the Premises or the Project, and/or the suitability of Landlord' s Property, the Premises or the Project for the conduct of Tenant' s business, and Tenant waives any implied warranty that Landlord' s Property, the Premises or the Project are suitable for the Permitted Use. This Lease constitutes the complete agreement of Landlord and Tenant with respect to the subject matter hereof and supersedes any and all prior representations, inducements, promises, agreements, understandings and negotiations which are not contained herein.

(e) **Continuous Access**. Subject to any early access provided to Tenant hereunder, from and after (i) the Initial Commencement Date with respect to Building 1 and Building 2, (ii) the Initial Building 3 Commencement Date with respect to the Initial Building 3 Premises, and (iii) the Subsequent Building 3 Commencement Date with respect to the Subsequent Building 3 Premises, through the expiration of the Term, Tenant shall have access to the Premises 24 hours per day, 7 days per week, except in the case of emergencies, as the result of Legal Requirements, and otherwise subject to the terms of this Lease.

3. **Rent**.

(a) **Base Rent**. Tenant shall, on or before January 4, 2011, deliver a payment to Landlord in the amount of $683,460.32 to be applied against the Base Rent first coming due from Tenant under this Lease. Commencing on the Initial Commencement Date, Tenant shall pay full Base Rent with respect to Building 1, Building 2 and the Central Plant Building. Commencing on the Initial Building 3 Commencement Date with respect to the Initial Building 3 Premises and on the Subsequent Building 3 Commencement Date with respect to the Subsequent Building 3 Premises, Tenant shall pay Base Rent with respect to Building 3. Except as may be expressly provided for in this Lease, Tenant shall pay to Landlord in advance, without demand, abatement, deduction or set-off, monthly installments of Base Rent

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on or before the first day of each calendar month during the Term hereof, in lawful money of the United States of America, at the office of Landlord for payment of Rent set forth above, or to such other person or at such other place as Landlord may from time to time designate in writing. Payments of Base Rent for any fractional calendar month shall be prorated. The obligation of Tenant to pay Base Rent and other sums to Landlord and the obligations of Landlord under this Lease are independent obligations. Except as may be expressly provided for in this Lease, Tenant shall have no right at any time to abate, reduce, or set-off any Rent (as defined in Section 5) due hereunder.

(b) **Base Rent Abatement**. Tenant shall be entitled to an abatement of a portion of the Base Rent ("**Rent Abatement**") due during the Term pursuant to the schedule set forth below:

Base Rent Period During Term		Annual Base Rent Abatement
Month 1 through Month 12	$	13,100,762
Month 13 through Month 24	$	4,899,238
Month 25 through Month 36	$	9,500,000
Month 37 through Month 48	$	9,500,000
Month 49 through Month 60	$	8,250,000
Month 61 through Month 72	$	8,250,000
Month 73 through Month 84	$	8,250,000
Month 85 through Month 96	$	7,250,000
Month 97 through Month 108	$	7,250,000
Month 109 through Month 120	$	7,250,000
Month 121 through Month 132	$	7,250,000
Month 133 through Month 144	$	7,250,000

As used in the above table, Month 1 shall mean the month in which the Initial Commencement Date occurs. The Rent Abatement provided for in the schedule above shall be amortized and applied in equal installments over the applicable 12 month period. For example, for months 13 through 24, $408,269.83 shall be deducted each month from the monthly Base Rent due during such period. Notwithstanding anything the contrary contained herein, Tenant shall not, however, be entitled to the applicable Rent Abatement during any period(s) where Tenant is in material Default under this Lease.

(c) **Additional Rent**. In addition to Base Rent, Tenant agrees to pay to Landlord as additional rent ("**Additional Rent**"): (i) Tenant' s Share of Operating Expenses, and (ii) any and all other amounts Tenant is required or agrees to pay under the provisions of this Lease, including, without limitation, any and all other sums that may become due by reason of any default of Tenant or failure to comply with the agreements, terms, covenants and conditions of this Lease to be performed by Tenant, after any applicable notice and cure period.

4. **Base Rent Adjustments**. Base Rent shall be increased on every other anniversary of the Initial Commencement Date (i.e., the first day of the 25th month, 49th month and 61st month of the Term, etc.) (each an "**Adjustment Date**") by multiplying the Base Rent payable immediately before such Adjustment Date by the Bi-Annual Rent Adjustment Percentage and adding the resulting amount to the Base Rent payable immediately before such Adjustment Date. Base Rent, as so adjusted, shall thereafter be due as provided herein. Base Rent adjustments for any fractional calendar month shall be prorated.

5. **Operating Expense Payments**. Landlord shall deliver to Tenant a reasonably detailed line item written estimate of Operating Expenses for each calendar year during the Term (the "**Annual Estimate**"), which may be reasonably revised by Landlord from time to time (but not more than twice) during such calendar year. During each month of the Term, on the same date that Base Rent is due, Tenant shall pay Landlord an amount equal to 1/12th of Tenant' s Share of the Annual Estimate. Payments for any fractional calendar month shall be prorated.

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The term "**Operating Expenses**" means all actual, documented costs and expenses of any kind or description whatsoever incurred or accrued each calendar year by Landlord, consistent with GAAP (as defined below) except as otherwise provided for herein with respect to capital expenditures, consistently applied, and fairly allocable to the applicable Lease year, including, without limitation, costs and expenses relating to the ownership, maintenance, repairs, replacements and/or operation of the Project and the Buildings, Expansion Buildings (if any), Taxes (as defined in Section 9), capital repairs and improvements amortized over the lesser of 10 years and the useful life of such capital items with interest calculated at a rate equal to the prime rate established from time to time by Wells Fargo Bank (or if Wells Fargo Bank ceases to exist or to publish such a rate, then the rate published by the largest federally chartered banking institution in California) plus 1% per annum, and if Landlord has no third party property manager, administration rent in the amount of 1.0% of Base Rent unless (x) Landlord has assumed the Common Area Maintenance Obligations (as defined in Section 13) in which case administration rent shall be increased to 1.5% of Base Rent or (y) if Landlord has assumed the Common Area Maintenance Obligations and has also assumed substantial maintenance obligations with respect to the Premises because of a Maintenance Breach (as defined in Section 13) in which case the administration rent shall be increased to 2% of Base Rent and Operating Expenses payable by Tenant pursuant to this Lease (or if Landlord has a third party property manager in no event may the cost of such third property manager exceed the costs Landlord is entitled to charge for administration rent for the performance of the same obligations if there were no third party property manager); provided, however, that Operating Expenses shall exclude only:

(a) the original construction costs of the Project and renovation prior to the date of the Lease and costs of correcting defects in such original construction or renovation;

(b) capital expenditures for expansion of the Project;

(c) interest, principal payments of Mortgage (as defined in Section 27) debts of Landlord, financing costs and amortization of funds borrowed by Landlord, whether secured or unsecured;

(d) depreciation of the Project (except for those capital improvements, the cost of which are permitted under this Lease to be included in Operating Expenses);

(e) advertising, legal and space planning expenses and leasing commissions and other costs and expenses incurred in procuring and leasing space to tenants for the Project, including any leasing office maintained in the Project, free rent and construction allowances for tenants;

(f) legal and other expenses incurred in the negotiation or enforcement of leases;

(g) completing, fixturing, improving, renovating, painting, redecorating or other work, which Landlord pays for or performs for other tenants within their premises, and costs of correcting defects in such work;

(h) costs to be reimbursed by other tenants of the Project or Taxes to be paid directly by Tenant or other tenants of the Project, whether or not actually paid;

(i) salaries, wages, benefits and other compensation paid to officers and employees of Landlord who are not assigned in whole or in part to the operation, management, maintenance or repair of the Project (with the costs to be prorated if such officers and employees are assigned to the Project only in part);

(j) general organizational, administrative and overhead costs relating to maintaining Landlord' s existence, either as a corporation, partnership, or other entity, including general corporate, legal and accounting expenses;

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(k) costs (including attorneys' fees and costs of settlement, judgments and payments in lieu thereof) incurred in connection with disputes with tenants, other occupants, or prospective tenants, and costs and expenses, including legal fees, incurred in connection with negotiations or disputes with employees, consultants, management agents, leasing agents, purchasers or mortgagees of any of the Buildings;

(l) costs incurred by Landlord due to the violation by Landlord, its employees, agents or contractors or any tenant of the terms and conditions of any lease of space in the Project or any Legal Requirement (as defined in Section 7);

(m) penalties, fines or interest incurred as a result of Landlord' s inability or failure to make payment of Taxes and/or to file any tax or informational returns when due, or from Landlord' s failure to make any payment of Taxes required to be made by Landlord hereunder before delinquency;

(n) overhead and profit increment paid to Landlord or to subsidiaries or affiliates of Landlord for goods and/or services in or to the Project to the extent the same exceeds the costs of such goods and/or services rendered by unaffiliated third parties on a competitive basis;

(o) costs of Landlord' s charitable or political contributions, or of fine art maintained at the Project;

(p) costs in connection with services (including electricity), items or other benefits of a type which are not standard for the Project and which are not available to Tenant without specific charges therefor, but which are provided to another tenant or occupant of the Project, whether or not such other tenant or occupant is specifically charged therefor by Landlord;

(q) costs incurred in the sale or refinancing of the Project;

(r) net income taxes of Landlord or the owner of any interest in the Project, franchise, capital stock, gift, estate or inheritance taxes or any federal, state or local documentary taxes imposed against the Project or any portion thereof or interest therein;

(s) any costs incurred to remove, study, test, remediate or otherwise related to the existence of any Hazardous Materials which migrate or migrated from off-site to the Project or which Tenant can prove were in existence in the Project prior to the commencement of the Early Access Period and was of such a nature that a Governmental Authority (as defined in Section 9), if it had then had knowledge of the presence of such Hazardous Materials, in the state, and under the conditions that they then existed in the Project, would have then required the removal of such Hazardous Materials or other remedial or containment action with respect thereto, and costs incurred with respect to Hazardous Materials, which Hazardous Materials Tenant can prove were brought onto the Project after the commencement of the Early Access Period by (i) Landlord, its officers, directors, employees, managers, agents, invitees and contractors (collectively, "**Landlord Parties**"), (ii) any other tenant of Landlord at the Project, or (iii) during any period where any portion of the Project is leased by Landlord to any other tenant, any third party, and is of such a nature, at that time, that a Governmental Authority, if it had then had knowledge of the presence of such Hazardous Materials, in the state, and under the conditions, that they then exist in the Project, would have then required the removal, remediation or other action with respect thereto, except and only to the extent in any case Tenant and/or the Tenant Parties have exacerbated or contributed to such Hazardous Materials conditions;

(t) any expenses otherwise includable within Operating Expenses to the extent actually reimbursed by persons other than tenants of the Project under leases for space in the Project;

(u) the costs reimbursed by insurance proceeds received by Landlord;

(v) any bad debt loss, rent loss, or reserves for bad debts or rent loss;

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(w) the wages and benefits attributable to personnel above the level of vice president, asset manager and/or equivalent positions (and Landlord shall be entitled to pass through as part of the Operating Expenses the wages and benefits attributable to personnel at or below the level of vice president, asset manager and/or equivalent positions);

(x) amount paid as ground rental for the Project by Landlord;

(y) rentals of equipment ordinarily considered to be of a capital nature (such as elevators and HVAC systems) except if such equipment is reasonably and customarily leased either temporarily or permanently in the operation of Class A office and laboratory buildings in the San Diego area;

(z) costs for services for which Tenant or any other tenant in the Project reimburses Landlord or which Landlord provides selectively to one or more tenants (other than Tenant) without reimbursement;

(aa) any costs expressly excluded from Operating Expenses elsewhere in this Lease;

(bb) costs of repairs directly resulting from the gross negligence or willful misconduct of Landlord or any Landlord Parties (as defined below);

(cc) any reserves retained by Landlord;

(dd) costs for late charges, interest or penalties due to the late payment of bills by Landlord unless Tenant fails to make any applicable payments to Landlord on the due date;

(ee) the cost of any training or incentive programs, other than for tenant life safety information services;

(ff) in-house legal fees;

(gg) in-house accounting expenses, except, however, Operating Expenses shall include all costs and expenses including employee costs for bookkeeping and accounting functions related to the Project (but employee costs shall be prorated if such employees are assigned to the Project only in part);

(hh) costs associated with material portions of the Common Areas dedicated by Landlord for the exclusive use of other tenants of the Project, except to the extent Tenant is given its pro-rata share (rentable square feet in the Premises in relation to rentable square feet in the Project) of comparable Common Areas;

(ii) costs of signs at the Project in or on the Buildings exclusively identifying Landlord as the owner of the Project or exclusively identifying other tenants;

(jj) to the extent applicable, electric power costs or other utility costs for which any tenant directly contracts with the local public service company;

(kk) any entertainment, dining or travel expenses for any purpose;

(ll) the costs of any flowers, gifts, balloons, etc. provided to any prospective tenants, Tenant, other tenants, and occupants of the Project;

(mm) costs reimbursed to Landlord under any warranty carried by Landlord for the Project, which warranties Landlord shall, as part of Operating Expenses, use commercially reasonable efforts to enforce;

(nn) costs of tenant parties unless approved by Tenant;

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(oo) costs of any "tap fees" or any sewer or water connection fees for the benefit of any particular tenant (other than Tenant) at the Project;

(pp) costs of magazine and newspaper subscriptions;

(qq) costs of insurance deductibles in excess of commercially reasonable deductibles (based on deductibles maintained by other institutional owners of other Class A office and laboratory buildings in the University Towne Center area of San Diego);

(rr) costs arising from any voluntary special assessment on the Building or the Project by any transit district authority or any other governmental entity having the authority to impose such voluntary assessment, unless such costs are approved by Tenant; and

(ss) the cost of structural repairs and replacements to the foundation, load bearing walls and roof structure of the Buildings (exclusive of the roof membrane the cost of which shall be included in Operating Expenses), except for costs required (i) to comply with Legal Requirements (other than those Legal Requirements which Landlord was required to comply with as of the date of this Lease), and/or (ii) required as a result of Tenant' s Alterations or any damage caused by Tenant or any Tenant Parties.

Landlord shall credit Operating Expenses for any refund Landlord or Landlord' s property manager, if any, receives for any costs, goods, services, utilities or expenditures previously included in Operating Expenses.

Landlord shall not collect Operating Expenses from Tenant or any other tenants of the Project in an amount which is in excess of 100% of the Operating Expenses actually paid by Landlord in connection with the Project, and Landlord shall make no profit from the collection of Operating Expenses. All Operating Expense costs payable by Tenant to Landlord under this Lease shall be on an actual cost basis except as otherwise provided for herein. Landlord shall equitably allocate Operating Expenses if other buildings are constructed in the Project for use by tenants other than Tenant.

Within 90 days after the end of each calendar year (or such longer period as may be reasonably required), Landlord shall furnish to Tenant a statement (an "**Annual Statement**") showing in reasonable detail: (a) the total and Tenant' s Share of actual Operating Expenses for the previous calendar year, and (b) the total of Tenant' s payments in respect of Operating Expenses for such year. If Tenant' s Share of actual Operating Expenses for such year exceeds Tenant' s payments of Operating Expenses for such year, the excess shall be due and payable by Tenant as Rent within 30 days after delivery of such Annual Statement to Tenant. If Tenant' s payments of Operating Expenses for such year exceed Tenant' s Share of actual Operating Expenses for such year Landlord shall pay the excess to Tenant within 30 days after delivery of such Annual Statement, except that after the expiration, or earlier termination of the Term or if Tenant is delinquent in its obligation to pay Rent, Landlord shall pay the excess to Tenant after deducting all other amounts due Landlord.

The Annual Statement shall be final and binding upon Tenant unless Tenant, within 360 days after Tenant' s receipt thereof, shall contest any item therein by giving written notice to Landlord, specifying each item contested and the reason therefor. If, during such 360 day period, Tenant reasonably and in good faith questions or contests the accuracy of Landlord' s statement of Tenant' s Share of Operating Expenses (including, if applicable, Landlord' s allocation of the Operating Expenses between the buildings at the Project if any other tenants lease space from Landlord at the Project), Landlord will provide Tenant with access to all of Landlord' s relevant books and records relating to the operation of the Project (the "**Expense Information**"). If after Tenant' s review of such Expense Information, Landlord and Tenant cannot agree upon the amount of Tenant' s Share of Operating Expenses, then Tenant shall have the right to have an independent public accounting firm selected by Tenant from among the 4 largest in the United States or a regionally recognized independent public accounting firm selected by Tenant and approved by Landlord (which approval shall not be unreasonably withheld or delayed), working pursuant to a fee arrangement other than a contingent fee (at Tenant' s sole

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cost and expense), audit and/or review the Expense Information for the year in question (the "**Independent Review**"). The results of any such Independent Review shall be binding on Landlord and Tenant. If the Independent Review shows that the payments actually made by Tenant with respect to Operating Expenses for the calendar year in question exceeded Tenant' s Share of Operating Expenses for such calendar year, Landlord shall at Tenant' s option either (i) credit the excess amount to the next succeeding installments of estimated Operating Expenses or (ii) pay the excess to Tenant within 30 days after delivery of such statement, except that after the expiration or earlier termination of this Lease or if Tenant is delinquent in its obligation to pay Rent, Landlord shall credit or pay, as applicable, the excess to Tenant after deducting all other amounts due Landlord. If the Independent Review shows that Tenant' s payments with respect to Operating Expenses for such calendar year were less than Tenant' s Share of Operating Expenses for the calendar year, Tenant shall pay the deficiency to Landlord within 30 days after delivery of such statement. If the Independent Review shows that Tenant has overpaid with respect to Operating Expenses by more than 5% then Landlord shall reimburse Tenant for all costs incurred by Tenant for the Independent Review. Operating Expenses for the calendar years in which Tenant' s obligation to share therein begins and ends shall be prorated.

The square footages provided for on page 1 of this Lease with respect to Building 1, Building 2 and the Central Plant Building shall conclusively be deemed to be the rentable square footage of Building 1, Building 2 and the Central Plant Building, respectively, and the same shall not be subject to remeasurement during the Term of this Lease.

Following the approval of the Shell Construction Drawings (as defined in the Building 3 Work Letter) for Building 3 by Landlord and Tenant, Landlord shall cause the rentable square footage of Building 3 to be measured by DGA Architects, or another architect or general contractor reasonably acceptable to Landlord and Tenant, in accordance with the 1996 Standard Method of Measuring Floor Area in Office Buildings for single tenant buildings as adopted by the Building Owners and Managers Association (ANSI/BOMA Z65.1-1996). If the rentable square footage of Building 3 measured by such party deviates from the amounts specified for or attributable to Building 3 in the definitions of "Premises", "Rentable Area of Premises" and "Rentable Area of Project" on page 1 of this Lease, then, promptly following such measurement, this Lease shall be amended so as to (i) reflect the actual rentable square footage thereof in the definitions of "Premises", "Rentable Area of Premises" and "Rentable Area of Project", and Building 3 shall not thereafter be subject to remeasurement. Landlord and Tenant shall each have the right to dispute such measurement provided that the disputing party delivers written notice of such dispute to the other party within 30 days after the date that Landlord notifies Tenant of the results of the measurement. If the dispute is not resolved within 30 days after either party' s written notice to the other of such dispute, then such dispute shall be resolved by a single arbitrator with the qualifications and experience appropriate to resolve the matter and appointed pursuant to and acting in accordance with the rules of the American Arbitration Association.

"**Tenant's Share**" shall be the percentage set forth on the first page of this Lease as Tenant' s Share as reasonably adjusted by Landlord for changes in the physical size of the Premises or the Project occurring thereafter. If at any time during the Term any portion of the Project is leased to any third party(ies), Landlord may equitably increase or decrease Tenant' s Share for any item of expense or cost reimbursable by Tenant that relates to a repair, replacement, or service that benefits only the Premises or only a portion of the Project that includes the Premises or that varies with occupancy or use. Base Rent, Tenant' s Share of Operating Expenses and all other amounts payable by Tenant to Landlord hereunder are collectively referred to herein as "**Rent**."

6. **Intentionally Omitted**.

7. **Use**. The Premises shall be used solely for the Permitted Use set forth on page 1 of this Lease, and in compliance with all laws, orders, judgments, ordinances, regulations, codes, directives, permits, licenses, the PID Permit applicable to the Project, covenants and restrictions now or hereafter applicable to the Premises, and to the use and occupancy thereof, including, without limitation, the Americans With Disabilities Act, 42 U.S.C. § 12101, et seq. (together with the regulations promulgated

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pursuant thereto, "**ADA**") (collectively, "**Legal Requirements**" and each, a "**Legal Requirement**"). Landlord shall not voluntarily encumber title to the Project after the date hereof with covenants, conditions or restrictions nor amend any existing covenants, conditions or restrictions encumbering title nor grant easements or make public dedications which materially and adversely (i) affect Tenant' s use of the Premises for the Permitted Use, (ii) affect access to the Premises or the parking facilities, (iii) affect Tenant' s rights under this Lease, (iv) increase Tenant' s obligations under this Lease, and (v) decrease Tenant' s rights under this Lease. Tenant shall, upon 5 days' written notice from Landlord, discontinue any use of the Premises which is declared by any Governmental Authority having jurisdiction to be a violation of a Legal Requirement; provided, however, that Tenant may continue the use in question if Tenant is contesting the same with the applicable Governmental Authority and Tenant is permitted under Legal Requirements to continue the use in question while the matter is being contested. Tenant will not use or permit the Premises to be used for any purpose or in any manner that would void Tenant' s or Landlord' s insurance. Tenant shall not permit any part of the Premises to be used as a "place of public accommodation", as defined in the ADA or any similar legal requirement. If at any time during the Term any portion of the Project is leased to any third party(ies), Tenant shall reimburse Landlord promptly upon demand for any additional premium charged for any such insurance policy by reason of Tenant' s failure to comply with the provisions of this Section or otherwise caused by Tenant' s use and/or occupancy of the Premises. Tenant will use the Premises in a careful, safe and proper manner and will not commit or permit waste, overload the floor or structure of the Premises, subject the Premises to use that would damage the Premises or obstruct or interfere with the rights of Landlord or other tenants or occupants of the Project, including conducting or giving notice of any auction, liquidation, or going out of business sale on the Premises, or using or allowing the Premises to be used for any unlawful purpose. Tenant shall cause any equipment or machinery to be installed in the Premises so as to reasonably prevent sounds or vibrations from the Premises from extending into Common Areas, or other space in the Project. Tenant shall not place any machinery or equipment which exceeds the structural capacity of the applicable floor within the Premises. Tenant shall not, without the prior written consent of Landlord which shall not be unreasonably withheld, use the Premises in any manner which will require ventilation, air exchange, heating, gas, steam, electricity or water beyond the existing capacity of the Project as proportionately allocated to the Premises based upon Tenant' s Share as usually furnished for the Permitted Use.

Tenant shall, at its sole expense, make any alterations or modifications to the interior or the exterior of the Premises or the Project that are required by Legal Requirements (including, without limitation, compliance of the Premises with the ADA) related to Tenant' s particular use or occupancy of the Premises; provided, however, that if as a matter of law Tenant is entitled to not implement or delay implementation of an applicable Legal Requirement Tenant may not implement or delay such implementation for as long as legally permitted. Except as provided for in the preceding sentence, Landlord shall, as an Operating Expense (to the extent such Legal Requirement is generally applicable to similar buildings in the area in which the Project is located) or at Tenant' s expenses (to the extent such Legal Requirement is applicable solely by reason of Tenant' s particular use of the Premises or Tenant' s Alterations) make any alterations or modifications to the Project that are required by Legal Requirements. Notwithstanding any other provision herein to the contrary, Tenant shall be responsible for any and all demands, claims, liabilities, losses, costs, expenses, actions, causes of action, damages or judgments, and all reasonable expenses incurred in investigating or resisting the same (including, without limitation, reasonable attorneys' fees, charges and disbursements and costs of suit) (collectively, "**Claims**") arising out of or in connection with the failure of the Premises to comply with Legal Requirements (excepting Landlord' s obligations with respect to the Premises as expressly set forth herein), and Tenant shall indemnify, defend, hold and save Landlord harmless from and against any and all Claims arising out of or in connection with any failure of the Premises to comply with any Legal Requirement (excepting Landlord' s obligations with respect to the Premises as expressly set forth herein).

8. **Holding Over**. If Tenant remains in possession of the Premises after the expiration or earlier termination of the Term without the express written consent of Landlord, (A) Tenant shall become a tenant at sufferance upon the terms of this Lease except that (i) during the first 90 days of such holding over, the monthly rental shall be equal to 115% of Rent in effect during the last 30 days of the Term, and (ii) thereafter, the monthly rental shall be equal to 150% of Rent in effect during the last 30 days of the

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Term, and (B) Tenant shall be responsible for all actual documented damages suffered by Landlord resulting from or occasioned by Tenant' s holding over in excess of 90 days and, in addition to such actual documented damages, Landlord shall also be entitled to consequential damages. Landlord shall, in response to written inquiries from Tenant, notify Tenant at the time of each such inquiry whether the potential then exists for consequential damages. No holding over by Tenant, whether with or without consent of Landlord, shall operate to extend this Lease except as otherwise expressly provided, and this Section 8 shall not be construed as consent for Tenant to retain possession of the Premises. Acceptance by Landlord of Rent after the expiration of the Term or earlier termination of this Lease shall not result in a renewal or reinstatement of this Lease.

9. **Taxes**. Landlord shall pay, as part of Operating Expenses, all taxes, levies, fees, assessments and governmental charges of any kind, existing as of the Initial Commencement Date or thereafter enacted (collectively referred to as "**Taxes**"), imposed by any federal, state, regional, municipal, local or other governmental authority or agency, including, without limitation, quasi-public agencies (collectively, "**Governmental Authority**") during the Term, including, without limitation, all Taxes: (i) imposed on or measured by or based, in whole or in part, on rent payable to (or gross receipts received by) Landlord under this Lease and/or from the rental by Landlord of the Project or any portion thereof, or (ii) based on the square footage, assessed value or other measure or evaluation of any kind of the Premises or the Project, or (iii) assessed or imposed by or on the operation or maintenance of any portion of the Premises or the Project, including parking, or (iv) assessed or imposed by, or at the direction of, or resulting from Legal Requirements, or interpretations thereof, promulgated by any Governmental Authority, or (v) imposed as a license or other fee, charge, tax, or assessment on Landlord' s business or occupation of leasing space in the Project. Landlord may (but shall, upon Tenant' s written request and at Tenant' s cost,) contest by appropriate legal proceedings the amount, validity, or application of any Taxes or liens securing Taxes. Taxes shall not include any net income taxes or profit taxes or franchise taxes imposed on Landlord except to the extent such net income taxes or profit taxes or franchise taxes are in substitution for any Taxes payable hereunder. Nothing herein contained shall be construed to include as Taxes: (A) any inheritance, estate, succession, transfer, gift or franchise taxes that is or may be imposed upon Landlord, or (B) any transfer tax or recording charge payable to the San Diego County recorder to effectuate a transfer, financing or refinancing of the Project (or any portion thereof), or any transfer of any partial interest of Landlord therein. Any assessments that are permitted to be paid in installments over a period of time (without the imposition of interest, penalties or other charge) shall be paid by Landlord in the maximum number of permitted installments. If any such Tax is levied or assessed directly against Tenant, then Tenant shall be responsible for and shall pay the same at such times and in such manner as the taxing authority shall require. Tenant shall pay, prior to delinquency, any and all Taxes levied or assessed against any personal property or trade fixtures placed by Tenant in the Premises, whether levied or assessed against Landlord or Tenant. If any Taxes on Tenant' s personal property or trade fixtures are levied against Landlord or Landlord' s property, or if the assessed valuation of the Project is increased by a value attributable to improvements in or alterations to the Premises, whether owned by Landlord or Tenant and whether or not affixed to the real property so as to become a part thereof, higher than the base valuation on which Landlord from time-to-time allocates Taxes to all tenants in the Project, Landlord shall have the right, but not the obligation, to pay such Taxes. Landlord' s reasonable determination of any excess assessed valuation shall be binding and conclusive, absent manifest error and shall be included as part of the information for the Independent Review. The amount of any such payment by Landlord shall constitute Additional Rent due from Tenant to Landlord immediately upon demand along with supporting information.

Notwithstanding anything to the contrary contained in this Lease, if, during the first 60 months after the Initial Commencement Date, any sale, transfer, refinancing or other changes in ownership of the Project is consummated, and solely as a result thereof, and to the extent that solely in connection therewith, the Project is reassessed (the "**Reassessment**") for real estate tax purposes by the appropriate Governmental Authority pursuant to the terms of Proposition 13, Tenant shall not be obligated to pay the Tax Increase in connection therewith. The term "**Tax Increase**" shall mean that portion of the Taxes, as calculated immediately following the Reassessment, which is attributable solely to the Reassessment. Accordingly, the term Tax Increase shall not include (and Tenant shall be required to pay

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for) any portion of the Taxes, as calculated immediately following the Reassessment, which (i) is attributable to the initial assessment of the value of the Project, the base, shell and core of the Buildings or the tenant improvements located in the Buildings, (ii) is attributable to assessments which were pending prior to the Reassessment or which would otherwise have occurred unrelated to the sale, or (iii) is attributable to the annual inflationary increase of real estate taxes. In addition, nothing contained in this paragraph is intended to excuse Tenant from paying the full amount of any Taxes (including, without limitation, as a result of reassessments) resulting from any construction and/or improvements made to the Project by Landlord or Tenant at any time pursuant to and/or in connection with this Lease.

10. **Parking**. Subject to all matters of record, Force Majeure, a Taking (as defined in Section 19 below), the PID Permit and the exercise by Landlord of its rights hereunder, Tenant shall have the right to use all of the parking spaces at the Project for the first 36 months after the Initial Commencement Date. Tenant' s right to use all of the parking spaces at the Project shall be extended for so long as all of Tenant' s Expansion Rights (as defined in Section 39) continue in full force and effect. All of Tenant' s parking rights under this Lease shall, during the Base Term, be at no additional cost to Tenant. Notwithstanding anything to the contrary contained herein, Landlord and Tenant acknowledge and agree that all parking at the Project (including, without limitation, the number of parking spaces available in the Parking Structure(s) (as defined below) and in the balance of the Project shall be required at all times to satisfy all Legal Requirements for the Project.

If Tenant' s Expansion Rights expire and/or Landlord commences constructing any new buildings at the Project ('**New Construction**"), Tenant shall, subject to the provisions of this Section 10, be entitled to the following parking rights at the Project: (i) 4 parking spaces per 1,000 rentable square feet located in Building 1 and Building 3, (ii) 3 parking spaces per 1,000 rentable square feet located in Building 2, (iii) if Tenant has elected its Expansion Right with respect to Building 4 (as defined in Section 39(a)), 1 parking space per 1,000 rentable square feet located in Building 4, (iv) if Tenant has elected its Expansion Right with respect to Building 5 (as defined in Section 39(a)), 4 parking spaces per 1,000 rentable square feet located in Building 5 if the same is an office building and 3 parking spaces per 1,000 rentable square feet located in Building 5 if the same is a laboratory building, and (v) if Tenant has elected its Expansion Right with respect to Building 6 (as defined in Section 39(a)), 4 parking spaces per 1,000 rentable square feet located in Building 6 if the same is an office building and 3 parking spaces per 1,000 rentable square feet located in Building 6 if the same is a laboratory building. Such parking spaces shall be located in those areas designated for non-reserved parking, subject in each case to Landlord' s commercially reasonable rules and regulations. If Landlord commences New Construction, Tenant may elect to mark as reserved or separate and secure its parking from the balance of the Project, in which case, Landlord shall reasonably cooperate with Tenant to effectuate, if possible and at Tenant' s sole cost and expense, such a separation of Tenant' s parking in a manner reasonably acceptable to Landlord and Tenant. Landlord shall not be responsible for enforcing Tenant' s parking rights against any third parties, including other tenants of the Project.

11. **Utilities, Services**. During any period of the Term that Landlord is responsible for the day-to-day maintenance of the Project, Landlord shall provide, subject to the terms of this Section 11, water, electricity, heat, light, power, HVAC, sewer, and other utilities (including gas and fire sprinklers to the extent the Project is plumbed for such services), refuse and trash collection and janitorial services for the Common Areas (collectively, "**Utilities**"). Except as provided for in the preceding sentence, Tenant shall be responsible for the provision of Utilities to the Project. Landlord shall pay, as Operating Expenses or subject to Tenant' s reimbursement obligation or Tenant' s direct payment obligation to the Utility provider as provided for below, for all Utilities used on the Premises, all maintenance charges for Utilities, and any storm sewer charges or other similar charges for Utilities imposed by any Governmental Authority or Utility provider, and any taxes, penalties, surcharges or similar charges thereon. Landlord may cause, at Tenant' s expense, any Utilities to be separately metered or charged directly to Tenant by the provider. Tenant shall pay directly to the Utility provider, prior to delinquency, any separately metered Utilities and services which may be furnished to Tenant or the Premises during the Term. Tenant shall pay, as part of Operating Expenses, its share of all charges for jointly metered Utilities based upon consumption, as reasonably determined by Landlord. No interruption or failure of Utilities, from any

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cause whatsoever other than Landlord' s willful misconduct, shall result in eviction or constructive eviction of Tenant, termination of this Lease or, except as provided in the next paragraph, the abatement of Rent. Tenant shall be responsible for obtaining and paying for its own janitorial services for the Premises which in no event shall be less than 5 days per week and with specifications comparable to other Class A office projects in the University Towne Center area of San Diego.

Notwithstanding anything in this Lease to the contrary, if Tenant is prevented from using, and does not use, the Premises or any portion thereof, as a result of the failure by Landlord to provide access to the Premises, HVAC service, water, sewer and electricity as required by this Lease and such failure is due to the negligent acts or omissions of Landlord and not due in any part to any act or omission on the part of Tenant or any Tenant Party or any matter beyond Landlord' s reasonable control (any such stoppage to be known as an "**Abatement Event**"), then Tenant shall give Landlord written notice of such Abatement Event, and if such Abatement Event continues for 3 consecutive business days (including Saturday) after Landlord' s receipt of any such notice, or occurs for 10 non-consecutive business days in a 12 month period (provided Landlord is sent a notice (in either of such events, the "**Eligibility Period**"), then the Base Rent and Tenant' s Share of Operating Expenses shall be abated or reduced, as the case may be, after the expiration of the Eligibility Period for such time that Tenant continues to be so prevented from using, and does not use, the Premises, or a portion thereof, in the proportion that the rentable area of the portion of the Premises that Tenant is prevented from using, and does not use ("**Unusable Area**"), bears to the total rentable area of the Premises; provided, however, regardless who is managing the Project, if Tenant is prevented from using, and does not use, the Unusable Area for a period of time in excess of the Eligibility Period and the remaining portion of the Premises is not sufficient to allow Tenant to conduct its business therein, and if Tenant does not conduct its business from such remaining portion, then for such time after the expiration of the Eligibility Period during which Tenant is so prevented from conducting its business and is not conducting its business in any portion of the Premises, the Base Rent and Tenant' s Share of Operating Expenses for the entire Premises shall be abated for such time as Tenant continues to be so prevented from using, and does not use, the Premises. Notwithstanding anything to the contrary contained herein, Tenant shall not be entitled to any abatement of Rent provided for in this paragraph above and beyond the amount of rent loss insurance proceeds paid to Landlord for the Abatement Event in question. If, however, Tenant reoccupies any portion of the Premises during such period, the Rent allocable to such reoccupied portion, based on the proportion that the rentable area of such reoccupied portion of the Premises bears to the total rentable area of the Premises, shall be payable by Tenant from the date Tenant reoccupies such portion of the Premises. If Tenant' s right to abatement for a particular portion of the Premises occurs during a free rent period during the Term for that particular portion of the Premises, Tenant' s free rent period shall be extended for the number of days that the abatement period overlapped the free rent period. Such right to abate Base Rent and Tenant' s Share of Operating Expenses shall be Tenant' s sole and exclusive remedy at law or in equity for an Abatement Event and Landlord shall not otherwise be liable for any loss or damage suffered or sustained by Tenant resulting from any failure or cessation of services; provided, however, nothing in this paragraph, shall impair Tenant' s rights under Section 31 below. To the extent Tenant is entitled to abatement under this paragraph because of an event covered by Sections 18 or 19 of this Lease, then those provisions of this Lease shall apply and not the provisions of this paragraph. For the avoidance of any doubt, the Rent Abatement being provided for under this Lease shall not be considered a free rent period.

During any period of the Term that Landlord is responsible for the day-to-day maintenance of the Project, Landlord' s sole obligation for either providing emergency generators or providing emergency back-up power to the Project shall be: (i) to provide emergency generators with not less than the capacity of the emergency generators located in the Central Plant Building as of the Initial Commencement Date, and (ii) to contract with a third party to maintain the emergency generators as per the manufacturer' s standard maintenance guidelines. Landlord shall have no obligation to provide Tenant with any other operational emergency generators or back-up power or to supervise, oversee or confirm that the third party maintaining the emergency generators is maintaining the generators as per the manufacturer' s standard guidelines or otherwise. During any period of replacement, repair or maintenance of the emergency generators when the emergency generators are not operational, including any delays thereto

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due to the inability to obtain parts or replacement equipment, Landlord shall have no obligation to provide Tenant with an alternative back-up generator or generators or alternative sources of back-up power. Tenant expressly acknowledges and agrees that Landlord does not guaranty that such emergency generators will be operational at all times or that emergency power will be available to the Premises when needed. During any period of the Term that Landlord is responsible for the day-to-day maintenance of the Project, Landlord shall, upon request from Tenant from time to time, make the maintenance contract for the emergency generator available for Tenant' s review, schedule meetings with Tenant and the applicable contractors maintaining the emergency generators to respond to any questions or concerns that Tenant may have regarding the maintenance and operation of the emergency generators.

12. **Alterations and Tenant's Property**. Any alterations, additions, or improvements made to the Premises by or on behalf of Tenant excluding installation, removal or realignment of furniture systems (other than removal of furniture systems owned or paid for by Landlord) not involving any modifications to the structure or connections (other than by ordinary plugs or jacks) to Building Systems (as defined in Section 13) ("**Alterations**") shall be subject to Landlord' s prior written consent, which may be given or withheld in Landlord' s sole discretion if any such Alteration affects the structure or Building Systems and shall not be otherwise unreasonably withheld. Notwithstanding the foregoing, Tenant may construct Alterations in the Premises (but not in the Central Plant Building except for required repairs and replacements) that (i) Tenant reasonably determines to be beneficial to Tenant' s operations, (ii) do not involve modifications to the structure of the Buildings or major Building Systems (as defined in Section 13), (iii) will not materially reduce the quality or the value of the leasehold improvements to the applicable portion of the Premises (i.e., removing laboratory improvements), (iv) do not affect the exterior appearance of any Building, (v) do not create a foreseeable risk of violating any Legal Requirements or increasing insurance premiums, and (vi) do not involve a use of the Premises that is inconsistent with the current use of the Premises, without Landlord' s prior approval if the cost of any such Alteration (excluding carpeting and painting) does not exceed $100,000 and the aggregate cost of all such Alterations (excluding carpeting and painting) in any 12 month period does not exceed $300,000 (a "**Notice-Only Alteration**"), provided Tenant notifies Landlord in writing of such intended Notice-Only Alteration, and such notice shall be accompanied by applicable plans, specifications, work contracts and such other information concerning the nature and cost of the Notice-Only Alteration as may be reasonably requested by Landlord, which notice and accompanying materials shall be delivered to Landlord not less than 15 days in advance of any proposed construction. If Landlord approves any Alterations, Landlord may impose such conditions on Tenant in connection with the commencement, performance and completion of such Alterations as Landlord may deem appropriate in Landlord' s reasonable discretion. Any request for approval shall be in writing, delivered not less than 15 days in advance of any proposed construction, and accompanied by applicable plans, specifications, bid proposals, work contracts and such other information concerning the nature and cost of the Alterations as may be reasonably requested by Landlord, including the identities and mailing addresses of all persons performing work or supplying materials. Landlord shall respond to Tenant' s written request for consent to any Alterations within 15 days after Landlord' s receipt of such request along with all documentation required to be delivered hereunder. If Landlord fails to respond within such 15 day period, then Tenant shall provide Landlord with a second written notice stating in bold and all caps 12 point font that Landlord' s failure to respond to Tenant' s Alteration request within 5 business days after Landlord' s receipt of the second notice shall be deemed approval by Landlord, and if Landlord does not respond within such 5 business day period, then Landlord shall be deemed to have approved such Alteration request. Landlord' s right to review plans and specifications and to monitor construction shall be solely for its own benefit, and Landlord shall have no duty to ensure that such plans and specifications or construction comply with applicable Legal Requirements. Tenant shall cause, at its sole cost and expense, all Alterations to comply with insurance requirements and with Legal Requirements and shall implement at its sole cost and expense any alteration or modification required by Legal Requirements as a result of any Alterations. Tenant shall pay to Landlord, as Additional Rent, on demand an amount equal to the greater of (x) 1.5% of all charges incurred by Tenant or its contractors or agents in connection with any Alteration to cover Landlord' s overhead and expenses for plan review, coordination, scheduling and supervision and (y) all of Landlord' s reasonable, actual out-of-pocket costs in connection with such Alteration. Before Tenant begins any Alteration, Landlord may post on and about the Premises notices of non-responsibility pursuant to

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applicable law. Tenant shall reimburse Landlord for, and indemnify and hold Landlord harmless from, any expense incurred by Landlord by reason of faulty work done by Tenant or its contractors, delays caused by such work, or inadequate cleanup.

Other than being required by Landlord to provide a completion bond, Tenant shall make arrangements reasonably satisfactory to Landlord to assure payment for the completion of all Alterations work free and clear of liens, and shall provide (and cause each contractor or subcontractor to provide) certificates of insurance for workers' compensation and other coverage in amounts and from an insurance company satisfactory to Landlord protecting Landlord against liability for personal injury or property damage during construction. Upon completion of any Alterations, Tenant shall deliver to Landlord: (i) sworn statements setting forth the names of all contractors and subcontractors who did the work and final lien waivers from all such contractors and subcontractors; and (ii) "as built" plans for any such Alteration (if any drawings were required in connection with such Alteration).

Except for Removable Installations (as hereinafter defined), all Installations (as hereinafter defined) shall be and shall remain the property of Landlord during the Term and following the expiration or earlier termination of the Term, shall not be removed by Tenant at any time during the Term, and shall remain upon and be surrendered with the Premises as a part thereof. Notwithstanding the foregoing, Landlord may, at the time its approval of any such Installation is requested, or at the time it receives notice of a Notice Only Alteration, notify Tenant that Landlord requires that Tenant remove such Installation upon the expiration or earlier termination of the Term, in which event Tenant shall remove such Installation in accordance with the immediately succeeding sentence; provided, however, that any Installation which is a like kind replacement of an Installation which was part of the initial improvements to the Premises shall not be required to be removed by Tenant. Upon the expiration or earlier termination of the Term, Tenant shall remove (i) any Installations for which Landlord has given Tenant notice of removal in accordance with the immediately preceding sentence, and (ii) all of Tenant' s Property (as hereinafter defined), and Tenant shall restore and repair any damage caused by or occasioned as a result of such removal, including, without limitation, capping off all such connections behind the walls of the Premises and repairing any holes. During any restoration period beyond the expiration or earlier termination of the Term, Tenant shall pay Rent to Landlord as provided herein as if said space were otherwise occupied by Tenant. Notwithstanding anything to the contrary contained herein, Tenant shall not be required to and shall not remove any tenant improvements located in the Premises as of the date the same are delivered to Tenant and/or any initial tenant improvements constructed pursuant to the Building 1 and 2 Work Letter, the Building 3 Work Letter and/or any Expansion Building Work Letter (as defined in Section 39(a). Landlord and Tenant agree that nothing in this Lease shall prohibit Tenant from removing/replacing any of Tenant' s Property at any time throughout the Term provided that Tenant repairs any damage resulting therefrom.

For purposes of this Lease, (x) "**Removable Installations**" means any items listed on **Exhibit F** attached hereto and any items agreed by Landlord in writing to be included on **Exhibit F** in the future, (y) "**Tenant's Property**" means Removable Installations and, other than Installations, any Building 3 FF&E (as defined in the Building 3 Work Letter), personal property or equipment of Tenant that may be removed without material damage to the Premises, and (z) "**Installations**" means all property of any kind paid for by Landlord and/or as part of TI Costs (as defined in the Building 1 and 2 Work Letter), the TI Fund (as defined in the Building 3 Work Letter), all Alterations, all fixtures, and all partitions, hardware, built-in machinery, built-in casework and cabinets and other similar additions, equipment, property and improvements built into the Premises so as to become an integral part of the Premises, including, without limitation, fume hoods which penetrate the roof or plenum area, built-in cold rooms, built-in warm rooms, walk-in cold rooms, walk-in warm rooms, deionized water systems, glass washing equipment, autoclaves, chillers, built-in plumbing, electrical and mechanical equipment and systems, and any power generator and transfer switch. Nothing contained in the preceding sentence is intended to preclude Tenant from removing from the first floor of Building 2 any so called freestanding walk-in cold rooms or walk-in warm rooms not paid for in any part by Landlord.

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13. **Landlord's Repairs**. Landlord shall, as an Operating Expense (except as expressly provided for in Section 5), in a manner consistent with other Class A office and laboratory buildings in the University Towne Center area of San Diego, repair, replace and maintain, in good condition and working order, all structural elements of the Project (including without limitation, the roofs, foundations, and interior and exterior load bearing walls of the Buildings and Parking Structure), all exterior elements of the Project (including, without limitation, the exterior walls and windows of the Buildings and the Parking Structure), all parking areas and other Common Areas of the Project, all HVAC, plumbing, fire sprinklers, elevators and other building systems serving the Premises and/or any other portions of the Project (collectively, "**Building Systems**"), and, subject to the last paragraph of Section 11, the emergency generators serving the Project, all uninsured losses and damages caused by Tenant, or by any of Tenant' s agents, servants, employees, invitees and contractors (collectively, "**Tenant Parties**") excluded. Losses and damages caused by Tenant or any Tenant Party shall be repaired by Landlord and, to the extent not covered by insurance required to be maintained by Landlord or Tenant hereunder, at Tenant' s sole cost and expense. Landlord reserves the right to stop Building Systems services when necessary (i) by reason of accident or emergency, or (ii) for planned repairs, alterations or improvements, which are, in the judgment of Landlord, desirable or necessary to be made, until said repairs, alterations or improvements shall have been completed. Landlord shall have no responsibility or liability for failure to supply Building Systems services during any such period of interruption; provided, however, that Landlord shall, except in case of emergency, give Tenant 96 hours advance notice of any planned stoppage of Building Systems services for routine maintenance, repairs, alterations or improvements. Tenant shall promptly give Landlord written notice of any repair required by Landlord pursuant to this Section, after which Landlord shall effect such repair within a reasonable period of time. Landlord shall not be liable for any failure to make any repairs or to perform any maintenance unless such failure shall persist for an unreasonable time after Tenant' s written notice of the need for such repairs or maintenance along with an explanation of the effects of any delays (whether the time is reasonable or unreasonable being, among other things, in part a function of the effects of Landlord' s failure to timely make the repairs or perform the maintenance, such as imminent injury or harm to persons or material damage to property, and in part a function of the amount of time reasonably necessary to engage a service provider to make the repairs or perform the maintenance). Tenant waives its rights under any state or local law to terminate this Lease or, except as expressly provided for in this Lease, to make such repairs at Landlord' s expense and agrees that the parties' respective rights with respect to such matters shall be solely as set forth herein. Repairs required as the result of fire, earthquake, flood, vandalism, war, or similar cause of damage or destruction shall be controlled by Section 18.

Notwithstanding anything to the contrary contained in this Lease, effective as of the commencement of the Early Access Period, Tenant shall undertake, at Tenant' s sole cost and expense (except that during the Early Access Period Landlord shall reimburse Tenant for all maintenance expenses approved in advance in writing by Landlord), all of Landlord' s maintenance obligations with respect to the Project including, without limitation, maintaining the Buildings, Building Systems serving the Buildings and the Common Areas in the condition which they are required to be maintained by Landlord under this Lease. The maintenance obligation described in the preceding sentence shall include, without limitation, an obligation on the part of Tenant to repair, replace and maintain the Project in good condition and working order and in a first class manner consistent with other Class A office and laboratory projects in the University Towne Center area of San Diego. Tenant' s maintenance obligation shall also include the procurement and maintenance of contracts, in form and substance reasonably satisfactory to Landlord, with copies to Landlord upon Landlord' s written request, for and with contractors acceptable to Landlord specializing and experienced in the maintenance and repair that Tenant is responsible for under this Lease. During any period where Tenant is maintaining the Project as provided for in this paragraph, Landlord shall, notwithstanding anything to the contrary contained in this Lease, have no obligation to perform any maintenance, repairs or replacements under this Lease with respect to the Project except as expressly provided for in the Building 1 and 2 Work Letter, the Building 3 Work Letter and any other applicable work letters and with the respect to the structural repairs and replacements the cost of which are excluded from Operating Expenses in Section 5(ss) which shall remain Landlord' s responsibility. Tenant' s maintenance obligations under this paragraph shall not include the right on the part of Tenant to make any capital repairs or improvements to the Project without Landlord' s prior written consent and

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except as provided in the immediately following paragraph. Tenant shall not take or omit to take any action, the taking or omission of which shall cause waste, damage or injury to the Project. If Tenant fails to maintain any portion of the Project in a manner reasonably acceptable to Landlord within the requirements of this Lease (a "**Maintenance Breach**"), Landlord shall have the right to provide Tenant with written notice thereof and to assume maintenance of all or any portion of the Project if Tenant does not cure Tenant' s failure within 10 business days after receipt of such notice (or such longer period as reasonably necessary to cure such failure so long as Tenant provides Landlord with reasonably satisfactory evidence that Tenant is diligently prosecuting such cure to completion). Notwithstanding anything to the contrary contained herein, if any portion of the Project is leased by Landlord to any other tenant(s) or if Landlord commences construction of any new building(s) other than pursuant to Tenant' s exercise of its Expansion Rights pursuant to Section 39) at any time during the Term, Landlord may elect, at any time and/or from time to time, to assume performing all the maintenance obligations provided for in this Lease with respect the Common Areas, Central Plant Building, landscaping, security, if any, and any other maintenance obligations (collectively, "**Common Area Maintenance Obligations**") and, except in the case of a Maintenance Breach which relates to the Premises and following which Landlord assumes the obligations, Tenant shall continue to maintain the Premises and the Building Systems serving only the Premises (but Tenant shall have no right to maintain the Central Plant Building). During any periods where Tenant is maintaining the entire Project as provided for in this paragraph and Landlord' s responsibility is limited to reviewing books and records, the administration rent payable to Landlord shall be 1% of Base Rent as provided for in Section 5.

Notwithstanding anything above to the contrary, if during the Term, any portion of the Project which is Tenant' s responsibility under the immediately preceding paragraph to repair cannot be repaired other than at a cost which is in excess of 50% of the cost of replacing the applicable item(s) and the same constitutes a capital expenditure, then such item(s) shall be replaced by Tenant (subject to Landlord' s prior written approval of the plans and specifications and the cost of any such replacement). The cost of replacing each such item shall initially be borne by Landlord but treated as a capital repair and improvement as part of Operating Expenses payable by Tenant and amortized over the lesser of 10 years and the useful life of such item with interest calculated at a rate equal to the prime rate established from time to time by Wells Fargo Bank (or if Wells Fargo Bank ceases to exist or to publish such a rate, then the rate published by the largest federally chartered banking institution in California) plus 1% per annum.

14. **Tenant's Repairs**. Subject to Section 13 hereof, Tenant, at its expense, shall repair, replace and maintain in good condition all portions of the Premises, including, without limitation, entries, doors, ceilings, interior windows, interior walls, and the interior side of demising walls. Such repair and replacement may include, at Tenant' s sole cost and expense, capital expenditures and repairs whose benefit may extend beyond the Term. Should Tenant fail to make any such repair or replacement or fail to maintain the Premises, Landlord shall give Tenant notice of such failure. If Tenant fails to commence cure of such failure within 10 business days of Landlord' s notice (or longer if reasonably necessary to commence such cure), and thereafter diligently prosecute such cure to completion, Landlord may perform such work and shall be reimbursed by Tenant within 30 days after demand therefor; provided, however, that if such failure by Tenant creates or could create an emergency (where there is an imminent threat of injury or harm to persons or material damage to property), Landlord may immediately commence cure of such failure and shall thereafter be entitled to recover the actual, documented costs of such cure from Tenant.

15. **Mechanic's Liens**. Tenant shall discharge, by bond or otherwise, any mechanic' s lien filed against the Premises or against the Project for work claimed to have been done for, or materials claimed to have been furnished to, Tenant within 10 business days after the filing thereof, at Tenant' s sole cost and shall otherwise keep the Premises and the Project free from any liens arising out of work performed, materials furnished or obligations incurred by Tenant; provided, however, that, subject to Tenant' s obligations under this Lease and any of the work letters attached hereto (including, without limitation, payment of Operating Expenses), Landlord (and not Tenant) shall be responsible for liens caused by any work performed by Landlord in the Premises and/or the Project. Should Tenant fail to discharge any lien described herein, Landlord shall have the right, but not the obligation, to pay such

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claim or post a bond or otherwise provide security to eliminate the lien as a claim against title to the Project and the cost thereof shall be immediately due from Tenant as Additional Rent. If Tenant shall lease or finance the acquisition of office equipment, furnishings, or other personal property of a removable nature utilized by Tenant in the operation of Tenant' s business, Tenant warrants that any Uniform Commercial Code Financing Statement filed as a matter of public record by any lessor or creditor of Tenant will upon its face or by exhibit thereto indicate that such Financing Statement is applicable only to removable personal property of Tenant located within the Premises. In no event shall the address of the Project be furnished on the statement without qualifying language as to applicability of the lien only to removable personal property, located in an identified suite held by Tenant.

16. **Indemnification**. Tenant hereby indemnifies and agrees to defend, save and hold Landlord harmless from and against any and all Claims for injury or death to persons or damage to property occurring within or about the Premises, arising directly or indirectly out of use or occupancy of the Premises or a breach or default by Tenant in the performance of any of its obligations hereunder, except to the extent caused by the willful misconduct or gross negligence of Landlord or any of the Landlord Parties. Landlord shall not be liable to Tenant for, and Tenant assumes all risk of damage to, personal property (including, without limitation, loss of records kept within the Premises). Tenant further waives any and all Claims for injury to Tenant' s business or loss of income relating to any such damage or destruction of personal property (including, without limitation, any loss of records). Landlord shall not be liable for any damages arising from any act, omission or neglect of any tenant in the Project or of any other third party.

Subject to the waivers in the penultimate paragraph of Section 17 and except as otherwise provided for in this Lease, Landlord hereby indemnifies and agrees to defend, save and hold Tenant harmless from and against any and all Claims for injury or death to persons or damage to property occurring at the Project to the extent caused by or contributed to by (i) the willful misconduct or gross negligence of Landlord or (ii) defaults by Landlord under this Lease.

17. **Insurance**. Landlord shall maintain all risk property and, if applicable, sprinkler damage insurance covering the full replacement cost of the Project or such lesser coverage amount as Landlord may elect provided such coverage amount is not less than the full replacement cost and rent loss insurance for not less than 12 months. Tenant acknowledges that, notwithstanding the fact that Landlord may carry such insurance, the coverages remain subject to, among other things, any deductibles, limitations and exceptions contained in the applicable policies. Landlord shall further procure and maintain commercial general liability insurance with a single loss limit of not less than $5,000,000 for bodily injury and property damage with respect to the Project. Landlord may, but is not obligated to, maintain such other insurance and additional coverages as it may deem necessary, including, but not limited to, flood, environmental hazard and earthquake, loss or failure of building equipment, errors and omissions, fidelity bonds for employees employed to perform services and insurance for any improvements installed by Tenant or which are in addition to the standard improvements customarily furnished by Landlord without regard to whether or not such are made a part of the Project. All such insurance shall be included as part of the Operating Expenses. The Project may be included in a blanket policy (in which case the cost of such insurance allocable to the Project will be reasonably determined by Landlord based upon the insurer' s cost calculations). Tenant shall also reimburse Landlord for any actual and documented increased premiums or additional insurance which Landlord reasonably deems necessary as a result of Tenant' s use of the Premises.

Tenant, at its sole cost and expense, shall maintain during the Term: all risk property insurance with business interruption and extra expense coverage, covering the full replacement cost of all property and improvements installed or placed in the Premises by Tenant at Tenant' s expense; workers' compensation insurance with no less than the minimum limits required by law; employer' s liability insurance with such limits as required by law; and commercial general liability insurance, with a minimum limit of not less than $5,000,000 per occurrence for bodily injury and property damage with respect to the Premises which coverage amount may be satisfied through a combination of primary and umbrella policies. The commercial general liability insurance policy and umbrella policies shall name Alexandria

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Real Estate Equities, Inc., Landlord and any property manager as additional insureds; insure on an occurrence and not a claims-made basis; be issued by insurance companies which have a rating of not less than policyholder rating of A- and financial category rating of at least Class VII in "Best' s Insurance Guide"; shall not be cancelable for nonpayment of premium unless 30 days prior written notice shall have been given to Landlord from the insurer; contain a hostile fire endorsement and a contractual liability endorsement; and provide primary coverage to Landlord (any policy issued to Landlord providing duplicate or similar coverage shall be deemed excess over Tenant' s policies). Certificates of insurance showing the limits of coverage required hereunder and showing Landlord as an additional insured, along with, upon Landlord' s request, reasonable evidence of the payment of premiums for the applicable period, shall be delivered to Landlord by Tenant upon commencement of the Term and upon each renewal of said insurance. Tenant' s policy may be a "blanket policy" which specifically provides that the amount of insurance with respect to the Project shall not be prejudiced by other losses covered by the policy. Tenant shall, at least 10 days prior to the expiration of such policies, furnish Landlord with renewal certificates.

Notwithstanding anything in this Section 17 to the contrary, for so long as Tenant can provide Landlord with reasonably acceptable evidence that Tenant has a net worth exceeding $500,000,000 dollars (as determined in accordance with GAAP), Tenant may self-insure for the insurance required by Tenant to be maintained pursuant to this Section 17. With respect to Tenant' s self-insurance, Landlord and Tenant agree as follows: (a) that Tenant' s self-insurance shall be treated as actual insurance and that such self-insurance shall be the primary coverage for every risk for which Tenant is liable or responsible hereunder; (b) the waiver of subrogation provisions set forth in this Lease shall apply to Tenant' s self-insurance as though Tenant were maintaining the insurance required under this Lease, (c) Tenant shall bear the entire cost of the defense of any claim for which it is responsible under the terms of this Lease including, without limitation, the defense of Landlord, and (d) Tenant shall use its own funds to pay any claim or indemnity or replace any property or otherwise provide the funding which would have been available from insurance proceeds but for Tenant' s election to self-insure. If Tenant elects to self-insure, Landlord shall be considered to be covered by the same insurance terms, including, but not limited to, insuring grants, exclusions, conditions and limits, by which it would have been covered had insurance covering such risk been in effect. Notwithstanding anything to the contrary contained in this Lease, Tenant hereby releases Landlord from any liability for loss or damage caused by Landlord and/or any Landlord Party against which Tenant has elected to self-insure but which Tenant would otherwise be required to insure against under the Lease and in no event shall Landlord be liable for any loss or damage which Landlord would not otherwise be responsible but for Tenant' s election to self insure. The right to self-insure shall only apply as long as Illumina, Inc., or any entity leasing or subleasing the Premises pursuant to a Permitted Assignment, is the tenant under this Lease and so long as such entity satisfies the net worth requirements provided for in the first sentence of this paragraph and shall not apply to any other assignee or sublessee.

In each instance where Tenant' s insurance is to name Landlord as an additional insured, Tenant shall upon written request of Landlord also designate and furnish certificates so evidencing Landlord as additional insured to: (i) any lender of Landlord holding a security interest in the Project or any portion thereof, (ii) the landlord under any lease wherein Landlord is tenant of the real property on which the Project is located, if the interest of Landlord is or shall become that of a tenant under a ground or other underlying lease rather than that of a fee owner, and/or (iii) any management company retained by Landlord to manage the Project.

The property insurance obtained by Landlord and Tenant shall include a waiver of subrogation by the insurers and all rights based upon an assignment from its insured, against Landlord or Tenant, and their respective officers, directors, employees, managers, agents, invitees and contractors ("**Related Parties**"), in connection with any loss or damage thereby insured against. Notwithstanding anything to the contrary contained in this Lease, neither party nor its respective Related Parties shall be liable to the other for loss or damage caused by any risk insured against under property insurance required to be maintained hereunder, and each party waives any claims against the other party, and its respective Related Parties, for such loss or damage. The failure of a party to insure its property shall not void this

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waiver. Landlord and its respective Related Parties shall not be liable for, and Tenant hereby waives all claims against such parties for, business interruption and losses occasioned thereby sustained by Tenant or any person claiming through Tenant resulting from any accident or occurrence in or upon the Premises or the Project from any cause whatsoever. If the foregoing waivers shall contravene any law with respect to exculpatory agreements, the liability of Landlord or Tenant shall be deemed not released but shall be secondary to the other' s insurer.

Landlord may require insurance policy limits to be raised to conform with requirements of Landlord' s lender, the recommendations of Landlord' s insurance consultant and/or to bring coverage limits to levels then being generally required of new tenants, if any, within the Project; provided, however, that the increased amount of coverage and deductibles are consistent with coverage amounts and deductibles then being required by other institutional owners of Class A office and laboratory projects with tenants occupying similar size premises in the San Diego area.

18. **Restoration**. If, at any time during the Term, any portion of the Premises is damaged or destroyed by a fire or other casualty, Landlord shall notify Tenant within 60 days after discovery of such damage as to the amount of time Landlord reasonably estimates it will take to restore the Premises (the "**Restoration Period**"). If the Restoration Period is estimated to exceed 18 months or, if the damage occurs within the last 60 months of the then applicable expiration date of the Term of this Lease, 12 months (as applicable, the "**Maximum Restoration Period**"), Landlord may, in such notice, elect to terminate this Lease as to only the portion of the Premises that cannot be restored within the Maximum Restoration Period in which case such termination shall be effective as of the date that is 75 days after the date of discovery of such damage or destruction provided, however, that notwithstanding Landlord' s election to restore, Tenant may elect to terminate this Lease as to only the portion of the Premises that cannot be restored within the Maximum Restoration Period by written notice to Landlord delivered within 15 business days of receipt of a notice from Landlord estimating a Restoration Period for such portion of the Premises longer than the Maximum Restoration Period. Unless either Landlord or Tenant so elects to terminate this Lease, Landlord shall, subject to receipt of sufficient insurance proceeds (with any deductible to be treated as a current Operating Expense), promptly restore the damaged portion of the Premises (excluding the improvements installed by Tenant or by Landlord and paid for by Tenant), subject to delays arising from the collection of insurance proceeds, from Force Majeure events or as needed to obtain any license, clearance or other authorization of any kind required to enter into and restore the Premises issued by any Governmental Authority having jurisdiction over the use, storage, handling, treatment, generation, release, disposal, removal or remediation of Hazardous Materials (as defined in Section 30) in, on or about the Premises (collectively referred to herein as "**Hazardous Materials Clearances**"); provided, however, that if repair or restoration of such damaged portion of the Premises is not substantially complete as of the end of the Maximum Restoration Period or, if longer, the Restoration Period, Landlord may, in its sole and absolute discretion, elect not to proceed with such repair and restoration, or Tenant may by written notice to Landlord delivered within 10 business days of the expiration of the Maximum Restoration Period or, if longer, the Restoration Period, elect to terminate this Lease as to only the portion of the Premises which has not been restored, in which event Landlord shall be relieved of its obligation to make such repairs or restoration and this Lease shall as to only the portion of the Premises which has not been restored terminate as of the date that is 75 days after the later of: (i) discovery of such damage or destruction, or (ii) the date all required Hazardous Materials Clearances are obtained, but Landlord shall retain any Rent paid and the right to any Rent payable by Tenant prior to such election by Landlord or Tenant.

Tenant, at its expense, shall promptly perform, subject to delays arising from the collection of insurance proceeds, obtaining permits and other governmental approvals, from Force Majeure (as defined in Section 34) events or to obtain Hazardous Material Clearances, all repairs or restoration not required to be done by Landlord. Notwithstanding the foregoing, if any portion of the Premises are damaged during the last year of the Term and Landlord reasonably estimates that it will take more than 2 months to repair such damage either Landlord or Tenant may terminate this Lease as to the damaged portion of the Premises upon written notice to the other; provided, however, that such notice is delivered within 10 business days after the date that Landlord provides Tenant with written notice of the estimated

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Restoration Period. Landlord shall also have the right to terminate this Lease with respect to the damaged portion of the Premises if sufficient insurance proceeds in excess of Landlord' s Contribution are not available for such restoration. For purposes hereof, the '**Landlord's Contribution**" shall initially mean $2,500,000; provided, however, that such amount shall be reduced by an amount equal to $12,500 on the first day of each month during the Term plus any amounts paid by Landlord from time to time as a Landlord' s Contribution. In no event, however, shall Landlord be required to pay Landlord' s Contribution if Tenant is in material Default under this Lease. Rent shall be abated from the date all required Hazardous Material Clearances are obtained until the Premises are repaired and restored, in the proportion which the area of the Premises, if any, which is not usable by Tenant bears to the total area of the Premises; provided, however, in the event that the remaining portion of the Premises is not sufficient to allow Tenant to conduct its business therein, and if Tenant does not conduct its business from such remaining portion, then for such time as Tenant does not conduct its business therein, the Base Rent and Tenant' s Share of Operating Expenses for the entire Premises shall be abated but only for so long as Landlord receives rent loss insurance proceeds for the full amount of the abatement. Such abatement shall be the sole remedy of Tenant, and except as provided in this Section 18, Tenant waives any right to terminate the Lease by reason of damage or casualty loss.

The provisions of this Lease, including this Section 18, constitute an express agreement between Landlord and Tenant with respect to any and all damage to, or destruction of, all or any part of the Premises, or any other portion of the Project, and any statute or regulation which is now or may hereafter be in effect shall have no application to this Lease or any damage or destruction to all or any part of the Premises or any other portion of the Project, the parties hereto expressly agreeing that this Section 18 sets forth their entire understanding and agreement with respect to such matters.

19. **Condemnation**. If the whole or any material part of the Premises or the Project is taken for any public or quasi-public use under governmental law, ordinance, or regulation, or by right of eminent domain, or by private purchase in lieu thereof (a "**Taking**" or "**Taken**"), and the Taking would in Landlord' s reasonable judgment, materially interfere with or impair Landlord' s ownership or operation of the Project, then upon written notice by Landlord this Lease shall terminate and Rent shall be apportioned as of said date. If the Taking would in the reasonable judgment of Landlord and Tenant either prevent or materially interfere with Tenant' s use of the remaining Premises for the Permitted Use (including permanently preventing reasonable access to the remaining Premises and/or the parking at the Project) (all as resolved, if the parties are unable to agree, by arbitration by a single arbitrator with the qualifications and experience appropriate to resolve the matter and appointed pursuant to and acting in accordance with the rules of the American Arbitration Association), then either party shall have the right to terminate this Lease by written notice to other party within 30 days after the Taking in which case this Lease shall terminate 30 days thereafter unless either party elects, in writing during such 30 day period following the other party' s election to terminate, to require arbitration of the matter in which case if this Lease is being terminated based on the arbitrator' s decision, it shall terminate 30 days after the arbitrator' s decision. If part of the Premises shall be Taken, and this Lease is not terminated as provided above, Landlord shall promptly restore the Premises and the Project as nearly as is commercially reasonable under the circumstances to their condition prior to such partial Taking and the rentable square footage of the Buildings, the rentable square footage of the Premises, Tenant' s Share of Operating Expenses and the Rent payable hereunder during the unexpired Term shall be reduced to such extent as may be fair and reasonable under the circumstances. Upon any such Taking, Landlord shall be entitled to receive the entire price or award from any such Taking without any payment to Tenant, and Tenant hereby assigns to Landlord Tenant' s interest, if any, in such award. Tenant shall have the right, to the extent that same shall not diminish Landlord' s award, to make a separate claim against the condemning authority (but not Landlord) for such compensation as may be separately awarded or recoverable by Tenant for moving expenses and damage to Tenant' s trade fixtures, if a separate award for such items is made to Tenant. Tenant hereby waives any and all rights it might otherwise have pursuant to any provision of state law to terminate this Lease upon a partial Taking of the Premises or the Project.

20. **Events of Default**. Each of the following events shall be a default ("**Default**") by Tenant under this Lease:

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(a) **Payment Defaults**. Tenant shall fail to pay any installment of Rent or any other payment hereunder when due provided, however, that Landlord will give Tenant notice and an opportunity to cure any failure to pay Rent within 5 business days of any such notice not more than twice in each calendar year during the Term.

(b) **Insurance**. Any insurance required to be maintained by Tenant pursuant to this Lease shall be canceled or terminated or shall expire or shall be reduced or materially changed, or Landlord shall receive a notice of nonrenewal of any such insurance and Tenant shall fail to obtain replacement insurance at least 5 business days before the expiration of the current coverage.

(c) **Abandonment**. Tenant shall abandon the Premises. Tenant shall not be deemed to have abandoned the Premises if (i) Tenant provides Landlord with reasonable advance notice prior to vacating and, within 60 days after vacating the Premises, Tenant completes Tenant' s obligations with respect to the Surrender Plan in compliance with Section 28, (ii) Tenant has made reasonable arrangements with Landlord for the security of the Premises for the balance of the Term, and (iii) Tenant continues during the balance of the Term to satisfy all of its obligations under the Lease as they come due.

(d) **Improper Transfer**. Tenant shall assign, sublease or otherwise transfer or attempt to transfer all or any portion of Tenant' s interest in this Lease or the Premises except as expressly permitted herein and such assignment, sublease or other transfer is not voided ab initio within 5 business days after Tenant becomes aware that such assignment, sublease or other transfer was not expressly permitted under this Lease. Tenant' s interest in this Lease shall be attached, executed upon, or otherwise judicially seized and such action is not released within 90 days of the action.

(e) **Liens**. Tenant shall fail to discharge, bond over in a manner reasonably acceptable to Landlord or otherwise obtain the release of any lien placed upon the Premises in violation of this Lease within 15 business days after Tenant' s receipt of notice that any such lien is filed against the Premises.

(f) **Insolvency Events**. Tenant shall: (A) make a general assignment for the benefit of creditors; (B) commence any case, proceeding or other action seeking to have an order for relief entered on its behalf as a debtor or to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, liquidation, dissolution or composition of it or its debts or seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or of any substantial part of its property (collectively a "**Proceeding for Relief**"); (C) become the subject of any Proceeding for Relief which is not dismissed within 90 days of its filing or entry; or (D) be dissolved or otherwise fail to maintain its legal existence (if Tenant is a corporation, partnership or other entity) and, in the case of a failure to maintain Tenant' s legal existence, such failure is not cured within 5 business days after Tenant becomes aware of such failure.

(g) **Estoppel Certificate or Subordination Agreement**. Tenant fails to execute any document required from Tenant under Sections 23 or 27 within 5 business days after a second notice requesting such document.

(h) **Other Defaults**. Tenant shall fail to comply with any provision of this Lease other than those specifically referred to in this Section 20, and, except as otherwise expressly provided herein, such failure shall continue for a period of 10 business days after written notice thereof from Landlord to Tenant.

Any notice given under Section 20(h) hereof shall: (i) specify the alleged default, (ii) demand that Tenant cure such default, (iii) be in lieu of, and not in addition to, or shall be deemed to be, any notice required under any provision of applicable law, and (iv) not be deemed a forfeiture or a termination of this Lease unless Landlord elects otherwise in such notice; provided that if the nature of Tenant' s default pursuant to Section 20(h) is such that it cannot be cured by the payment of money and reasonably requires more than 10 business days to cure, then Tenant shall not be deemed to be in default if Tenant commences such cure within said 10 business day period and thereafter diligently prosecutes the same to completion;

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provided, however, that, upon request by Landlord from time to time, Tenant shall provide Landlord with detailed written status reports regarding the status of such cure and the actions being taken by Tenant.

21. **Landlord's Remedies**.

(a) **Payment By Landlord; Interest**. All covenants and agreements to be kept or performed by Tenant under this Lease shall be performed by Tenant at Tenant' s sole cost and expense and without any reduction of Rent, If Tenant shall fail to perform any obligation under this Lease and such failure shall continue in excess of the time allowed under Section 20 above, unless a specific time period is otherwise stated in this Lease, Landlord may, without waiving or releasing any obligation of Tenant hereunder, make such payment or perform such act. All sums so paid or incurred by Landlord, together with interest thereon, from the date such sums were paid or incurred, at the annual rate equal to 12% per annum or the highest rate permitted by law (the "**Default Rate**"), whichever is less, shall be payable to Landlord on demand as Additional Rent.

(b) **Late Payment Rent**. Late payment by Tenant to Landlord of Rent and other sums due will cause Landlord to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult and impracticable to ascertain. Such costs include, but are not limited to, processing and accounting charges and late charges which may be imposed on Landlord under any Mortgage covering the Premises. Therefore, if any installment of Rent due from Tenant is not received by Landlord within 5 business days after the date such payment is due, Tenant shall pay to Landlord an additional sum equal to 4% of the overdue Rent as a late charge. The parties agree that this late charge represents a fair and reasonable estimate of the costs Landlord will incur by reason of late payment by Tenant. Notwithstanding the foregoing, Landlord shall waive the imposition of such late charge for the first late payment of Rent due hereunder in any calendar year of the Term. In addition to the late charge, Rent not paid when due shall bear interest at the Default Rate from the 5th business day after the date due until paid.

(c) **Remedies**. Upon the occurrence of a Default, Landlord, at its option, without further notice or demand to Tenant (unless required by Legal Requirements), shall have in addition to all other rights and remedies provided in this Lease, at law or in equity, the option to pursue any one or more of the following remedies, each and all of which shall be cumulative and nonexclusive, without any notice or demand whatsoever.

(i) Terminate this Lease, or at Landlord' s option if permitted by Legal Requirements, Tenant' s right to possession only, in which event Tenant shall immediately surrender the Premises to Landlord, and if Tenant fails to do so, Landlord may, without prejudice to any other remedy which it may have for possession or arrearages in rent, enter upon and take possession of the Premises and expel or remove Tenant and any other person who may be occupying the Premises or any part thereof, without being liable for prosecution or any claim or damages therefor;

(ii) Upon any termination of this Lease, whether pursuant to the foregoing Section 21(c)(i) or otherwise, Landlord may recover from Tenant the following:

(A) The worth at the time of award of any unpaid rent which has been earned at the time of such termination; plus

(B) The worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus

(C) The worth at the time of award of the amount by which the unpaid rent for the balance of the Term after the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus

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(D) Any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant' s failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom; and

(E) At Landlord' s election, except as otherwise expressly provided for to the contrary in this Lease, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable law.

The term "**rent**" as used in this Section 21 shall be deemed to be and to mean all sums of every nature required to be paid by Tenant pursuant to the terms of this Lease, whether to Landlord or to others. As used in Sections 21(c)(ii)(A) and (B), above, the "**worth at the time of award**" shall be computed by allowing interest at the Default Rate. As used in Section 21(c)(ii)(C) above, the "**worth at the time of award**" shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus 1%.

(iii) Landlord may continue this Lease in effect after Tenant' s Default and recover rent as it becomes due (Landlord and Tenant hereby agreeing that Tenant has the right to sublet or assign hereunder, subject only to reasonable limitations). Accordingly, if Landlord does not elect to terminate this Lease following a Default by Tenant, Landlord may, from time to time, without terminating this Lease, enforce all of its rights and remedies hereunder, including the right to recover all Rent as it becomes due.

(iv) Whether or not Landlord elects to terminate this Lease following a Default by Tenant, Landlord shall have the right to terminate any and all subleases, licenses, concessions or other consensual arrangements for possession entered into by Tenant and affecting the Premises or may, in Landlord' s sole discretion, succeed to Tenant' s interest in such subleases, licenses, concessions or arrangements. Upon Landlord' s election to succeed to Tenant' s interest in any such subleases, licenses, concessions or arrangements, Tenant shall, as of the date of notice by Landlord of such election, have no further right to or interest in the rent or other consideration receivable thereunder.

(v) Independent of the exercise of any other remedy of Landlord hereunder or under applicable law, Landlord may conduct an environmental test of the Premises as generally described in Section 30(d) hereof, at Tenant' s expense.

(d) **Effect of Exercise**. Exercise by Landlord of any remedies hereunder or otherwise available shall not be deemed to be an acceptance of surrender of the Premises and/or a termination of this Lease by Landlord, it being understood that such surrender and/or termination can be effected only by the express written agreement of Landlord and Tenant. Any law, usage, or custom to the contrary notwithstanding, Landlord and Tenant shall each have the right at all times to enforce the provisions of this Lease in strict accordance with the terms hereof; and the failure of Landlord or Tenant at any time to enforce its rights under this Lease strictly in accordance with same shall not be construed as having created a custom in any way or manner contrary to the specific terms, provisions, and covenants of this Lease or as having modified the same and shall not be deemed a waiver of Landlord' s or Tenant' s right to enforce one or more of its rights in connection with any subsequent default. A receipt by Landlord of Rent or other payment with knowledge of the breach of any covenant hereof shall not be deemed a waiver of such breach, and no waiver by Landlord of any provision of this Lease shall be deemed to have been made unless expressed in writing and signed by Landlord. To the greatest extent permitted by law, Tenant waives all right of redemption in case Tenant shall be dispossessed by a judgment or by warrant of any court or judge. Any reletting of the Premises or any portion thereof shall be on such terms and conditions as Landlord in its sole discretion may determine. Landlord shall not be liable for, nor shall Tenant' s obligations hereunder be diminished because of, Landlord' s failure to relet the Premises or collect rent due in respect of such reletting or otherwise to mitigate any damages arising by reason of Tenant' s Default. Landlord shall, however, use reasonable efforts to mitigate the damages arising by reason of the termination of this Lease as a result of a Default by Tenant; provided, however, that in no

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event shall mitigation require Landlord to consider, among other things, (i) any tenant which does not satisfy Landlord' s then underwriting criteria, (ii) subdividing the Premises unless Landlord elects to do so, (iii) any change in use of the Premises or any alterations which would lessen the value of the leasehold improvements, (iv) granting any tenant improvement allowances, free rent or other lease concessions, or (v) or accepting any tenant if Landlord would have the right to reject such tenant if such tenant were a proposed assignee or sublessee of Tenant. Notwithstanding any contrary provision of this Lease, neither Landlord nor Tenant shall be liable to the other party for any consequential damages, loss of business or profit for a breach or default under this Lease; provided that this sentence shall not limit Landlord' s damages (x) as expressly provided for in Section 8 and/or (y) as provided for in this Section 21 (but expressly excluding, however, Section 21(c)(ii)(E)).

22. **Assignment and Subletting**.

(a) **General Prohibition**. Without Landlord' s prior written consent subject to and on the conditions described in this Section 22, Tenant shall not, directly or indirectly, voluntarily or by operation of law, assign this Lease or sublease the Premises or any part thereof or mortgage, pledge, or hypothecate its leasehold interest or grant any concession or license within the Premises, and any attempt to do any of the foregoing shall be void and of no effect.

(b) **Permitted Transfers**. If Tenant desires to assign, sublease, hypothecate or otherwise transfer this Lease or sublet the Premises other than pursuant to a Permitted Assignment (as defined below), then at least 15 business days, but not more than 120 days, before the date Tenant desires the assignment or sublease to be effective (the "**Assignment Date**"), Tenant shall give Landlord a notice (the "**Assignment Notice**") containing such information about the proposed assignee or sublessee, including the proposed use of the Premises and any Hazardous Materials, if any, proposed to be used, stored handled, treated, generated in or released or disposed of from the Premises, the Assignment Date, any relationship between Tenant and the proposed assignee or sublessee, and all material terms and conditions of the proposed assignment or sublease, including a copy of any proposed assignment or sublease in its current draft (along with revised drafts as the same are updated and, when ready, the proposed final form), and such other information as Landlord may deem reasonably necessary or appropriate to its consideration whether to grant its consent. Landlord may, by giving written notice to Tenant within 15 business days after receipt of the Assignment Notice along with all required information: (i) grant such consent, or (ii) refuse such consent, in its reasonable discretion. Among other reasons, it shall be reasonable for Landlord to withhold its consent in any of these instances: (1) the proposed assignee or subtenant is a governmental agency; (2) in Landlord' s reasonable judgment, the use of the Premises by the proposed assignee or subtenant would entail any alterations that would lessen the value of the leasehold improvements in the Premises, unless Tenant agrees, if requested to do so by Landlord, to restore the Premises to its condition prior to such alteration before the expiration of the Term and Tenant provides Landlord with security reasonably satisfactory to Landlord to secure such obligation in the event Tenant fails to perform such obligation; (3) Landlord has experienced previous material defaults by or is in litigation with the proposed assignee or subtenant; and (4) the proposed assignee or subtenant is an entity with whom Landlord is then negotiating to lease space in the Project (as evidenced by an exchange of proposals). Landlord shall respond to each of Tenant' s Assignment Notice requests within 15 business days after Landlord' s receipt of such Assignment Notice request along with all documentation required to be delivered hereunder. If Landlord fails to respond within such 15 business day period, then Tenant shall provide Landlord with a second written notice stating in bold and all caps 12 point font that Landlord' s failure to respond to Tenant' s Assignment Notice request within 5 business days after Landlord' s receipt of the second notice shall be deemed approval by Landlord, and if Landlord does not respond within such 5 business day period, then Landlord shall be deemed to have approved such Assignment Notice request. Tenant shall reimburse Landlord for Landlord' s reasonable out-of-pocket expenses incurred in connection with its consideration of any Assignment Notice and/or its preparation or review of any consent documents (not to exceed $2,500 per Assignment Notice request). Notwithstanding the foregoing, Landlord' s consent to an assignment of this Lease or a subletting of any portion of the Premises to any entity controlling, controlled by or under common control with Tenant (a "**Control Permitted Assignment**") shall not be required, provided that Landlord shall have the right to

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approve the form of any such sublease or assignment. In addition, Tenant shall have the right to assign this Lease, upon 30 days prior written notice to Landlord but without obtaining Landlord' s prior written consent, to a corporation or other entity which is a successor-in-interest to Tenant, by way of merger, consolidation or corporate reorganization, or by the purchase of all or substantially all of the assets or the ownership interests of Tenant provided that (i) such merger or consolidation, or such acquisition or assumption, as the case may be, is for a good business purpose and not principally for the purpose of transferring the Lease, and (ii) the net worth (as determined in accordance with generally accepted accounting principles ("**GAAP**")) of the assignee is not less than the Minimum Net Worth Amount (as determined in accordance with GAAP), and (iii) such assignee shall agree in writing to assume all of the terms, covenants and conditions of this Lease arising after the effective date of the assignment (a "**Corporate Permitted Assignment**"). Control Permitted Assignments and Corporate Permitted Assignments are hereinafter referred to as "**Permitted Assignments**." As used in this Lease, (A) "**Minimum Net Worth Amount**" shall mean $750,000,000 as of the date of this Lease which amount shall be subject to annual CPI increases on each annual anniversary of the date of this Lease, and (B) "**CPI**" shall mean the Consumer Price Index-All Urban Consumers-San Diego, All Items" compiled by the U.S. Department of Labor, Bureau of Labor Statistics, (1982-84 = 100) or, if a substantial change is made to such index or it is ceases to be published, the parties shall select a reasonably acceptable substitute.

Notwithstanding anything to the contrary contained herein, a grant by Tenant of a license or sublease (i) with respect to individual offices within the Premises on an undemised basis to affiliates of Tenant ("**Tenant Affiliate**") or, (ii) with respect to up to 10% of the Premises to clients or others having a business relationship with Tenant (each, a "**Relationship Party**"), shall not constitute an assignment or subletting requiring Landlord consent under this Section 22; provided that any such Tenant Affiliate or Relationship Party that is subject to a sublease (as opposed to a license) with Tenant shall execute and comply with the terms of Landlord' s form of consent to sublease subject to those changes proposed by Tenant which are acceptable to Landlord, in Landlord' s reasonable discretion. Notwithstanding anything to the contrary contained herein, Tenant shall be fully responsible for the acts of the parties entering the Premises pursuant to the immediately preceding sentence and Landlord shall have no liability to or in connection with such parties.

(c) **Additional Conditions**. As a condition to any such assignment or subletting, whether or not Landlord' s consent is required, Landlord may require:

(i) that any assignee or subtenant agree, in writing at the time of such assignment or subletting, that if Landlord gives such party notice that Tenant is in default under this Lease, such party shall thereafter make all payments otherwise due Tenant directly to Landlord, which payments will be received by Landlord without any liability except to credit such payment against those due under the Lease, and any such third party shall agree to attorn to Landlord or its successors and assigns should this Lease be terminated for any reason; provided, however, in no event shall Landlord or its successors or assigns be obligated to accept such attornment; and

(ii) A list of Hazardous Materials, certified by the proposed assignee or sublessee to be true and correct, which the proposed assignee or sublessee intends to use, store, handle, treat, generate in or release or dispose of from the Premises, together with copies of all documents relating to such use, storage, handling, treatment, generation, release or disposal of Hazardous Materials by the proposed assignee or subtenant in the Premises or on the Project, prior to the proposed assignment or subletting, including, without limitation: permits; approvals; reports and correspondence; storage and management plans; plans relating to the installation of any storage tanks to be installed in or under the Project (provided, said installation of tanks shall only be permitted after Landlord has given its written consent to do so, which consent may be withheld in Landlord' s sole and absolute discretion); and all closure plans or any other documents required by any and all federal, state and local Governmental Authorities for any storage tanks installed in, on or under the Project for the closure of any such tanks. Neither Tenant nor any such proposed assignee or subtenant is required, however, to provide Landlord with any

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portion(s) of the such documents containing information of a proprietary nature which, in and of themselves, do not contain a reference to any Hazardous Materials or hazardous activities.

(d) **No Release of Tenant, Sharing of Excess Rents**. Notwithstanding any assignment or subletting, Tenant shall at all times remain fully and primarily responsible and liable for the payment of Rent and for compliance with all of Tenant' s other obligations under this Lease. If the Rent due and payable by a sublessee or assignee (or a combination of the rental payable under such sublease or assignment plus any bonus or other consideration therefor or incident thereto in any form) exceeds the sum of the rental payable under this Lease (excluding however, any Rent payable under this Section) and (i) any changes, alterations and improvements to the Premises in connection with such sublease or assignment, (ii) any space planning, architectural or design fees or other expenses incurred in marketing such space or in connection with such sublease or assignment, (iii) any improvement allowance, rent abatement or other monetary concessions provided by Tenant to the assignee or sublessee, (iv) any brokerage commissions incurred by Tenant in connection with such sublease or assignment, (v) any attorneys' fees incurred by Tenant in connection with such sublease or assignment, (vi) any lease takeover costs incurred by Tenant in connection with such sublease or assignment, and (vii) any costs of advertising the space which is the subject of such sublease or assignment ("**Excess Rent**"), then Tenant shall be bound and obligated to pay Landlord as Additional Rent hereunder 50% of such Excess Rent (after first deducting the costs described in clauses (i) through (vii) above) within 10 days following receipt thereof by Tenant. If Tenant shall sublet the Premises or any part thereof, Tenant hereby immediately and irrevocably assigns to Landlord, as security for Tenant' s obligations under this Lease, all rent from any such subletting, and Landlord as assignee and as attorney-in-fact for Tenant, or a receiver for Tenant appointed on Landlord' s application, may collect such rent and apply it toward Tenant' s obligations under this Lease; except that, until the occurrence of a Default, Tenant shall have the right to collect such rent.

(e) **No Waiver**. The consent by Landlord to an assignment or subletting shall not relieve Tenant or any assignees of this Lease or any sublessees of the Premises from obtaining the consent of Landlord to any further assignment or subletting nor shall it release Tenant or any assignee of Tenant from full and primary liability under the Lease. The acceptance of Rent hereunder, or the acceptance of performance of any other term, covenant, or condition thereof, from any other person or entity shall not be deemed to be a waiver of any of the provisions of this Lease or a consent to any subletting, assignment or other transfer of the Premises.

23. **Estoppel Certificate**. Tenant shall, within 10 business days of written notice from Landlord, execute, acknowledge and deliver a statement in writing in any form reasonably requested by a proposed lender or purchaser, (i) certifying that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification and certifying that this Lease as so modified is in full force and effect) and the dates to which the rental and other charges are paid in advance, if any, (ii) acknowledging that there are not any uncured defaults on the part of Landlord hereunder, or specifying such defaults if any are claimed, and (iii) setting forth such further information with respect to the status of this Lease or the Premises as may be reasonably requested thereon. Any such statement may be relied upon by any prospective purchaser or encumbrancer of all or any portion of the real property of which the Premises are a part. Following the original 10 business day period provided for in this Section 23, Tenant' s failure to deliver such statement within 5 business days after a second written notice from Landlord shall, at the option of Landlord, constitute a Default under this Lease, and, in any event, shall be conclusive upon Tenant that the Lease is in full force and effect and without modification except as may be represented by Landlord in any certificate prepared by Landlord and delivered to Tenant for execution.

Upon request by Tenant, Landlord will similarly execute an estoppel certificate: (i) certifying that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification and certifying that this Lease as so modified is in full force and effect) and the dates to which the rental and other charges are paid in advanced, if any, (ii) acknowledging that there are not, to Landlord' s knowledge, any uncured defaults on the part of Tenant hereunder, or specifying such defaults if any are claimed and (iii) setting forth such further information with respect to the status of this Lease as may be reasonably requested thereon.

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24. **Quiet Enjoyment**. So long as Tenant is not in Default under this Lease, Tenant shall, subject to the terms of this Lease, at all times during the Term, have peaceful and quiet enjoyment of the Premises against any person claiming by, through or under Landlord.

25. **Prorations**. All prorations required or permitted to be made hereunder shall be made on the basis of a 360 day year and 30 day months.

26. **Rules and Regulations**. Tenant shall, at all times during the Term and any extension thereof, comply with all commercially reasonable rules and regulations at any time or from time to time established by Landlord covering use of the Premises and the Project. The current rules and regulations are attached hereto as **Exhibit E** and Landlord shall provide Tenant with written notice of any updates or amendments thereto. If there is any conflict between said rules and regulations and other provisions of this Lease, the terms and provisions of this Lease shall control. Landlord shall not have any liability or obligation for the breach of any rules or regulations by other tenants in the Project. Landlord shall not enforce such rules and regulations in a discriminatory manner by enforcing certain rules and regulations only against Tenant and not any other tenants, if any, at the Project.

27. **Subordination**. This Lease and Tenant' s interest and rights hereunder are hereby made and shall be subject and subordinate at all times to the lien of any Mortgage now existing or hereafter created on or against the Project or the Premises, and all amendments, restatements, renewals, modifications, consolidations, refinancing, assignments and extensions thereof, without the necessity of any further instrument or act on the part of Tenant; provided, however that so long as there is no Default hereunder, Tenant' s right to possession of the Premises shall not be disturbed by the Holder of any such Mortgage. Tenant agrees, at the election of the Holder of any such Mortgage, to attorn to any such Holder. Tenant agrees upon demand to execute, acknowledge and deliver such commercially reasonable instruments, confirming such subordination, and such commercially reasonable instruments of attornment as shall be requested by any such Holder, provided any such instruments contain commercially reasonable non-disturbance provisions assuring Tenant' s quiet enjoyment of the Premises as set forth in Section 24 hereof. Notwithstanding the foregoing, any such Holder may at any time subordinate its Mortgage to this Lease, without Tenant' s consent, by notice in writing to Tenant, and thereupon this Lease shall be deemed prior to such Mortgage without regard to their respective dates of execution, delivery or recording and in that event such Holder shall have the same rights with respect to this Lease as though this Lease had been executed prior to the execution, delivery and recording of such Mortgage and had been assigned to such Holder. The term "**Mortgage**" whenever used in this Lease shall be deemed to include deeds of trust, security assignments and any other encumbrances, and any reference to the "**Holder**" of a Mortgage shall be deemed to include the beneficiary under a deed of trust. As of the date of this Lease, there is no existing Mortgage encumbering the Project. As a condition precedent to Tenant' s execution of a written agreement subordinating this Lease to any future Mortgage, such agreement shall be required to contain commercially reasonable non-disturbance and attornment provisions and such agreement shall be executed by the Holder of any such future Mortgage with a lien on the Project and the same shall provide, among other things, that so long as Tenant is not in Default of its obligations under this Lease, foreclosure or other enforcement of such Mortgage shall not terminate this Lease and the successor to Landlord' s interest in the Project shall recognize this Lease and Tenant' s right to possession of the Premises. Tenant shall be entitled, at Tenant' s sole cost and expense, to record any such subordination non-disturbance and attornment agreement promptly after full execution and delivery of such agreement.

28. **Surrender**. Upon the expiration of the Term or earlier termination of Tenant' s right of possession, Tenant shall surrender the Premises to Landlord in the same condition as received, subject to any Alterations or Installations permitted by Landlord to remain in the Premises, free of Hazardous Materials brought upon, kept, used, stored, handled, treated, generated in, or released or disposed of from, the Premises by any person other than a Landlord Party (collectively, "**Tenant HazMat Operations**") and released of all Hazardous Materials Clearances, broom clean, ordinary wear and tear and casualty loss and condemnation covered by Sections 18 and 19 excepted. At least 3 months prior to the surrender of the Premises, Tenant shall deliver to Landlord a narrative description of the actions

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proposed (or required by any Governmental Authority) to be taken by Tenant in order to surrender the Premises (including any Installations permitted by Landlord to remain in the Premises) at the expiration or earlier termination of the Term, free from any residual impact from the Tenant HazMat Operations and otherwise released for unrestricted use and occupancy (the "**Surrender Plan**"). Such Surrender Plan shall be accompanied by a current listing of (i) all Hazardous Materials licenses and permits held by or on behalf of any Tenant Party with respect to the Premises, and (ii) all Hazardous Materials used, stored, handled, treated, generated, released or disposed of from the Premises, and shall be subject to the review and approval of Landlord' s environmental consultant. In connection with the review and approval of the Surrender Plan, upon the request of Landlord, Tenant shall deliver to Landlord or its consultant such additional non-proprietary information concerning Tenant HazMat Operations as Landlord shall request. On or before such surrender, Tenant shall deliver to Landlord evidence that the approved Surrender Plan shall have been satisfactorily completed and Landlord shall have the right, subject to reimbursement at Tenant' s expense as set forth below, to cause Landlord' s environmental consultant to inspect the Premises and perform such additional procedures as may be deemed reasonably necessary to confirm that the Premises are, as of the effective date of such surrender or early termination of the Lease, free from any residual impact from Tenant HazMat Operations. Tenant shall reimburse Landlord, as Additional Rent, for the actual out-of pocket expense incurred by Landlord for Landlord' s environmental consultant to review and approve the Surrender Plan and to visit the Premises and verify satisfactory completion of the same, which cost shall not exceed $5,000. Landlord shall have the unrestricted right to deliver such Surrender Plan and any report by Landlord' s environmental consultant with respect to the surrender of the Premises to third parties.

If Tenant shall fail to prepare or submit a Surrender Plan approved by Landlord, or if Tenant shall fail to complete the approved Surrender Plan, or if such Surrender Plan, whether or not approved by Landlord, shall fail to adequately address any residual effect of Tenant HazMat Operations in, on or about the Premises, Landlord shall have the right to take such actions as Landlord may deem reasonable or appropriate to assure that the Premises and the Project are surrendered free from any residual impact from Tenant HazMat Operations, the actual, documented cost of which actions shall be reimbursed by Tenant as Additional Rent, without regard to the limitation set forth in the first paragraph of this Section 28.

Tenant shall immediately return to Landlord all keys and/or access cards to parking, the Project, restrooms or all or any portion of the Premises furnished to or otherwise procured by Tenant. Any Tenant' s Property, Alterations and property not so removed by Tenant as permitted or required herein shall be deemed abandoned and may be stored, removed, and disposed of by Landlord at Tenant' s expense, and Tenant waives all claims against Landlord for any damages resulting from Landlord' s retention and/or disposition of such property. All obligations of Tenant and Landlord hereunder not fully performed as of the termination of the Term, including the obligations of Tenant under Section 30 hereof, shall survive the expiration or earlier termination of the Term, including, without limitation, indemnity obligations, payment obligations with respect to Rent and obligations concerning the condition and repair of the Premises.

29. **Waiver of Jury Trial**. TO THE EXTENT PERMITTED BY LAW, TENANT AND LANDLORD WAIVE ANY RIGHT TO TRIAL BY JURY OR TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE, WHETHER SOUNDING IN CONTRACT, TORT, OR OTHERWISE, BETWEEN LANDLORD AND TENANT ARISING OUT OF THIS LEASE OR ANY OTHER INSTRUMENT, DOCUMENT, OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH OR THE TRANSACTIONS RELATED HERETO.

30. **Environmental Requirements**.

(a) **Prohibition/Compliance/Indemnity**. Tenant shall not cause or permit any Hazardous Materials (as hereinafter defined) to be brought upon, kept, used, stored, handled, treated, generated in or about, or released or disposed of from, the Premises or the Project in violation of applicable Environmental Requirements (as hereinafter defined) by Tenant or any Tenant Party. If Tenant breaches

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the obligation stated in the preceding sentence, or if the presence of Hazardous Materials in the Premises during the Term or any holding over results in contamination of the Premises, the Project or any adjacent property or if contamination of the Premises, the Project or any adjacent property by Hazardous Materials brought into, kept, used, stored, handled, treated, generated in or about, or released or disposed of from, the Premises by anyone other than Landlord and Landlord' s employees, agents and contractors otherwise occurs during the Term or any holding over, Tenant hereby indemnifies and shall defend and hold Landlord, its officers, directors, employees, agents and contractors harmless from any and all actions (including, without limitation, remedial or enforcement actions of any kind, administrative or judicial proceedings, and orders or judgments arising out of or resulting therefrom), costs, claims, damages (including, without limitation, punitive damages and damages based upon diminution in value of the Premises or the Project, or the loss of, or restriction on, use of the Premises or any portion of the Project), expenses (including, without limitation, attorneys' , consultants' and experts' fees, court costs and amounts paid in settlement of any claims or actions), fines, forfeitures or other civil, administrative or criminal penalties, injunctive or other relief (whether or not based upon personal injury, property damage, or contamination of, or adverse effects upon, the environment, water tables or natural resources), liabilities or losses (collectively, "**Environmental Claims**") which arise during or after the Term as a result of such contamination. This indemnification of Landlord by Tenant includes, without limitation, costs incurred in connection with any investigation of site conditions or any cleanup, treatment, remedial, removal, or restoration work required by any federal, state or local Governmental Authority because of Hazardous Materials present in the air, soil or ground water above, on, or under the Premises. Without limiting the foregoing, if the presence of any Hazardous Materials on the Premises, the Project or any adjacent property caused by Tenant or any Tenant Party results in any contamination of the Premises, the Project or any adjacent property, Tenant shall promptly take all actions at its sole expense and in accordance with applicable Environmental Requirements as are necessary to return the Premises, the Project or any adjacent property to the condition existing prior to the time of such contamination, provided that Landlord' s approval of such action shall first be obtained, which approval shall not unreasonably be withheld so long as such actions would not potentially have any material adverse long-term or short-term effect on the Premises or the Project. Notwithstanding anything to the contrary contained in Section 28 or this Section 30, Tenant shall not be responsible for, and the indemnification and hold harmless obligation set forth in this paragraph shall not apply to (i) contamination in the Premises which Tenant can prove existed in the Premises immediately prior to the date Building 1 and Building 2 are delivered to Tenant, (ii) the presence of any Hazardous Materials in the Premises which Tenant can prove migrated from offsite to the Project, (iii) contamination caused by Landlord or any Landlord' s employees, agents and contractors, or (iv) contamination in the Common Areas which Tenant can prove was caused by any party other than Tenant or any Tenant Party during any period where any portion of the Project is leased by Landlord to any other tenant(s), unless in any case, the presence of such Hazardous Materials was caused, contributed to or exacerbated by Tenant or any Tenant Party.

(b) **Business**. Landlord acknowledges that it is not the intent of this Section 30 to prohibit Tenant from using the Premises for the Permitted Use. Tenant may operate its business according to prudent industry practices so long as the use or presence of Hazardous Materials is strictly and properly monitored according to all then applicable Environmental Requirements. As a material inducement to Landlord to allow Tenant to use Hazardous Materials in connection with its business, Tenant agrees to deliver to Landlord prior to the Initial Commencement Date a list identifying each type of Hazardous Materials to be brought upon, kept, used, stored, handled, treated, generated on, or released or disposed of from, the Premises and setting forth any and all governmental approvals or permits required in connection with the presence, use, storage, handling, treatment, generation, release or disposal of such Hazardous Materials on or from the Premises ("**Hazardous Materials List**"). Tenant shall deliver to Landlord an updated Hazardous Materials List at least once a year and shall also deliver an updated list before any new Hazardous Material is brought onto, kept, used, stored, handled, treated, generated on, or released or disposed of from, the Premises. Tenant shall deliver to Landlord true and correct copies of the following documents (the "**Haz Mat Documents**") relating to the use, storage, handling, treatment, generation, release or disposal of Hazardous Materials prior to the Commencement Date, or if unavailable at that time, concurrent with the receipt from or submission to a Governmental Authority: permits; approvals; reports and correspondence; storage and management plans, notice of violations of

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any Legal Requirements; plans relating to the installation of any storage tanks to be installed in or under the Project (provided, said installation of tanks shall only be permitted after Landlord has given Tenant its written consent to do so, which consent may be withheld in Landlord' s sole and absolute discretion); all closure plans or any other documents required by any and all federal, state and local Governmental Authorities for any storage tanks installed in, on or under the Project for the closure of any such tanks; and a Surrender Plan (to the extent surrender in accordance with Section 28 cannot be accomplished in 3 months). Tenant is not required, however, to provide Landlord with any portion(s) of the Haz Mat Documents containing information of a proprietary nature which, in and of themselves, do not contain a reference to any Hazardous Materials or hazardous activities. It is not the intent of this Section to provide Landlord with information which could be detrimental to Tenant' s business should such information become possessed by Tenant' s competitors.

(c) **Tenant Representation and Warranty**. Tenant hereby represents and warrants to Landlord that (i) Tenant has not been required by any prior landlord, lender or Governmental Authority at any time to take remedial action in connection with Hazardous Materials contaminating a property which contamination was permitted by Tenant or resulted from Tenant' s action or use of the property in question, and (ii) Tenant is not subject to any enforcement order issued by any Governmental Authority in connection with the use, storage, handling, treatment, generation, release or disposal of Hazardous Materials (including, without limitation, any order related to the failure to make a required reporting to any Governmental Authority).

(d) **Testing**. Landlord shall have the right to conduct annual tests of the Premises to determine whether any contamination of the Premises or the Project has occurred as a result of Tenant' s use. Tenant shall be required to pay the cost of such annual test of the Premises if there is a violation of this Section 30 or if contamination for which Tenant is responsible under this Section 30 is identified; provided, however, that if Tenant conducts, at Tenant' s cost, its own tests of the Premises using third party contractors and test procedures acceptable to Landlord which tests are certified to Landlord, Landlord shall accept such tests in lieu of the annual tests. In addition, at any time, and from time to time, prior to the expiration or earlier termination of the Term, Landlord shall have the right to conduct appropriate tests of the Premises and the Project to determine if contamination has occurred as a result of Tenant' s use of the Premises. In connection with such testing, upon the request of Landlord, Tenant shall deliver to Landlord or its consultant such non-proprietary information concerning the use of Hazardous Materials in or about the Premises by Tenant or any Tenant Party. If contamination has occurred for which Tenant is liable under this Section 30, Tenant shall pay all costs to conduct such tests. If no such contamination is found, Landlord shall pay the costs of such tests (which shall not constitute an Operating Expense). Landlord shall provide Tenant with a copy of all third party, non-confidential reports and tests of the Premises made by or on behalf of Landlord during the Term without representation or warranty and subject to a confidentiality agreement. Tenant shall, at its sole cost and expense, promptly and satisfactorily remediate any environmental conditions identified by such testing and for which Tenant is responsible under this Lease in accordance with all Environmental Requirements. Landlord' s receipt of or satisfaction with any environmental assessment in no way waives any rights which Landlord may have against Tenant.

(e) **Intentionally Omitted**.

(f) **Underground Tanks**. If underground or other storage tanks storing Hazardous Materials located on the Premises or the Project are used by Tenant or are hereafter placed on the Premises or the Project by Tenant, Tenant shall install, use, monitor, operate, maintain, upgrade and manage such storage tanks, maintain appropriate records, obtain and maintain appropriate insurance, implement reporting procedures, properly close any underground storage tanks, and take or cause to be taken all other actions necessary or required under applicable state and federal Legal Requirements, as such now exists or may hereafter be adopted or amended in connection with the installation, use, maintenance, management, operation, upgrading and closure of such storage tanks.

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(g) **Tenant's Obligations**. Tenant' s and Landlord' s obligations under thisSection 30 shall survive the expiration or earlier termination of the Lease. During any period of time after the expiration or earlier termination of this Lease required by Tenant or Landlord to complete the removal from the Premises of any Hazardous Materials (including, without limitation, the release and termination of any licenses or permits restricting the use of the Premises and the completion of the approved Surrender Plan), Tenant shall continue to pay the full Rent during such period in accordance with this Lease for any portion of the Premises not relet by Landlord in Landlord' s sole discretion, which Rent shall be prorated daily.

(h) **Definitions**. As used herein, the term "**Environmental Requirements**" means all applicable present and future statutes, regulations, ordinances, rules, codes, judgments, orders or other similar enactments of any Governmental Authority regulating or relating to health, safety, or environmental conditions on, under, or about the Premises or the Project, or the environment, including without limitation, the following: the Comprehensive Environmental Response, Compensation and Liability Act; the Resource Conservation and Recovery Act; and all state and local counterparts thereto, and any regulations or policies promulgated or issued thereunder. As used herein, the term **"Hazardous Materials**" means and includes any substance, material, waste, pollutant, or contaminant listed or defined as hazardous or toxic, or regulated by reason of its impact or potential impact on humans, animals and/or the environment under any Environmental Requirements, asbestos and petroleum, including crude oil or any fraction thereof, natural gas liquids, liquefied natural gas, or synthetic gas usable for fuel (or mixtures of natural gas and such synthetic gas). As defined in Environmental Requirements, Tenant is and shall be deemed to be the "**operator**" of Tenant' s '**facility**" and the "**owner**" of all Hazardous Materials brought on the Premises by Tenant or any Tenant Party, and the wastes, by-products, or residues generated, resulting, or produced therefrom.

31. **Tenant's Remedies/Limitation of Liability**. Landlord shall not be in default hereunder unless Landlord fails to perform any of its obligations hereunder within 30 days after written notice from Tenant specifying such failure (unless such performance will, due to the nature of the obligation, require a period of time in excess of 30 days, then after such period of time as is reasonably necessary so long as Landlord has commenced the cure and is diligently prosecuting the same to completion)). If Landlord fails to cure a Landlord default after the expiration of all applicable notice and cure periods, Tenant may, except as otherwise provided for in this Lease and subject to any limitations contained in this Lease, exercise all of its rights and remedies provided for in this Lease or at law or in equity for such default. Upon any default by Landlord, Tenant shall give notice by registered or certified mail to any Holder of a Mortgage covering the Premises and to any landlord of any lease of property in or on which the Premises are located and Tenant shall offer such Holder and/or landlord the same cure rights provided to Landlord for a default but also time to obtain possession of the Project by power of sale or a judicial action if such should prove necessary to effect a cure; provided Landlord shall have furnished to Tenant in writing the names and addresses of all such persons who are to receive such notices. All obligations of Landlord hereunder shall be construed as covenants, not conditions. Tenant waives its rights under Legal Requirements relating to a landlord' s duty to maintain its premises in a tenantable condition.

Notwithstanding the foregoing, if Tenant is not maintaining the Project as contemplated pursuant to the second paragraph of Section 13 hereof and any claimed Landlord default hereunder materially and adversely affects Tenant' s ability to conduct its business in the Premises (a "**Material Landlord Default**"), Tenant shall, as soon as reasonably possible, give Landlord written notice of such claim which notice shall specifically state that a Material Landlord Default exists and telephonic notice to Tenant' s principal contact with Landlord. Landlord shall then have 2 business days to commence cure of such claimed Material Landlord Default and shall diligently prosecute such cure to completion. If such claimed Material Landlord Default is not a default by Landlord hereunder and/or is not the responsibility of Landlord under this Lease, Landlord shall be entitled to recover from Tenant, as Additional Rent, any costs incurred by Landlord in connection with such cure in excess of the costs, if any, that Landlord would otherwise have been liable to pay hereunder. If Landlord fails to commence cure of any claimed Material Landlord Default as provided above, Tenant may, following the delivery of a second written notice to Landlord (except in the case of an emergency in which case no additional written notice shall be required but

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Tenant shall use good faith efforts to provide Landlord with verbal notice with written notice to follow) commence and prosecute such cure to completion provided that it does not affect any Building Systems directly affecting other tenants, the structure of any of the Buildings or the Common Areas, and shall be entitled to recover the costs of such cure (but not any consequential or other damages) from Landlord by way of reimbursement from Landlord, to the extent of Landlord' s obligation to cure such claimed Material Landlord Default hereunder. Landlord shall reimburse Tenant for its reasonable costs and expenses incurred to cure the claimed Material Landlord Default within 30 days after Landlord' s receipt of an invoice and evidence of payment of such costs and expenses, together with reasonable documentation substantiating such costs and expenses and delivery to Landlord of unconditional lien waivers from all material suppliers and workmen who supplied materials or performed work associated with such maintenance and/or repairs (the "**Reimbursement Invoice**"). Landlord shall have the right not to reimburse Tenant as provided for in the preceding sentence and instead dispute Tenant' s entitlement to reimbursement, Tenant' s right to perform such repairs and/or maintenance and/or or the amount being requested by Tenant. If Landlord elects, in the exercise of its good faith reasonable discretion, to dispute any of the foregoing matters, Landlord shall notify Tenant in writing of the nature of such dispute within 30 days after receipt of Tenant' s written request for reimbursement. Landlord and Tenant shall meet and discuss the dispute and if Landlord and Tenant fail to reach a resolution of the dispute within 15 days after their meeting, the dispute shall be resolved by arbitration by a single arbitrator with the qualifications and experience appropriate to resolve the matter and appointed pursuant to and acting in accordance with the rules of the American Arbitration Association. If the arbitrator decides in favor of Tenant, then Landlord shall promptly pay the amount of any award to Tenant. If either party is determined by the arbitrator to be the prevailing party, then such party shall be entitled to have its reasonable attorneys' fees and costs in connection with such arbitration paid by the other party. If Landlord has not paid to Tenant in full the amount of any such award plus any attorneys' fees and costs awarded by the arbitrator within 30 days of the date of the arbitrator' s decision, then Tenant shall have the right to set off against the next monthly payments of Base Rent the amount of the award (including any awarded attorneys' fees and costs).

All obligations of Landlord under this Lease will be binding upon Landlord only during the period of its ownership of the Premises and not thereafter. The term "**Landlord**" in this Lease shall mean only the owner for the time being of the Premises. Upon the transfer by such owner of its interest in the Premises and the assumption (in writing) of such owner' s obligations under this Lease thereafter accruing, such owner shall thereupon be released and discharged from all obligations of Landlord thereafter accruing, but such obligations shall be binding during the Term upon each new owner for the duration of such owner' s ownership.

32. **Inspection and Access**. Landlord and Landlord' s representatives agents and contractors may enter the Premises during business hours (i) on not less than 24 hours written notice (which may be by email) for the purpose of inspecting the Premises and showing the Premises to third parties (including, without limitation prospective purchasers or tenants) and (ii) on not less than 72 hours advance written notice (except in the case of emergencies in which case no such notice shall be required and such entry may be at any time) for the purpose of effecting any such repairs or for any other business purpose. Notwithstanding the foregoing, Landlord may only show the Premises to prospective tenants for the Premises during the last 18 months of the Term. Landlord may erect a suitable sign at the Project stating the Premises (or portions thereof) may be available for lease but in no event may Landlord erect such sign sooner than 18 months before the expiration of the Term for any portion of the Premises. If Landlord desires to lease space at the Project (other than the Premises), Landlord may erect a suitable sign at the Project stating that space is or may be available for lease. Landlord may erect a suitable sign at the Project stating the Project is available for sale. Tenant shall at all times, except in the case of emergencies, have the right to escort Landlord or its agents, representatives, contractors or guests while the same are in the Premises, provided such escort does not materially and adversely affect Landlord' s access rights hereunder. Notwithstanding anything to the contrary set forth in this Lease, Tenant may designate by prior written notice to Landlord certain limited areas of the Premises as "Secured Areas" should Tenant require such areas for the purpose of securing certain valuable property or confidential information. Landlord may not enter such Secured Areas except in the case of emergency or in the event

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of a Landlord inspection, in which case Landlord shall provide Tenant with 10 days' prior written notice of the specific date and time of such Landlord inspection.

33. **Security**. Tenant acknowledges and agrees that security devices and services, if any, while intended to deter crime may not in given instances prevent theft or other criminal acts and that Landlord is not providing any security services with respect to the Premises. Tenant agrees that Landlord shall not be liable to Tenant for, and Tenant waives any claim against Landlord with respect to, any loss by theft or any other damage suffered or incurred by Tenant in connection with any unauthorized entry into the Premises or any other breach of security with respect to the Premises. So long as Tenant is the sole tenant of the Project, Tenant shall be permitted with Landlord' s prior approval, which shall not be unreasonably withheld, to install security fencing and gates (including a 24 hour guard), all as reasonably approved by Landlord, at Tenant' s sole cost and expense; provided, however, that Landlord and the Landlord Parties shall at all times have continuous and unfettered access to the Common Areas. Upon Landlord' s written request at the point where Tenant will no longer be the only tenant at the Project, Tenant shall be responsible, at Tenant' s sole cost and expense, for removing such security fencing and gates and restoring the Project to its condition prior the installation of such security fencing and gates. Tenant shall be solely responsible for the personal safety of Tenant' s officers, employees, agents, contractors, guests and invitees while any such person is in, on or about the Premises and/or the Project. Tenant shall at Tenant' s cost obtain insurance coverage to the extent Tenant desires protection against such criminal acts. Tenant shall have the use during the Term of the existing Access Control and Alarm Monitoring System and Closed Circuit Television Surveillance Systems (collectively, the "**Security Systems**") at no additional rental cost to Tenant; provided, however, that Tenant shall be responsible for all maintenance, repairs and replacements to the Security Systems during the Term. Notwithstanding the foregoing, if at any time during the Term any portion of Building 1 and/or Building 2 is leased to any third party(ies), Tenant agrees to cooperate with Landlord and/or adjust its usage of the Security Systems to reasonably address any privacy, confidentiality, security, legal or other reasonable concerns of such third party(ies).

34. **Force Majeure**. Except for the payment of Rent, neither Landlord nor Tenant shall be held responsible or liable for delays in the performance of its obligations hereunder when caused by, related to, or arising out of acts of God, strikes, lockouts, or other labor disputes, embargoes, quarantines, weather, national, regional, or local disasters, calamities, or catastrophes, inability to obtain labor or materials (or reasonable substitutes therefor) at reasonable costs or failure of, or inability to obtain, utilities necessary for performance, governmental restrictions, orders, limitations, regulations, or controls, national emergencies, inability to obtain permits or approvals, including, without limitation, city and public utility approvals beyond the time periods that generally prevail for obtaining such permits and approvals, revocation of permits, enemy or hostile governmental action, terrorism, insurrection, riots, civil disturbance or commotion, fire or other casualty, and other causes or events beyond their reasonable control ("**Force Majeure**").

35. **Brokers**. Landlord and Tenant each represents and warrants that it has not dealt with any broker, agent or other person (collectively, "**Broker**") in connection with this transaction and that no Broker brought about this transaction, other than Cushman & Wakefield of San Diego, Inc. Landlord and Tenant each hereby agree to indemnify and hold the other harmless from and against any claims by any Broker, other than the broker, if any named in this Section 35, claiming a commission or other form of compensation by virtue of having dealt with Tenant or Landlord, as applicable, with regard to this leasing transaction. Landlord shall be responsible for the commission payable to Cushman & Wakefield of San Diego, Inc., arising out of the execution of this Lease in accordance with the terms of a separate written agreement between Cushman & Wakefield of San Diego, Inc., and Landlord. Landlord and Tenant both acknowledge that Cushman & Wakefield of San Diego, Inc., is acting in a dual agency capacity under this Lease. Landlord and Tenant acknowledge and agree with the disclosure and consent to the agency relationship specified.

36. **Limitation on Landlord's Liability**. NOTWITHSTANDING ANYTHING SET FORTH HEREIN OR IN ANY OTHER AGREEMENT BETWEEN LANDLORD AND TENANT TO THE

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CONTRARY: (A) LANDLORD SHALL NOT BE LIABLE TO TENANT OR ANY OTHER PERSON FOR (AND TENANT AND EACH SUCH OTHER PERSON ASSUME ALL RISK OF) LOSS, DAMAGE OR INJURY, WHETHER ACTUAL OR CONSEQUENTIAL TO: TENANT' S PERSONAL PROPERTY OF EVERY KIND AND DESCRIPTION, INCLUDING, WITHOUT LIMITATION TRADE FIXTURES, EQUIPMENT, INVENTORY, SCIENTIFIC RESEARCH, SCIENTIFIC EXPERIMENTS, LABORATORY ANIMALS, PRODUCT, SPECIMENS, SAMPLES, AND/OR SCIENTIFIC, BUSINESS, ACCOUNTING AND OTHER RECORDS OF EVERY KIND AND DESCRIPTION KEPT AT THE PREMISES AND ANY AND ALL INCOME DERIVED OR DERIVABLE THEREFROM; (B) ANY LIABILITY OF LANDLORD HEREUNDER SHALL BE STRICTLY LIMITED SOLELY TO LANDLORD' S INTEREST IN THE PROJECT OR ANY PROCEEDS FROM SALE OR CONDEMNATION THEREOF AND ANY INSURANCE PROCEEDS PAYABLE IN RESPECT OF LANDLORD' S INTEREST IN THE PROJECT OR IN CONNECTION WITH ANY SUCH LOSS; AND (C) IN NO EVENT SHALL ANY PERSONAL LIABILITY BE ASSERTED AGAINST LANDLORD IN CONNECTION WITH THIS LEASE NOR SHALL ANY RECOURSE BE HAD TO ANY OTHER PROPERTY OR ASSETS OF LANDLORD OR ANY OF LANDLORD' S OFFICERS, DIRECTORS, EMPLOYEES, AGENTS OR CONTRACTORS. UNDER NO CIRCUMSTANCES SHALL LANDLORD OR ANY OF LANDLORD' S OFFICERS, DIRECTORS, EMPLOYEES, AGENTS OR CONTRACTORS BE LIABLE FOR INJURY TO TENANT' S BUSINESS OR FOR ANY LOSS OF INCOME OR PROFIT THEREFROM.

NOTWITHSTANDING ANYTHING SET FORTH HEREIN, IN NO EVENT SHALL ANY PERSONAL LIABILITY BE ASSERTED BY LANDLORD AGAINST ANY OF TENANT' S OFFICERS, DIRECTORS OR EMPLOYEES NOR SHALL ANY OF SUCH PARTIES BE PERSONALLY LIABLE FOR INJURY TO LANDLORD' S BUSINESS OR FOR ANY LOSS OF INCOME OR PROFIT THEREFROM.

37. **Severability**. If any clause or provision of this Lease is illegal, invalid or unenforceable under present or future laws, then and in that event, it is the intention of the parties hereto that the remainder of this Lease shall not be affected thereby. It is also the intention of the parties to this Lease that in lieu of each clause or provision of this Lease that is illegal, invalid or unenforceable, there be added, as a part of this Lease, a clause or provision as similar in effect to such illegal, invalid or unenforceable clause or provision as shall be legal, valid and enforceable.

38. **Signs; Exterior Appearance**. If Landlord leases space at the Project to any other tenants, Tenant shall not, without the prior written consent of Landlord, which may be granted or withheld in Landlord' s reasonable discretion: (i) attach any awnings, exterior lights, decorations, balloons, flags, pennants, banners, painting or other projection to any outside wall of the Project, (ii) use any curtains, blinds, shades or screens other than Landlord' s standard window coverings, (iii) coat or otherwise sunscreen the interior or exterior of any windows, (iv) place any bottles, parcels, or other articles on the window sills, (v) place any equipment, furniture or other items of personal property on any exterior balcony, or (vi) paint, affix or exhibit on any part of the Premises or the Project any signs, notices, window or door lettering, placards, decorations, or advertising media of any type which can be viewed from the exterior of the Premises. Interior signs on doors and the directory tablet within the Premises shall be inscribed, painted or affixed for Tenant by Landlord at the sole cost and expense of Tenant. The directory tablet shall be provided exclusively for the display of the name and location of tenants.

Tenant may install, at Tenant' s sole cost and expense, all legally permitted signage bearing Tenant' s name and logo desired by Tenant at the Buildings including, but not limited to, (i) exclusive signage on multiple locations on the Buildings including building top, façade and eyebrow signs, all as may be desired by Tenant and reasonably acceptable to Landlord ("**Building Signs**"), (ii) any existing monument signs at the main entrance to each of the Buildings ("**Building Monument Signs**"), and (iii) any existing monument signs at the Project entrances at Nobel Drive and Judicial Drive ("**Project Monument Signs**"). Tenant acknowledges and agrees that Tenant' s Building Signs, Building Monuments Signs and Project Monument Signs, without limitation, the size, color, type and locations, shall be subject to Landlord' s prior written approval, which shall not be unreasonably withheld, conditioned or delayed and shall be consistent with Landlord' s signage program at the Project and applicable Legal Requirements. Tenant shall at all times have the most prominent location on the

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Building Monument Signs and Project Monument Signs. Tenant shall be responsible, at Tenant' s sole cost and expense, for the maintenance of Tenant' s signage on Tenant' s Building Signs, Building Monument Signs and Project Monument Signs, for the removal of Tenant' s Building Signs and Tenant' s signage on the Building Monument Signs and Project Monument Signs at the expiration or earlier termination of this Lease and for the repair all damage (excluding discoloration of the building facades caused by any Building Signs) resulting from such removal. Tenant' s signage rights on the Project Monument Signs shall become non-exclusive if, at any time during the Term, space in any building at the Project is leased to any third party(ies).

39. **Right to Expand**.

(a) **Expansion in the Project**. Tenant shall have the right, but not the obligation, on or before January 1, 2015 ("**Expansion Right Expiration Date**") to expand the Premises (the "**Expansion Rights**") to include the to be constructed buildings (including any related subterranean parking) contemplated on the project site plan attached hereto as **Exhibit H** ("**Project Site Plan**") as (i) Building 4, which Landlord currently contemplates will contain 1 floor and a total of approximately 30,000 rentable square feet of warehouse space ("**Building 4**"), (ii) Building 5, which Landlord currently contemplates will contain 4 floors and a total of approximately 133,685 rentable square feet of laboratory and/or office space ("**Building 5**"), and (iii) Building 6, which Landlord currently contemplates will contain 4 floors and a total of approximately 133,686 rentable square feet of laboratory and/or office space ("**Building 6**"), all upon the terms and conditions in this Section 39; provided, however, that all of the Expansion Requirements (as defined below) are met each time Tenant exercises an Expansion Right. Building 4, Building 5 and Building 6 shall each be individually referred to herein as an "**Expansion Building**" and collectively as the "**Expansion Buildings**". Upon Tenant' s written request from time to time during the Term (but in no event more than twice during any calendar year), Landlord shall provide to Tenant updated information regarding the status of entitlements for the Project, including, but not limited to, material correspondence between Landlord and any governmental authority regarding such entitlements.

As used in this Lease, "**Expansion Requirements**" shall mean that all of the following requirements are satisfied: (i) Tenant is not in material Default under any provision of the Lease; (ii) Tenant has a credit rating of "BBB-" or better from Standard & Poor' s Corporation, or "Baa3" or better from Moody' s Investors Service, Inc. (or in each case any successor thereof), or, in the event that Tenant does not have a credit rating at that time, Tenant has a net worth (as determined in accordance with GAAP) that is not less than the Minimum Net Worth Amount; and (iii) Illumina, Inc., a Delaware corporation, or any entity leasing or subleasing the Premises pursuant to a Permitted Assignment, is the tenant occupying and operating out of at least 70% of the Premises under this Lease.

Subject to the terms and conditions of this Section 39, if Tenant elects to exercise an Expansion Right with respect to any or all of the Expansion Buildings, Tenant shall, on or before the Expansion Right Expiration Date, deliver written notice to Landlord of its election to exercise such Expansion Right (each, an "**Expansion Notice**"), which Expansion Notice shall identify which Expansion Building or Expansion Buildings with respect to which Tenant is exercising its Expansion Right ("**Identified Expansion Building**") along with a deposit in the amount of $100,000 multiplied by the number of Identified Expansion Buildings identified in the Expansion Notice for use by Landlord for the initial costs actually incurred by Landlord in connection with the initial design and pricing (collectively, **Initial Costs**") for each Identified Expansion Building ("**Expansion Deposit**"). Landlord agrees to contribute up to $100,000 for the Initial Costs associated with each Identified Expansion Building following the exhaustion of the Tenant' s applicable Expansion Deposit for such Identified Expansion Building (evidence of which exhaustion/ contribution shall be provided to Tenant upon Tenant' s written request from time to time in the form of a detailed line item statement).

Notwithstanding anything to the contrary contained herein, Tenant acknowledges and agrees that (i) Landlord shall have no obligation to commence the design and/or construction of any Expansion Building prior to Tenant delivering an Expansion Notice and an Expansion Deposit with respect to such Expansion Building to Landlord, (ii) if Tenant does not exercise its Expansion Right with respect to

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Building 4 prior to January 1, 2015, Tenant shall have no further right to deliver an Expansion Notice for Building 4 and the rentable square footage allocable to Building 4 shall be added, at Landlord' s option, to Building 5 and/or Building 6 (and, if Tenants elects to extend the Expansion Right Expiration Date as provided for below, Tenant shall nonetheless be required to pay Land Rent (as defined below) with respect to the square footage that was contemplated for Building 4), (iii) in no event shall Tenant have the right to exercise an Expansion Right with respect to Building 6 if Tenant has not previously or concurrently therewith exercised an Expansion Right with respect to Building 5 and Landlord shall have the right, in Landlord' s sole and absolute discretion, to elect not to construct Building 6 for Tenant if Tenant elects as provided for in this Lease to rescind its Expansion Notice with respect to Building 5, (iv) in no event shall Tenant have the right under any circumstances to exercise an Expansion Right with respect to less than all of the rentable square footage of any Expansion Building, (v) the Project Site Plan including, without limitation, the number of floors, rentable square footages, configuration and locations of the Expansion Buildings within the Project are not guaranteed and are subject to change by Landlord in the exercise of Landlord' s reasonable discretion; provided, however, that so long as all of Tenant' s Expansion Rights remain in full force and effect under this Section 39, any such changes made by Landlord shall not materially and adversely impact: (A) the use of Building 5 and/or Building 6 for the Permitted Use, (B) Tenant' s ability to access the Premises, (C) Tenant' s parking rights under Section 10, or (D) the total square footage available to Tenant for expansion of the Premises pursuant to this Section 39(a), and (vi) Landlord' s obligation to develop each Expansion Building on receipt of the applicable Expansion Notice is expressly conditioned upon and subject to, and with Landlord having no liability for the failure of any of such conditions (except as otherwise expressly provided herein), Landlord' s ability to obtain on, terms and conditions reasonably acceptable to Landlord, all governmental approvals necessary to permit the design and construction of the applicable Expansion Building, the reasonable availability of materials and labor and all other conditions outside of Landlord' s reasonable control. If Tenant exercises its Expansion Rights hereunder with respect to any Expansion Building and does not exercise any of its rescission rights under Section 39(c) with respect thereto, Landlord agrees to use reasonable and diligent efforts to pursue and obtain as contemplated under this Lease and the applicable work letter the necessary governmental approvals to permit the design and construction of the applicable Expansion Building.

(b) **Extension of Expansion Right Expiration Date**. Tenant shall have the right to extend the Expansion Right Expiration Date by delivering written notice ("**Election Notice**") of such election to Landlord no later than June 30, 2014, in which case, commencing on January 1, 2015 ("**Land Rent Commencement Date**"), and continuing thereafter on the first day of each month until the Outside Expansion Right Expiration Date (as defined below), Tenant shall be required to pay rent to Landlord ("**Land Rent**") in an amount which results in Landlord receiving in equal monthly installments a 7.5% per annum return on the amount of the then Buildable Entitlements (as defined below) at the Project multiplied by $50 for each square foot of such Buildable Entitlements. The Land Rent shall be increased on every other anniversary of the Land Rent Commencement Date by the Bi-Annual Rent Adjustment Percentage. For example, if Tenant elects to extend the Expansion Right Expiration Date as provided for in this Section 39(b) and Tenant has not commenced paying Base Rent on any Expansion Building, the Land Rent due on January 1, 2015, shall be $92,928.44 per month ((calculated as follows: 297,371 X $50.00 per square foot X 7.5%) divided by 12). Notwithstanding anything to the contrary contained herein, if, commencing on January 1, 2015 and continuing for each month of the Term, Tenant pays the Land Rent due under this Lease and Tenant timely exercises any express right which Tenant has under Section 39(e)(E) to terminate this Lease with respect to the Expansion Building then being constructed, Landlord shall refund to Tenant the allocable portion of the Land Rent paid by Tenant with respect to such Expansion Building between the date that Tenant exercised the Expansion Right for such Expansion Building and the date Tenant elects to terminate the Lease pursuant to Section 39(e)(E) with respect to such Expansion Building. In no event, however, shall Tenant be entitled to any refund of any Land Rent if Tenant' s termination right under Section 39(e)(E) is caused in whole or in part by any revocation of any entitlements existing as of the date hereof. If Landlord receives written notice from any Governmental Authority revoking any entitlements existing as of the date hereof, Landlord shall provide Tenant with a copy of such notice and the Land Rent shall be adjusted accordingly on a going forward basis.

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If Tenant does not provide Landlord with an Election Notice by June 30, 2014, then Landlord shall provide Tenant with a written notice stating in bold and all caps 12 point font that Tenant' s failure to respond in writing to Landlord within 10 business days after Tenant' s receipt of Landlord' s notice and affirmatively electing in such response to extend the Expansion Right Expiration Date shall be deemed Tenant' s election to waive Tenant' s right to extend the Expansion Right Expiration Date. If in Tenant' s response notice, Tenant elects to extend the Expansion Right Expiration Date, Tenant shall be required to commence paying Land Rent as provided for in this Lease commencing on January 1, 2015.

As used in this Lease, (i) "**Outside Expansion Right Expiration Date**" shall mean the earlier of (a) the date which is 6 months after the date Tenant provides Landlord with written notice of its election to terminate all of its unexercised Expansion Rights under this Section 39, and (b) October 31, 2031; and (ii) "**Building Entitlements**" shall mean all 297,371 rentable square feet of space contemplated for the Expansion Buildings minus the rentable square footage of the Expansion Building(s) for which Tenant is paying Base Rent.

For the avoidance of doubt, (x) following the Expansion Right Expiration Date or, if applicable the Outside Expansion Right Expiration Date, or (y) if Tenant is not paying the Land Rent which Tenant is required to pay to Landlord under this Lease, Landlord shall have the right to develop any new building(s) at the Project and lease all or any portion of such new building(s) to any third party(ies) (except as provided in Sections 39(f) and 44(r)) upon any terms and conditions acceptable to Landlord.

(c) **Rescission Rights**.

(i) **Initial Rescission Right**. Following receipt of each Expansion Notice, Landlord shall deliver to Tenant a detailed written line item estimate on the part of Landlord of the Project Costs (as defined below) for the Identified Expansion Building ("**Initial Project Cost Estimate**") along with a corresponding estimate of the initial monthly Base Rent which would be due for the applicable Identified Expansion Building ("**Initial Base Rent Estimate**"). Tenant shall have the right ("**Initial Rescission Right**") to rescind the applicable Expansion Notice by delivery to Landlord of a written rescission notice ("**Initial Rescission Notice**") on or before the date that is 15 business days after Landlord' s delivery to Tenant of the Initial Project Cost Estimate and Initial Base Rent Estimate for the Identified Expansion Building if (and only if) the Initial Base Rent Estimate for the Identified Expansion Building for the first year of the Base Term for such Identified Expansion Building exceeds $3.00 per rentable square foot per month ("**Cap Amount**"). The Cap Amount provided for in the preceding sentence applies if the first year of the Base Term for the Identified Expansion Building is reasonably estimated by Landlord to commence within 24 months after the Initial Commencement Date, and the Cap Amount shall thereafter be increased by the Bi-Annual Rent Adjustment Percentage on every other anniversary of the Initial Commencement Date. The Initial Rescission Right shall only apply, depending on when the Base Term for the Identified Expansion Building is reasonably estimated by Landlord to commence, if the Initial Base Rent Estimate exceeds the Cap Amount (as adjusted). If Tenant fails to timely deliver the Initial Rescission Notice to Landlord, Tenant shall be deemed to have waived its Initial Rescission Right. If Tenant delivers the Initial Rescission Notice to Landlord pursuant to this paragraph (and Tenant does not continue to pay Land Rent as provided for in this Lease), Tenant' s Expansion Right with respect to the Identified Expansion Building shall terminate and be of no further force or effect, in which case Tenant shall have no further rights under Section 39 with respect to such Identified Expansion Building, and Landlord shall have the right to develop any new building(s) at the Project and lease all or any portion of such new building(s) to any third party(ies) (except as provided in Sections 39(f) and 44(r)) upon any terms and conditions acceptable to Landlord unless Tenant continues to pay the Land Rent as provided for in Section 39(b) in which case Landlord shall not have the right to develop any new building(s) until the Outside Expansion Right Expiration Date.

(ii) **Final Rescission Right**. Following Tenant' s waiver of its Initial Rescission Right and the development by Landlord of preliminary plans for such Identified Expansion Building,

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Landlord shall prepare a RFP for 3 general contractors reasonably acceptable to Landlord and Tenant who will each be requested to respond with their fee and general conditions based on the Expansion Building Preliminary Plans. Landlord and Tenant shall use reasonable efforts to agree upon one of the bids ("**Contractor's Initial Bid**") for the purposes of developing a revised estimate of the Project Costs. Based on the Contractor' s Initial Bid, Landlord shall deliver to Tenant a revised written estimate on the part of Landlord of the Project Costs for the Identified Expansion Building ("**Revised Project Cost Estimate**"). Tenant shall have a final right ("**Final Rescission Right**") to rescind the applicable Expansion Notice by delivery to Landlord of a written rescission notice ("**Final Rescission Notice**") on or before (i) the date that is 15 business days after Landlord' s delivery to Tenant of the Revised Project Cost Estimate for the Identified Expansion Building if (and only if) the Revised Project Cost Estimate exceeds the Initial Project Cost Estimate by more than 20%, or (ii) the date that is 5 business days after Landlord selection of such Contractor' s Initial Bid for the purposes of developing the Revised Project Cost Estimate if Tenant was unwilling to agree to use the Contractor' s Initial Bid selected by Landlord for the purposes of developing a revised estimate of the Project Costs. If Tenant fails to timely deliver the Final Rescission Notice to Landlord, Tenant shall be deemed to have waived its Final Rescission Right. If Tenant delivers the Final Rescission Notice to Landlord pursuant to this paragraph (and Tenant does not continue to pay Land Rent as provided for in this Lease), Tenant' s Expansion Right with respect to the Identified Expansion Building shall terminate and be of no further force or effect, in which case Tenant shall have no further rights under Section 39 with respect to such Identified Expansion Building, and Landlord shall have the right to develop any new building(s) at the Project and lease all or any portion of such new building(s) to any third party(ies) (except as provided in Sections 39(f) and 44(r)) upon any terms and conditions acceptable to Landlord unless Tenant continues to pay the Land Rent as provided for in Section 39(b) in which case Landlord shall not have the right to develop any new building(s) until the Outside Expansion Right Expiration Date.

(iii) **Effect of Multiple Rescissions**. Notwithstanding anything to the contrary contained in this Lease, if Tenant' s exercises a second Initial Rescission Right and/or a second Final Rescission Right under this Lease, Tenant shall be solely responsible (without any contribution from Landlord) for all Initial Costs and other related costs incurred by Landlord in connection with all future exercises by Tenant of any of its Expansion Rights.

(iv) **Acknowledgement**. If Tenant elects to exercise either its Initial Rescission Right or its Final Rescission Right with respect to any Identified Expansion Building, Landlord shall return to Tenant any unused portion, if any, of the Expansion Deposit delivered by Tenant to Landlord with respect to such Identified Expansion Building. Tenant acknowledges and agrees that the Initial Project Cost Estimates and the Revised Project Cost Estimate provided by Landlord and the Contractor' s Initial Bid delivered pursuant to the provisions of Section 39(c)(i) and (ii) are merely estimates and are not a guaranty of actual Project Costs and/or the amount of Base Rent which will be payable for any Identified Expansion Building and Landlord shall have no liability to Tenant in connection therewith nor shall Tenant have any additional rescission rights beyond those expressly provided for in Section 39(c)(i) and (ii).

(d) **Lease Terms for Expansion Building(s)**. Tenant acknowledges and agrees that if Tenant leases any Expansion Building(s) pursuant to this Section 39, all of the terms and conditions of this Lease shall apply to the leasing of such Expansion Building, except that: (i) the definitions on page 1 of this Lease shall be amended as necessary to document and reflect the addition of the applicable Expansion Building to the Project; (ii) Tenant shall be required to pay annual Base Rent in equal monthly installments for the first 12 months following the Expansion Building Rent Commencement Date (as defined below) for the applicable Expansion Building at a rate which provides Landlord with an annual return on all Project Costs for such Expansion Building which is the greater of (A) 300 basis points above the 10-year U.S. Treasury yield as of the date that Landlord receives the applicable Expansion Notice, and (B) 8.5%, and such return shall be subject to increases as provided for in Section 4 hereof by the Bi-Annual Rent Adjustment Percentage on every other anniversary of the applicable Expansion Building

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Rent Commencement Date; (iii) the Base Term of the Lease with respect to the applicable Expansion Building shall expire on the same day as the Base Term with respect to the original Premises; provided, however, that each time Tenant exercises its Expansion Right with respect to any Expansion Building during the last 120 months of the Base Term, the Base Term for the entire Premises shall be extended each time to the date that is 120 months after the Expansion Building Rent Commencement Date for the applicable Expansion Building; (iv) Landlord shall be responsible for the construction of tenant improvements in each Expansion Building desired by Tenant which improvements shall be of a fixed and permanent nature approved by Landlord ("**Expansion Building Tenant Improvements**") and shall be required to satisfy the requirements set forth on **Exhibit K**, and the parties shall enter into a work letter for the Expansion Building and Expansion Building Tenant Improvements reasonably acceptable to both parties and based substantially on the form of work letter attached hereto as **Exhibit J** (each, an "**Expansion Building Work Letter**") with Tenant receiving no tenant improvement allowance from Landlord for Building 4 and a tenant improvement allowance from Landlord in the amount of $60 per rentable square foot of the applicable Expansion Building in the case of Building 5 and Building 6 ($7.50 per rentable square foot of which may be used for Tenant' s cabling and Tenant' s furniture, fixtures and equipment within the applicable Expansion Building) which shall be disbursed as provided for in the applicable Expansion Building Work Letter; and (v) the "**Expansion Building Rent Commencement Date**" shall be the date that is 60 days after the Substantial Completion of the Building Shell and the Substantial TI Completion of the Expansion Building Tenant Improvements (all as defined in the Expansion Building Work Letter), and Tenant shall commence paying Base Rent and Operating Expenses for the Expansion Building on such date.

As used in this Lease, "**Project Costs**" shall mean the sum of all of the actual, documented costs incurred by Landlord through Project Close-Out in connection with the acquisition, design and construction of the applicable Expansion Building, the Parking Structure and all related improvements including, without limitation: (i) the value of the land on which the applicable Expansion Building is being constructed (which for purposes hereof the parties agree is equal to $50.00 per rentable square foot of the applicable Expansion Building as of the Initial Commencement Date and such amount is subject to increases of 6% on every other anniversary of the Initial Commencement Date; (ii) architectural, engineering, construction and development cost and fees; (iii) other soft and legal costs; (iv) a development fee to Landlord equal to 3% of the hard Project Costs; (v) Landlord' s carry costs related to the applicable Expansion Building from the initiation of construction of such Expansion Building until the applicable Expansion Building Rent Commencement Date; (vi) the $60 per rentable square foot tenant improvement allowance granted by Landlord for the applicable Expansion Building Tenant Improvements (except for Building 4 for which there shall be no tenant improvement allowance) plus Landlord' s carry costs related to the applicable Expansion Building Tenant Improvements from the initiation of construction of the applicable Expansion Building Tenant Improvements until the applicable Expansion Building Rent Commencement Date; (vii) infrastructure costs, assessments, impact fees, site preparation costs, testing, labor and materials to construct the applicable Expansion Building and the Parking Structure and related infrastructure and improvements, permit fees, costs associated with obtaining the PID Permit amendment and necessary entitlement or re-entitlements, if necessary, and any other governmental fees, sales taxes and fees payable to contractors, project landscaping, water, gas and electrical fees and related miscellaneous costs, and builder' s risk insurance and other insurance related costs, (viii) leasing commissions, if any, payable to a broker solely in its capacity as the broker representing Tenant in connection with the applicable Expansion Right and, unless Tenant has notified Landlord in writing otherwise, such broker shall be Cushman & Wakefield of San Diego, Inc., but only if Steve Rosetta is the broker at Cushman & Wakefield of San Diego, Inc., representing Tenant in connection with the applicable Expansion Right and further provided however, that Landlord and tenant' s broker (whether Cushman & Wakefield of San Diego, Inc., or any other brokerage company) shall have entered into a commission agreement with respect to such commission which agreement is in form and content acceptable to Landlord and such broker, each in their respective sole and absolute discretion, (ix) Landlord' s carry costs related to the Parking Structure from the initiation of construction of such Parking Structure until the Project Close-Out; (x) Landlord' s contribution towards the Initial Costs for such Expansion Building, and (xi) Landlord' s reasonable financing costs (or reasonable imputed market rate financing costs) with respect to all of the foregoing. Landlord shall not incur any Project Costs not contemplated by this Lease

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and/or any applicable work letter without Tenant' s prior written approval. Tenant shall have the right to audit Project Costs within 180 days after the Project Close-Out and if Tenant discovers errors and Landlord and Tenant are unable to resolve such dispute within 30 days after the expiration of such 180 day period, it shall be resolved by arbitration by a single arbitrator with the qualifications and experience appropriate to resolve the matter and appointed pursuant to and acting in accordance with the rules of the American Arbitration Association.

As used herein, "**Parking Structure**" shall mean, all as elected by Landlord in it sole discretion, one or more parking structures each of which may be constructed in one or more phases with the same or different numbers of tiers in each phase; provided, however that the first parking structure shall be constructed in generally the location depicted on the Project Site Plan. Landlord shall not however require the construction in connection with any Expansion Building of more parking spaces than is required under applicable Legal Requirements to satisfy the PID Permit for the then Premises and the additional rentable square footage of such Expansion Building. Each Parking Structure shall generally comply with the requirements set forth on **Exhibit O** attached hereto. Landlord shall use reasonable efforts to notify Tenant of its elections with respect to the applicable Parking Structure(s) within a reasonable time after Tenant exercises its Expansion Right for an Expansion Building. If Landlord elects to construct any Parking Structure(s) in phases, all of the Project Costs incurred in connection with each such phase of the applicable Parking Structure(s) shall be attributable to the applicable Expansion Building being constructed by Landlord. For example, if Landlord elects in connection with Tenant' s exercise of the Expansion Right for Building 5 to construct a Parking Structure with only 2 tiers, all of the Project Costs in connection with such Parking Structure shall be included in the definition of Project Costs for Building 5 and used to calculate Base Rent for Building 5, and, if Tenant thereafter elects to exercise its Expansion Right for Building 6, and Landlord elects to construct additional tiers and/or a new Parking Structure at that time, all of the Project Costs in connection with such additional tiers and/or new Parking Structure shall be included in the definition of Project Costs for Building 6 and used to calculate Base Rent for Building 6. Notwithstanding anything to the contrary contained herein, if Tenant properly exercises its rescission rights as provided for in this Lease, any elections made by Landlord pursuant to this paragraph shall not be binding on Landlord if Landlord so elects and Landlord shall be free to make new elections if Tenant thereafter exercises any of its Expansion Rights.

As used in this Lease, "**Project Close-Out**" shall mean the first date following the final completion of the applicable Expansion Building by Landlord that (i) all contractors, subcontractors, suppliers, architects and others who supplied labor or materials have been paid in full and all liens are released; (ii) the architect or general contractor for the applicable Expansion Building have issued any certificate(s) of completion as may be required by Landlord; (iii) all punch list items have been completed; and (iv) the contractors and architect have provided all close out documentation required by Landlord; provided, however, that in no event shall such date be deemed to occur until the applicable Expansion Building Rent Commencement Date.

(e) **Construction of Expansion Buildings**. In addition to the foregoing, the following provisions shall apply with respect to the design and construction of each Expansion Building:

(A) **Building Shell**. Notwithstanding anything to the contrary contained in this Section 39, Landlord' s construction obligation with respect to the each Expansion Building shall be limited to an obligation to construct, subject to the other provisions of this Section 39, and to deliver to Tenant the Expansion Building upon Substantial Completion of the Building Shell and upon Substantial TI Completion of the Expansion Building Tenant Improvements (except for Building 4 for which there shall be no Expansion Building Tenant Improvements). As used in this Lease, "**Building Shell**" shall mean a warm shell containing the warm shell requirements set forth in the Expansion Building Requirements attached hereto as **Exhibit I** except in the case of Building 4 in which case the requirements shall be as set forth on **Exhibit N**. As used in this Lease, "**Building Shell/TI Delivery Date**" shall mean the date that Tenant is notified in writing that the Building Shell has been Substantially Completed.

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(B) **Architects and Contractors**. After the selection of the general contractor as provided for in the Expansion Building Work Letter, Landlord shall enter into a guaranteed maximum price contract with the selected general contractor.

(C) **Plans**. Tenant acknowledges that certain plans and other information that may be made available to Tenant pursuant to the provisions of this Section 39 and any Expansion Building Work Letter constitute information that Landlord considers confidential and, upon request from Landlord, Tenant and Landlord shall execute a confidentiality and non-disclosure agreement reasonably acceptable to each party with respect to such confidential information.

(D) **Budget**. The cost information related to the design and construction of each Expansion Building shall be shared with Tenant on a so called "open book basis". Tenant shall have the right to approve (which approval shall not be unreasonably withheld, conditioned or delayed) any material changes to the final budget prior to Landlord entering into the guaranteed maximum price contract with the general contractor for the Building Shell. Notwithstanding anything to the contrary contained herein or in the Expansion Building Work Letter, Landlord shall have the right to include a contingency of up to 10% in the budget and in the guaranteed maximum price contract with the general contractor. In addition, the budget for each Expansion Building shall also include a payment for the development fee provided for as part of the Project Costs. Landlord shall not be entitled to any reimbursement of any fees, overhead, travel, salaries or costs of Landlord' s personnel in connection with the construction of the Expansion Building unless they are defined as direct Project Cost.

(E) **Schedule**. Landlord' s proposed construction schedule shall be included as part of the Expansion Building Work Letter. Landlord shall use reasonable efforts to cause the Building Shell to be Substantially Completed within 24 months after the building permit for the shell and core construction of the applicable Shell Building has been issued by the applicable Governmental Authority). If the Building Shell/TI Delivery Date has not occurred within such 24 month period, Tenant shall have no right to terminate this Lease with respect to the Expansion Building nor shall Landlord have any liability to Tenant for any loss or damage resulting therefrom except that Tenant shall be entitled to occupy such Expansion Building following the Expansion Building Rent Commencement Date without the obligation to pay Base Rent 1 day for each day following the expiration of such 24 month period until the Building Shell/TI Delivery Date. If the Building Shell/TI Delivery Date has not occurred within 30 months after the building permit for the shell and core construction of the applicable Shell Building has been issued by the applicable Governmental Authority, Tenant shall have the right to elect to either (i) continue to receive the Base Rent abatement provided for in the preceding sentence, or (ii) terminate this Lease only with respect to the applicable Expansion Building by written notice to Landlord, in which case, except as provided for in the last sentence of the first paragraph of Section 39(b), Landlord shall not have any further duties or obligations to Tenant under this Lease with respect to the applicable Expansion Building and Tenant shall have no further expansion rights with respect to such Expansion Building and Landlord shall be free to lease it to any third party(ies) on any terms and conditions acceptable to Landlord. If Tenant does not elect to terminate this Lease with respect to the applicable Expansion Building pursuant to subsection (ii) of the immediately preceding sentence within 10 business days after the expiration of such 30 month period, such right to terminate this Lease with respect to applicable Expansion Building shall be waived, this Lease with respect to the applicable Expansion Building shall remain in full force and effect, and Tenant shall be deemed to have elected to proceed under subsection (i) above. Notwithstanding anything to the contrary contained herein, Tenant acknowledges and agrees that any Tenant Delays (as defined in Expansion Building Work Letter) and/or delays caused by Force Majeure shall extend the dates set forth in

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this paragraph for Landlord' s performance of its obligations on a day for day basis; provided, however, that in no event may any delays caused by Force Majeure extend the dates set forth in this paragraph for Landlord' s performance of its obligations by more than 90 days in the aggregate except in the case of any matter covered by the provisions of Sections 18 and 19 hereof.

(F) **Acknowledgment**. Upon the request of either Landlord or Tenant, the parties shall execute and deliver a written factually correct acknowledgement of the Building Shell/TI Delivery Date, the Expansion Building Rent Commencement Date, the Base Rent for the Expansion Building and the expiration date of the Base Term as and when such are established in the form substantially similar to the form of the "Acknowledgement of Commencement Date" attached to this Lease as **Exhibit D**; provided, however, the failure by either party to execute and deliver such acknowledgment shall not affect the other party' s rights hereunder.

(f) **Right to Further Expand at the Project**. During the Term, Tenant shall have the right (the "**SGS Expansion Right**") to elect to lease any Available Second Generation Space upon the terms and conditions set forth in this Section 39(f). As used herein, "**Available Second Generation Space**" shall mean any space previously leased by Landlord to any third party in any new building(s) constructed by Landlord at the Project after the date hereof and not leased by Tenant. If there is any Available Second Generation Space available for lease or becoming available for lease to a third party (other than the tenant then leasing such space (whether or not such tenant has the right to renew) and/or any other party to whom Landlord has granted a right to lease such Available Second Generation Space), Landlord shall, at such time as Landlord shall elect, deliver to Tenant written notice (the "**Offer Notice**") of such Available Second Generation Space, together with the terms and conditions on which Landlord is prepared to lease to Tenant such Available Second Generation Space. Tenant shall be entitled to exercise its right under this Section 39(f) only with respect to the entire Available Second Generation Space identified in the Offer Notice.

If the applicable Available Second Generation Space being described in the applicable Offer Notice is 1 floor or less of any applicable building, Landlord may not require a base term for such space in the Offer Notice which is more than 10 years. If the applicable Available Second Generation Space being described in the applicable Offer Notice is more than 1 floor in any applicable building, there shall be no cap on the length of the base term which Landlord may require for such space in the Offer Notice. If Tenant delivers an Acceptance Notice but in good faith believes that the Base Rent and escalations being required by Landlord is above the market rate for such Available Second Generation Space, the Base Rent for such Available Second Generation Space shall be determined in the same manner as the Market Rate (as defined in Section 40) is determined pursuant to Section 40 but on an expedited basis to be agreed upon by Landlord and Tenant at the time Tenant delivers an Acceptance Notice but in all events the determination of the Base Rent for such Available Second Generation Space must be finalized, if at all, within 30 days after Tenant delivers the applicable Acceptance Notice.

Tenant shall have 10 business days following delivery of the Offer Notice to deliver to Landlord written notification ("**Acceptance Notice**") if Tenant elects to lease the Available Second Generation Expansion Space described in the Offer Notice. Tenant' s failure to deliver an Acceptance Notice to Landlord within the required 10 business day period shall be deemed to be an election by Tenant not to exercise Tenant' s right to lease the Available Second Generation Space pursuant to this Section 39(f), in which case Tenant shall be deemed to have waived its rights under this Section 39(f)with respect to such Available Second Generation Space, the provisions of this Section 39(f) shall no longer apply to such Available Second Generation Space and Landlord shall have the right to lease such Available Second Generation Space to any party or parties and on any terms and conditions acceptable to Landlord in its sole and absolute discretion.

Notwithstanding anything to the contrary contained herein, if Tenant delivers an Acceptance Notice to Landlord for any Available Second Generation Space and within 30 days thereafter

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no lease amendment or lease agreement for the applicable Available Second Generation Space has been entered into by the parties on such terms and conditions as may be acceptable to each party in its sole and absolute discretion after negotiating in good faith, Tenant shall be deemed to have waived its right to lease the applicable Available Second Generation Space and Landlord shall be free to lease the same to any third party and on any terms and conditions acceptable to Landlord in its sole and absolute discretion.

Notwithstanding anything to the contrary contained herein, Tenant' s SGS Expansion Right shall, at Landlord' s option, not be in effect during any period where Tenant is in material Default under this Lease.

(g) **Tenant Default**. Notwithstanding anything to the contrary contained herein, Landlord shall have the right to suspend performance of all or any of Landlord' s obligations under this Section 39 during any period that Tenant is in material Default under this Lease and such period of suspension shall constitute a delay caused by Tenant; provided that Landlord has notified Tenant in writing of Landlord' s intention to suspend performance due to such Default.

(h) **Amended Lease**. Landlord and Tenant shall enter into a lease amendment or lease agreement acceptable to both Landlord and Tenant for each Expansion Building setting forth the lease the rental of such Expansion Building consistent with those set forth in this Section 39.

(i) **Termination**. The Expansion Right shall, at Landlord' s option, terminate and be of no further force or effect even after Tenant' s due and timely exercise of the Expansion Right, if, after such exercise, but prior to the commencement date of the Base Term of the lease of the applicable Expansion Building, there is any material Default by Tenant under the Lease.

(j) **Rights Personal**. The Expansion Rights and the SGS Expansion Right are personal to Tenant and are not assignable without Landlord' s consent, which may be granted or withheld in Landlord' s sole discretion separate and apart from any consent by Landlord to an assignment of Tenant' s interest in the Lease optional provision, except that they may be assigned in connection with any Permitted Assignment of this Lease.

(k) **No Extensions**. The period of time within which any Expansion Right or SGS Expansion Right, as applicable, may be exercised shall not be extended or enlarged by reason of Tenant' s inability to exercise the Expansion Right or SGS Expansion Right, as applicable.

(l) **Additional Entitlements**. Tenant acknowledges and agrees that (i) Landlord may be able to obtain additional entitlements for approximately 190,000 additional rentable square feet at the Project ("**Additional Entitlements**"), (ii) if Landlord obtains any or all such Additional Entitlements, the Project Site Plan may be revised by Landlord to include such additional square footage, (iii) in no event is Landlord obligated to seek or obtain such Additional Entitlements, and (iv) if Landlord obtains any or all such Additional Entitlements, Tenant' s Expansion Right shall, at Landlord' s option, include such additional square footage subject to all of the other provisions of this Section 39; provided, however, that Tenant shall not be required to pay Land Rent in connection with such Additional Entitlements. In no event shall any portion of the square footage comprising the Additional Entitlements be added to Building 5 or Building 6 so long as Tenant continues to have the Expansion Rights under this Lease and Tenant is paying the Land Rent.

40. **Right to Extend Term**. Tenant shall have the right to extend the Term of the Lease upon the following terms and conditions:

(a) **Extension Rights**. Tenant shall have 4 consecutive rights (each, an "**Extension Right**") to extend the term of this Lease with respect to all or any of the Buildings (provided that Tenant must exercise its Extension Right with respect to the entire rentable square footage of any Building being leased to Tenant with respect which Tenant is exercising its Extension Right) for 5 years each (each, an

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"**Extension Term**") on the same terms and conditions as this Lease (other than with respect to Base Rent, the Building 3 Work Letter, the Building 1 and 2 Work Letter, any Expansion Building Work Letter and Section 39 hereof) by giving Landlord written notice of its election to exercise each Extension Right (which notice shall identify the Building(s) with respect to which Tenant elects to exercise its Extension Right) at least 12 months prior, and no earlier than 24 months prior, to the expiration of the Base Term of the Lease or the expiration of any prior Extension Term.

Upon the commencement of any Extension Term, Base Rent shall be payable at the Market Rate (as defined below). Base Rent shall thereafter be adjusted on each annual anniversary of the commencement of such Extension Term by a percentage as determined by Landlord and agreed to by Tenant at the time the Market Rate is determined (or as part of the determination of Market Rate as provided in Section 40(b) below). As used herein, "**Market Rate**" shall mean the rate that comparable landlords of comparable buildings have accepted in current transactions from non-equity (i.e., not being offered equity in the buildings), nonrenewal, non-expansion and nonaffiliated tenants of similar financial strength for space of comparable size, quality (including all Alterations and other improvements other than the Excluded Improvements (as defined below)) and floor height in Class A office and laboratory buildings, as applicable, in the University Towne Center area of San Diego for a comparable term, with the determination of the Market Rate to take into account all relevant factors, including tenant inducements, percentage of laboratory and office space, parking costs, leasing commissions, allowances or concessions, if any. If the allowances, free rent and/or other economic concessions granted pursuant to this Section 40 differ from those granted in the comparable transactions, an adjustment to the applicable Market Rate shall be made on a basis consistent with the adjustments commonly made in the market for comparable differences in concession packages. As used herein, "**Excluded Improvements**" shall mean those fixed and permanent improvements to the Premises which Tenant can prove to Landlord' s reasonable satisfaction were installed and paid for by Tenant during the 120 months immediately prior to the then applicable expiration date of the Base Term and which Landlord could require under this Lease to remain in the Premises upon expiration of the Base Term of this Lease.

If, on or before the date which is 180 days prior to the expiration of the Base Term of this Lease or any prior Extension Term, Tenant has not agreed with Landlord' s determination of the Market Rate and the rent escalations for the applicable Extension Term after negotiating in good faith, Tenant shall be deemed to have elected arbitration as described in Section 40(b). Tenant acknowledges and agrees that, if Tenant has elected to exercise an Extension Right by delivering notice to Landlord as required in this Section 40(a), Tenant shall have no right thereafter to rescind or elect not to extend the term of the Lease for such Extension Term.

(b) **Arbitration**.

(i) Within 10 days of Tenant' s notice to Landlord of its election (or deemed election) to arbitrate Market Rate and escalations, each party shall deliver to the other a proposal containing the Market Rate and escalations that the submitting party believes to be correct ("**Extension Proposal"**). If either party fails to timely submit an Extension Proposal and such failure continues for more than 5 business days after receipt of a written notice from the other party requesting such party' s Extension Proposal, then the requesting party' s submitted proposal shall determine the Base Rent for the Extension Term. If both parties submit Extension Proposals, then Landlord and Tenant shall meet within 7 days after delivery of the last Extension Proposal and make a good faith attempt to mutually appoint a single Arbitrator (as defined below) to determine the Market Rate. If Landlord and Tenant are unable to agree upon a single Arbitrator, then each shall, by written notice delivered to the other within 10 days after the meeting, select an Arbitrator. If either party fails to timely give notice of its selection for an Arbitrator and such failure continues for more than 5 business days after receipt of a written notice from the other party requesting such party' s Arbitrator selection, then the requesting party' s submitted Arbitrator shall determine the Base Rent for the Extension Term. The 2 Arbitrators so appointed shall, within 5 business days after their appointment, appoint a third Arbitrator. If the 2 Arbitrators so selected cannot agree on the selection of the third Arbitrator within the time above

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specified, then either party, on behalf of both parties may request such appointment of such third Arbitrator by application to any state court of general jurisdiction in the jurisdiction in which the Premises are located, upon 10 days prior written notice to the other party of such intent.

(ii) The authority of the Arbitrator(s) shall be limited strictly to a selection of either Landlord' s Extension Proposal in its entirety or Tenant' s Extension Proposal in its entirety as the Extension Proposal which most closely approximates the Market Rate and escalations. The Arbitrator(s) shall have no authority to create an independent structure of Market Rate and escalations, combine elements of both Extension Proposals to create a third, or compromise or alter in any way any of the components of the Extension Proposals submitted by the parties. The sole decision to be made shall be which of the parties' Extension Proposals in its entirety shall determine the Market Rate and escalations for the Extension Term.

(iii) The decision of the Arbitrator(s) shall be made within 30 days after the appointment of a single Arbitrator or the third Arbitrator, as applicable. The decision of the single Arbitrator or majority of the 3 Arbitrators shall be final and binding upon the parties. Each party shall pay the fees and expenses of the Arbitrator appointed by or on behalf of such party and the fees and expenses of the third Arbitrator shall be borne equally by both parties. If the Market Rate and escalations are not determined by the first day of the Extension Term, then Tenant shall pay Landlord Base Rent in an amount equal to the Base Rent in effect immediately prior to the Extension Term increased by the Bi-Annual Rent Adjustment Percentage until such determination is made. After the determination of the Market Rate and escalations, the parties shall make any necessary adjustments to such payments made by Tenant. Landlord and Tenant shall then execute an amendment recognizing the Market Rate and escalations for the Extension Term.

(iv) An "**Arbitrator**" shall be any person appointed by or on behalf of either party or appointed pursuant to the provisions hereof and: (i) shall be (A) a member of the American Institute of Real Estate Appraisers with not less than 10 years of experience in the appraisal of institutional quality Class A office and life sciences space in San Diego, or (B) a licensed commercial real estate broker with not less than 15 years experience representing landlords and/or tenants in the leasing of institutional quality Class A office and life sciences space in San Diego, (ii) devoting substantially all of their time to professional appraisal or brokerage work, as applicable, at the time of appointment and (iii) be in all respects impartial and disinterested.

(c) **Rights Personal**. Extension Rights are personal to Tenant and are not assignable without Landlord' s consent, which may be granted or withheld in Landlord' s sole discretion separate and apart from any consent by Landlord to an assignment of Tenant' s interest in the Lease, except that they may be assigned in connection with any Permitted Assignment of this Lease.

(d) **Exceptions**. Notwithstanding anything set forth above to the contrary, Extension Rights shall, at Landlord' s option, not be in effect and Tenant may not exercise any of the Extension Rights during any period of time that Tenant is in material Default under any provision of this Lease.

(e) **No Extensions**. The period of time within which any Extension Rights may be exercised shall not be extended or enlarged by reason of Tenant' s inability to exercise the Extension Rights.

(f) **Termination**. The Extension Rights shall, at Landlord' s option, terminate and be of no further force or effect even after Tenant' s due and timely exercise of an Extension Right, if, after such exercise, but prior to the commencement date of an Extension Term, Tenant is in material Default under this Lease.

41. **Right of First Refusal to Purchase.** Tenant shall also have the right to purchase the Buildings or the Project upon the following terms and conditions:

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(a) **RFR Right**. If Landlord intends to accept a bona fide offer (the "**Pending Deal**") to sell the Project, or any portion thereof, to any third party (other than to an affiliate of Landlord or a Holder (or its successors or assigns) or in connection with a sale of the Project as part of a portfolio transaction), Landlord shall, so long as Tenant' s rights hereunder are preserved, deliver to Tenant written notice (the '**Pending Deal Notice**") of the material terms of such Pending Deal including, without limitation, the purchase price and any earnest money deposits required to be delivered (collectively, the "**Material Terms**"). Within 10 business days after Tenant' s receipt of the Pending Deal Notice, Tenant shall have the right to elect ("**RFR Purchase Option**") to purchase the Project or the portion thereof identified in the Pending Deal Notice (as applicable, the "**Identified Property**"), subject to the terms set forth in the Pending Deal Notice by delivering to Landlord written notice (the "**Pending Deal Acceptance**") of Tenant' s election to purchase the Identified Property. Nothing contained in this Section 41 shall excuse Tenant from any of its obligations under this Lease prior to the date that the Identified Property is conveyed to Tenant or from any obligation that survives the expiration or earlier termination of this Lease with respect to the Identified Property. For purposes of this Section 41, the definition of a "portfolio transaction" shall include a transaction which includes the Project and at least 2 other properties owned by Landlord or any entities affiliated with Landlord.

Tenant' s failure to deliver a Pending Deal Acceptance as required pursuant to the preceding paragraph to Landlord within the required 10 business day period shall be deemed to be an election by Tenant not to exercise Tenant' s right to purchase the Identified Property in which case, subject to the next sentence, Landlord shall have the right to sell the Identified Property to any third party on any terms and conditions acceptable to Landlord and Tenant shall be deemed to have irrevocably and forever waived its right pursuant to this Section 41 to purchase the Identified Property. Notwithstanding anything to the contrary contained herein, Tenant' s RFR Purchase Option shall be restored if (i) Landlord fails to sell the Identified Property to a third party within 12 months after Landlord' s delivery of the Pending Deal Notice to Tenant ('**Free Period**"), or (ii) at any time within such Free Period, Landlord intends to accept a purchase price for the Identified Property which is less than 95% of the purchase price set forth in the original Pending Deal Notice ("**Reduced Purchase Price**"); provided, however, that Tenant shall have the right to deliver a Pending Deal Acceptance to Landlord exercising its right to purchase the Identified Property for the Reduced Purchase Price and such other terms set forth in a revised Pending Deal Notice for a period of 10 business days after Landlord' s delivery to Tenant of a revised Pending Deal Notice reflecting the Reduced Purchase Price. Tenant' s failure to deliver a Pending Deal Acceptance in connection with such revised Pending Deal Notice within such 10 business day period shall be deemed to be an election by Tenant not to purchase the Identified Property in which case, Tenant shall be deemed to have irrevocably and forever waived its right pursuant to this Section 41 to purchase the Identified Property unless Landlord does not sell the Identified Property during the remaining portion of the Free Period or in the event that the Reduced Purchase Price is further reduced as provided for in clause (ii) above during such Free Period in which case Tenant' s rights under this Section 41 shall be restored.

(b) **Purchase and Sale Agreement**. If after the expiration of a period of 15 days from the date Tenant delivers the Pending Deal Acceptance, Landlord and Tenant have not, after negotiating in good faith, entered into (A) a purchase and sale agreement for the purchase and sale of the Identified Property which agreement shall among other things: (i) contain the Material Terms, and (ii) contain commercially reasonable terms consistent with comparable transactions for properties being sold on an "as is" basis in the Southern California area (the "**RFR Purchase Agreement**"), and (B) if the Identified Property is less than all of the Premises, an amendment to this Lease, acceptable to both parties, in their respective sole and absolute discretion, documenting the termination of this Lease with respect to the Identified Property effective on the closing of the transaction contemplated by the RFR Purchase Agreement and documenting other related changes to this Lease necessitated thereby, Tenant shall be deemed to have irrevocably and forever waived its rights under this Section 41 to purchase the Identified Property, in which case (x) Tenant shall have no further rights under this Section 41, (y) Tenant' s rights under this Section 41 shall not be restored, and (z) Landlord shall have the right to sell the Identified Property to any third party on any terms and conditions acceptable to Landlord.

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(c) **Rights Personal**. The RFR Purchase Option is personal to Tenant and is not assignable without Landlord' s consent, which may be granted or withheld in Landlord' s sole discretion separate and apart from any consent by Landlord to an assignment of Tenant' s interest in the Lease, except that they may be assigned in connection with any Permitted Assignment of this Lease.

(d) **Termination.** The RFR Purchase Option shall, at Landlord' s option, terminate and be of no further force or effect even after Tenant' s due and timely exercise of the RFR Purchase Option, if, after such exercise, but prior to the Closing Date, (i) Tenant is in material Default under this Lease, or (ii) Tenant defaults under the RFR Purchase Agreement.

(e) **Exceptions**. Notwithstanding anything set forth above to the contrary, the RFR Purchase Option shall, at Landlord' s option, not be in effect and Tenant may not exercise the RFR Purchase Option during any period of time that Tenant is in material Default under any provision of this Lease.

(f) **No Extensions**. The period of time within which the RFR Purchase Option may be exercised shall not be extended or enlarged by reason of Tenant' s inability to exercise the RFR Purchase Option.

42. **Early Termination Right**. Tenant shall have the one time right to terminate this Lease with respect to the entire Premises only ("**Termination Right**") effective as of the last day of the 180th month of the original Base Term ("**Termination Date**"); provided, however that Tenant delivers to Landlord (i) a written notice ("**Termination Notice**") of its election to exercise its Termination Right on or before the expiration of the 168th month of the original Base Term, and (ii) concurrent with Tenant' s delivery to Landlord of the Termination Notice, (x) an amount equal to 6 months of Rent at the amount payable by Tenant as of the date that Tenant delivers the Termination Notice to Landlord, and (y) an amount equal to, as calculated by Landlord and provided to Tenant within 10 business days after Tenant delivers a written request therefor to Landlord, (1) all of the unamortized tenant improvement allowances provided to Tenant in connection with the Building 1 and 2 Tenant Improvements, the Building 3 Tenant Improvements and any Expansion Building Tenant Improvements, (2) all of the unamortized third party leasing commissions paid by Landlord in connection with Tenant' s lease of the Premises, and (3) all of the unamortized Rent Abatement provided to Tenant under this Lease all of which shall be amortized on a straight line basis over the originally scheduled Base Term (collectively, the "**Early Termination Payment**"). If Tenant timely and properly exercises the Termination Right, Tenant shall vacate the entire Premises and deliver possession thereof to Landlord in the condition required by the terms of this Lease within 30 days before the Termination Date and Tenant shall have no further obligations under this Lease with respect to the Premises except for those accruing prior to the Termination Date and those which, pursuant to the terms of the Lease, survive the expiration or early termination of the Lease with respect to the Premises. If Tenant does not deliver to Landlord the Termination Notice and the Early Termination Payment within the time period provided for in this paragraph, Tenant shall be deemed to have waived its Termination Right. Notwithstanding the foregoing, the Termination Right shall be null and void and of no further force or effect if Tenant exercises any of its Expansion Rights pursuant to Section 39 after the date that is 60 months after the Initial Commencement Date and such Expansion Right is not rescinded by Tenant as specifically permitted pursuant to terms of this Lease. Upon Tenant' s request from time to time, Landlord shall provide Tenant with Landlord' s estimate of the Early Termination Payment amount.

43. **Redevelopment of Project**. Except as otherwise provided for in this Lease, Tenant acknowledges that Landlord, in its reasonable discretion, may from time to time expand, renovate and/or reconfigure the Project as the same may exist from time to time and, in connection therewith or in addition thereto, as the case may be, from time to time without limitation: (a) change the shape, size, location, number and/or extent of any improvements, buildings, structures, lobbies, hallways, entrances, exits, parking and/or parking areas relative to any portion of the Project; (b) modify, eliminate and/or add any buildings, improvements, and parking structure(s) either above or below grade, to the Project, the Common Areas and/or any other portion of the Project and/or make any other changes thereto affecting the same; and (c) make any other changes, additions and/or deletions in any way affecting the Project

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and/or any portion thereof as Landlord may elect from time to time, including without limitation, additions to and/or deletions from the land comprising the Project, the Common Areas and/or any other portion of the Project. Notwithstanding anything to the contrary contained in this Lease, Tenant shall have no right to seek damages (including abatement of Rent) or to cancel or terminate this Lease because of any proposed changes, expansion, renovation or reconfiguration of the Project nor shall Tenant have the right to restrict, inhibit or prohibit any such changes, expansion, renovation or reconfiguration; provided, however, Landlord shall not change the size, dimensions or location of the Premises. In no event shall the redevelopment contemplated pursuant to this Section 43 materially and adversely affect, other than on a temporary basis while work may be ongoing, Tenant' s beneficial use and occupancy of the Premises and access to parking at the Project. Notwithstanding the foregoing, Landlord shall meet with Tenant to discuss and make Tenant aware of any significant redevelopment of the Project prior to Landlord commencing construction of the same. Any new buildings constructed by Landlord at the Project pursuant to this Section 43 shall be comparable in quality to the existing Buildings at the Project.

44. **Miscellaneous**.

(a) **Notices**. All notices or other communications between the parties shall be in writing and shall be deemed duly given upon delivery or refusal to accept delivery by the addressee thereof if delivered in person, or upon actual receipt if delivered by reputable overnight guaranty courier, addressed and sent to the parties at their addresses set forth above. Landlord and Tenant may from time to time by written notice to the other designate another address for receipt of future notices.

(b) **Joint and Several Liability**. If and when included within the term "**Tenant**," as used in this instrument, there is more than one person or entity, each shall be jointly and severally liable for the obligations of Tenant.

(c) **Financial Information**. Tenant shall furnish Landlord with true and complete copies of (i) Tenant' s most recent audited annual financial statements within 90 days of the end of each of Tenant' s fiscal years during the Term, and (ii) Tenant' s most recent unaudited quarterly financial statements within 45 days of the end of each of Tenant' s first three fiscal quarters of each of Tenant' s fiscal years during the Term. Notwithstanding anything above to the contrary, so long as Tenant is a "public company" and its financial information is publicly available, then the foregoing delivery requirements of this Section 44(c)shall not apply.

(d) **Recordation**. This Lease shall not be filed by or on behalf of Tenant in any public record. Upon Tenant' s request and at Tenant' s sole cost and expense, Landlord shall prepare and file after execution by Landlord and Tenant a memorandum of this Lease in substantially the form attached hereto as **Exhibit L**. Tenant shall, within 15 business days after request from Landlord, record a termination of the memorandum on the expiration or earlier termination of this Lease.

(e) **Interpretation**. The normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Lease or any exhibits or amendments hereto. Words of any gender used in this Lease shall be held and construed to include any other gender, and words in the singular number shall be held to include the plural, unless the context otherwise requires. The captions inserted in this Lease are for convenience only and in no way define, limit or otherwise describe the scope or intent of this Lease, or any provision hereof, or in any way affect the interpretation of this Lease.

(f) **Not Binding Until Executed**. The submission by Landlord to Tenant of this Lease shall have no binding force or effect, shall not constitute an option for the leasing of the Premises, nor confer any right or impose any obligations upon either party until execution and delivery of this Lease by both parties.

(g) **Limitations on Interest**. It is expressly the intent of Landlord and Tenant at all times to comply with applicable law governing the maximum rate or amount of any interest payable on or in

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connection with this Lease. If applicable law is ever judicially interpreted so as to render usurious any interest called for under this Lease, or contracted for, charged, taken, reserved, or received with respect to this Lease, then it is Landlord' s and Tenant' s express intent that all excess amounts theretofore collected by Landlord be credited on the applicable obligation (or, if the obligation has been or would thereby be paid in full, refunded to Tenant), and the provisions of this Lease immediately shall be deemed reformed and the amounts thereafter collectible hereunder reduced, without the necessity of the execution of any new document, so as to comply with the applicable law, but so as to permit the recovery of the fullest amount otherwise called for hereunder.

(h) **Choice of Law**. Construction and interpretation of this Lease shall be governed by the internal laws of the state in which the Premises are located, excluding any principles of conflicts of laws.

(i) **Time**. Time is of the essence as to the performance of Tenant' s and Landlord' s obligations under this Lease.

(j) **OFAC**. Tenant is currently (a) in compliance with and shall at all times during the Term of this Lease remain in compliance with the regulations of the Office of Foreign Assets Control ("**OFAC**") of the U.S. Department of Treasury and any statute, executive order, or regulation relating thereto (collectively, the "**OFAC Rules**"), (b) not listed on, and shall not during the term of this Lease be listed on, the Specially Designated Nationals and Blocked Persons List maintained by OFAC and/or on any other similar list maintained by OFAC or other governmental authority pursuant to any authorizing statute, executive order, or regulation, and (c) not a person or entity with whom a U.S. person is prohibited from conducting business under the OFAC Rules.

(k) **Incorporation by Reference**. All exhibits and addenda attached hereto are hereby incorporated into this Lease and made a part hereof. If there is any conflict between such exhibits or addenda and the terms of this Lease, such exhibits or addenda shall control.

(l) **Entire Agreement**. This Lease, including the exhibits attached hereto, constitutes the entire agreement between Landlord and Tenant pertaining to the subject matter hereof and supersedes all prior and contemporaneous agreements, understandings, letters of intent, negotiations and discussions, whether oral or written, of the parties, and there are no warranties, representations or other agreements, express or implied, made to either party by the other party in connection with the subject matter hereof except as specifically set forth herein.

(m) **No Accord and Satisfaction**. No payment by Tenant or receipt by Landlord of a lesser amount than the monthly installment of Base Rent or any Additional Rent will be other than on account of the earliest stipulated Base Rent and Additional Rent, nor will any endorsement or statement on any check or letter accompanying a check for payment of any Base Rent or Additional Rent be an accord and satisfaction. Landlord may accept such check or payment without prejudice to Landlord' s right to recover the balance of such Rent or to pursue any other remedy provided in this Lease.

(n) **Hazardous Activities**. Notwithstanding any other provision of this Lease, Landlord, for itself and its employees, agents and contractors, reserves the right to refuse to perform any repairs or services in any portion of the Premises which, pursuant to Tenant' s routine safety guidelines, practices or custom or prudent industry practices, require any form of protective clothing or equipment other than safety glasses. In any such case, Tenant shall contract with parties who are acceptable to Landlord, in Landlord' s reasonable discretion, for all such repairs and services, and Landlord shall, to the extent required, equitably adjust Tenant' s Share of Operating Expenses in respect of such repairs or services to reflect that Landlord is not providing such repairs or services to Tenant.

(o) **Roof Equipment**. Subject to the provisions of this Lease, Tenant may, at its sole cost, install, maintain, and from time to time replace a telecommunications dish antenna or other related equipment on the roofs of the Buildings (collectively, "**Roof Equipment**") in locations selected by Tenant and reasonably acceptable to Landlord for Tenant' s own communication purposely use only; provided,

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however, that (i) Tenant shall obtain Landlord' s prior written approval with respect to the installation of such Roof Equipment which approval shall not be unreasonably withheld, conditioned or delayed and shall include consideration all relevant factors including, without limitation, the proposed size, weight and location of the Roof Equipment and method for fastening the same to the roof, (ii) Tenant shall, at its sole cost, comply with any reasonable requirements imposed by Landlord and all Legal Requirements and the conditions of any bond or warranty maintained by Landlord on the roof, (iii) Tenant shall be responsible for paying for any structural upgrades that may be required by Landlord in connection with the Roof Equipment, and (iv) Tenant shall remove, at its expense, at the expiration or earlier termination of this Lease, any Roof Equipment which Landlord requires to be removed. Landlord shall have the right to supervise any roof penetration. Tenant may not access the roof without a representative of Landlord (who shall be reasonably available) being present. Tenant shall repair any damage to the Buildings caused by Tenant' s installation, maintenance, replacement, use or removal of the Roof Equipment. Tenant shall remove any Roof Equipment at its cost upon expiration or termination of the Lease. Tenant shall install, use, maintain and repair the Roof Equipment, and use the access areas, so as not to damage or interfere with the operation of the Buildings. Tenant shall protect, defend, indemnify and hold harmless Landlord from and against claims, damages, liabilities, costs and expenses of every kind and nature, including reasonable attorneys' fees, incurred by or asserted against Landlord arising out of Tenant' s installation, maintenance, replacement, use or removal of the Roof Equipment.

Notwithstanding anything to the contrary contained herein, Tenant acknowledges and agrees that, Landlord shall have the right, at no cost whatsoever to Tenant during the Term, to install, maintain, repair and remove solar rooftop photo voltaic systems ("**Solar Roof Systems**") on the roofs of one or more of the Buildings at any time during the Term, in locations acceptable to Landlord, in its reasonable discretion. Landlord and Tenant shall cooperate to minimize any potential adverse impact that such Solar Roof Systems may have on Tenant' s rights under this Lease (including, but not limited to, Tenant' s use of the Premises).

(p) **LEED Certification**. Tenant agrees to cooperate with Landlord (with the reasonable costs being passed through as part of Operating Expenses if applicable to any of the existing buildings at the Project or as part of the Project Costs if applicable to any Expansion Building(s)) and to comply with measures implemented by Landlord with respect to any of the Buildings and/or the Project in connection with Landlord' s efforts to obtain a Leadership in Energy and Environmental Design (LEED) certificate for any or all of the Buildings and/or the Project, including any measures implemented by Landlord in connection with any Solar Roof Systems installed by Landlord.

(q) **Central Plant Building**. Tenant acknowledges and agrees that certain Building Systems serving the Buildings are located within the Central Plant Building and that Tenant shall have no right to enter the Central Plant Building during the Term except during any periods where Tenant is responsible for the maintenance of the entire Project pursuant to the provisions of the second paragraph of Section 13. If any space at the Project is leased to any third party(ies) whose premises are served by any of the Building Systems located within the Central Plant Building, both the Base Rent payable by Tenant with respect to the Central Plant Building as well as Tenant' s Share of Operating Expenses payable with respect to the Central Plant Building shall be proportionately adjusted by Landlord.

(r) **Project Restriction**. Landlord shall not enter into a lease agreement for any space in the Project (and all leases entered into by Landlord after the date hereof for the occupancy of space at the Project during the Term shall recite the leasing restrictions contained in this Section 44(r)) or sell any portion of the Project to Life Technologies Corporation or any successor corporation to Life Tech Corporation ("**Life Tech**"), or lease any space in the Project (other than space on the roofs of the Buildings) for other than the Permitted Use ("**Alternate User**"); provided, however, that nothing contained in this sentence shall in any way limit or preclude (i) any tenant that Landlord may lease space to at the Project from being acquired, directly or indirectly, by Life Tech, (ii) any tenant that Landlord may lease space to at the Project from assigning its lease or subleasing its premises to Life Tech, and (iii) Landlord from consenting to any transaction described in clauses (i) or (ii). The provisions of this paragraph shall only apply as long as Illumina, Inc., or its transferee under a Permitted Assignment is the tenant

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occupying no less than 75% of the Premises under this Lease and shall not apply to any other assignee or sublessee. In no event shall Landlord lease any space in the Project to a tenant for medical office or hospital purposes or any uses other than Class A office or research and development laboratory without Tenant' s prior written consent which consent shall not be unreasonably withheld, conditioned or delayed.

(s) **Equipment Financing**. Subject to the provisions of this Section 44(s), during the Term, Landlord waives any statutory landlord' s lien and any attachment for Rent on Tenant' s Property and on any Alteration of Tenant that is not required to be surrendered to Landlord at the expiration or sooner termination of the Term of this Lease (collectively, "**Personalty**") that Landlord may have or may hereafter acquire. Landlord acknowledges and agrees that Tenant' s Personalty may be leased from an equipment lessor or encumbered by Tenant' s lender (collectively, "**Equipment Lessor**") and that Tenant may execute and enter into an equipment lease or security agreement with respect to such Personalty ("**Equipment Lease**"). If and to the extent required by any Equipment Lease or Equipment Lessor, Landlord shall execute and deliver to the Equipment Lessor a written consent, waiver and/or acknowledgment which is in form and content reasonably acceptable to Landlord ("**Lien Waiver**") in which Landlord (i) acknowledges and agrees that, during the Term, the Personalty which is the subject of the Equipment Lease and described with specificity on an exhibit to the Lien Waiver constitutes the personal property of Tenant (unless contrary to the provisions of this Lease), and shall not be considered to be part of the Premises, regardless of whether or by what means they become attached thereto, (ii) agrees that, during the Term, it shall not claim any interest in such Personalty, and (iii) agrees that Equipment Lessor may enter the Premises for the purpose of removing such Personalty, but only if, in such consent such Equipment Lessor agrees to repair any damage resulting from such removal and to indemnify and hold harmless Landlord from and against any claim or other loss that results from such entry and, agrees, within 3 business days after the expiration or termination of the Term to pay all Rent that would accrue under the Lease if it had not terminated or expired for the period from the expiration or termination of such Lease until 5 business days after such Equipment Lessor relinquishes its right rights to enter into the Premises; provided, further, such Equipment Lessor' s right to enter the Premises shall in any event expire 30 days after the expiration or termination of the Lease in which case the Equipment Lessor and Tenant shall agree that the Personalty shall be deemed abandoned. Such Lien Waiver documents also may contain such other reasonable and customary provisions that are reasonably acceptable to Landlord. Landlord shall be entitled to be paid as administrative rent a fee of $1,500 per occurrence for its time and effort in preparing and negotiating each Lien Waiver.

(t) **When Payment Is Due**. Whenever in this Lease a non-scheduled payment is required to be made by one party to the other, but a specific date for payment is not set forth or a specific number of days within which payment is to be made is not set forth, or the words "immediately," "promptly" and/or "on demand," or the equivalent, are used to specify when such payment is due, then such payment shall be due 30 days after the party which is entitled to such payment sends written notice to the other party demanding payment.

(u) **Property Manager**. If Landlord has assumed maintenance of the Project pursuant to the second paragraph of Section 13, Landlord shall provide a commercially reasonable system pursuant to which Tenant, in the event of any emergency, may promptly contact the Project manager and Project engineer or their equivalent 24 hours per day, 7 days per week (whether or not within business hours).

(v) **Fiber Optic**. Subject to the terms of this Lease, and subject to Tenant obtaining Landlord' s consent, which shall not be unreasonably withheld or delayed, Tenant shall have the right, at Tenant' s sole cost and expense, to bring to the Buildings comprising the Premises such fiber optic cabling as Tenant shall desire for Tenant' s business operations at the Premises. Landlord shall reasonably cooperate with Tenant, at Tenant' s sole cost and expense, in connection with Tenant' s securing access to the fiber optic cabling of Tenant' s choice.

(w) **Internet Service**. Tenant shall have the right to contract with any internet service provider desired by Tenant, at Tenant' s sole cost and expense.

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(x) **Confidentiality**. Landlord and Tenant acknowledge and agree that the terms and conditions of that certain Confidentiality Agreement dated October 7, 2010, between Tenant and Landlord' s affiliate, Alexandria Real Estate Equities, Inc., shall have no further force or effect following the execution and delivery of this Lease by both parties.

(y) **Leasehold Title Insurance**. If Tenant elects in writing to Landlord, within 6 months after the date of this Lease, to purchase, at Tenant' sole cost and expense, a leasehold policy of title insurance from Chicago Title Insurance Company (utilizing the Los Angeles office) with respect to Tenant' s leasehold interest at the Project, Landlord shall at the time of such election execute any documents reasonably acceptable to Landlord which are required to be executed by landlords in connection with the issuance of such a leasehold policy of title insurance. Tenant shall reimburse Landlord for all of its reasonable out-of-pocket costs and expenses incurred in connection with Landlord' s obligations under this Section 44(y).

[Signatures on next page]

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IN WITNESS WHEREOF, Landlord and Tenant have executed this Lease as of the day and year first above written.

TENANT:

ILLUMINA, INC.,
a Delaware corporation

By: /s/ Christian O. Henry
Its: Senior Vice President & CFO

LANDLORD:

ARE-SD REGION NO. 32, LLC,
a Delaware limited liability company

By: ALEXANDRIA REAL ESTATE EQUITIES, L.P.,
a Delaware limited partnership, managing member

By: ARE-QRS CORP.,
a Maryland corporation,
general partner

By: /s/ Gary Dean
Its: VP — RE Legal Affairs

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Exhibit 21.1

SUBSIDIARIES OF THE COMPANY

Name of Subsidiary	Jurisdiction	Doing Business As
Avantome, Inc.	Delaware	Avantome, Inc.
Epicentre Technologies Corporation	Wisconsin	Epicentre Biotechnologies
Helixis, Inc.	Delaware	Helixis, Inc.
Illumina Australia Pty. Ltd.	Australia	Illumina Australia Pty. Ltd.
Illumina Brasil Produtos de Biotecnologia Ltda.	Brazil	Illumina Brazil
Illumina Cambridge, Ltd.	United Kingdom	Illumina Cambridge, Ltd.
Illumina Canada, Inc.	New Brunswick, Canada	Illumina Canada, Inc.
Illumina France Holding Sarl	France	Illumina France Holding Sarl
Illumina France Sarl	France	Illumina France Sarl
Illumina GmbH	Germany	Illumina GmbH
Illumina Hong Kong Limited	Hong Kong	Illumina Hong Kong Limited
Illumina Iceland ehf	Iceland	Illumina Iceland ehf
Illumina Italy S.r.l.	Italy	Illumina Italy S.r.l.
Illumina K.K.	Japan	Illumina K.K.
Illumina Netherlands B.V.	Netherlands	Illumina Netherlands B.V.
Illumina New Zealand Limited	New Zealand	Illumina New Zealand Limited
Illumina Singapore Pte. Ltd.	Singapore	Illumina Singapore Pte. Ltd
Illumina Trading (Shanghai) Co., Ltd.	China	Illumina Trading (Shanghai) Co., Ltd.
Illumina UK, Ltd.	United Kingdom	Illumina UK, Ltd.
Lynx Therapeutics GmbH	Germany	Lynx Therapeutics GmbH

** All listed subsidiaries are wholly-owned, direct or indirect, subsidiaries of Illumina, Inc.

** As permitted under Rule 601 of Regulation S-K, we have omitted the names of subsidiaries, which if considered in the aggregate as a single subsidiary, would not constitute a "significant subsidiary" (as defined in Rule 1-02(w) of Regulation S-X) as of the end of the year covered by this report

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements (Form S-3 Nos. 333-111496, 333-134012, 333-144953 and 333-168395; Form S-4 No. 333-139111; Form S-8 Nos. 333-42866, 333-69058, 333-88808, 333-104190, 333-114633, 333-124074, 333-125133, 333-129611, 333-134399, 333-140416, 333-147389, 333-151625, 333-159662 and 333-168393) of Illumina, Inc. and in the related Prospectuses of our reports dated February 28, 2011, with respect to the consolidated financial statements and schedule of Illumina, Inc. and the effectiveness of internal control over financial reporting of Illumina, Inc., included in this Annual Report (Form 10-K) for the year ended January 2, 2011.

/s/ Ernst & Young LLP

San Diego, California February 28, 2011

Exhibit 31.1

CERTIFICATION OF JAY T. FLATLEY PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jay T. Flatley, certify that:

1. I have reviewed this Annual Report on Form 10-K of Illumina, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant' s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

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

5. The registrant' s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant' s auditors and the audit committee of the registrant' s board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant' s ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal control over financial reporting.

Dated: February 28, 2011

/s/ JAY T. FLATLEY Jay T. Flatley President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHRISTIAN O. HENRY PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Christian O. Henry, certify that:

1. I have reviewed this Annual Report on Form 10-K of Illumina, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant' s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

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

5. The registrant' s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant' s auditors and the audit committee of the registrant' s board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant' s ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal control over financial reporting.

Dated: February 28, 2011

/s/ CHRISTIAN O. HENRY Christian O. Henry Senior Vice President and Chief Financial Officer

Exhibit 32.1

CERTIFICATION OF JAY T. FLATLEY PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Illumina, Inc. (the "Company") on Form 10-K for the year ended January 2, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jay T. Flatley, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Dated: February 28, 2011

By: /s/ JAY T. FLATLEY
Jay T. Flatley
President and Chief Executive Officer

This certification accompanying the Report is not deemed filed with the Securities and Exchange Commission for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities such Section, and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before, on or after the date of the Report), irrespective of any general incorporation language contained in such filing.

Exhibit 32.2

CERTIFICATION OF CHRISTIAN O. HENRY PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Illumina, Inc. (the "Company") on Form 10-K for the year ended January 2, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Christian O. Henry, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Dated: February 28, 2011

By: /s/ CHRISTIAN O. HENRY
Christian O. Henry
Senior Vice President and Chief Financial Officer

This certification accompanying the Report is not deemed filed with the Securities and Exchange Commission for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities such Section, and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before, on or after the date of the Report), irrespective of any general incorporation language contained in such filing.

EXHIBIT 3

Drupal.behaviors.print = function(context) {window.print();window.close();}>

genomeweb

Q&A: Matt Posard on Illumina's Clinically Focused Business Unit

March 14, 2012

Q&A: Matt Posard on Illumina's Clinically Focused Business Unit

Name: Matt Posard
Title: Senior Vice President and General Manager, Translational and Consumer Genomics, Illumina
Experience: Vice President of Global Sales, Illumina, 2007-2012;
Vice President of Worldwide Marketing, Illumina, 2006-2007;
Regional Sales Director, Biosite, 2003-2006
Education: University of California, San Diego, BA in Quantitative Economics and Decision Making

In January, Illumina launched its Translational and Consumer Genomics unit, which will focus on services, the consumer market, CLIA certification and regulation, and business-to-business, with a particular focus on the clinical sequencing market (*CSN 1/11/2012*).

Illumina has said that clinical and commercial customers are increasingly making up a larger portion of its customer base, and that sequencing will become a core technology in molecular diagnostics (*CSN 2/8/2012*).

Recently, *Clinical Sequencing News* visited Illumina's headquarters in San Diego and spoke with Matt Posard, who is heading up the new unit, on its focus and goals, as well as the direction he think the clinical sequencing market is headed, and the remaining challenges for implementing sequencing in the clinic.

What is the goal of the Translational and Consumer Genomics business unit?

The mission really is to enable genomics-based healthcare. The way we intend to do that is not just look at what we sell as an instrument and a set of consumables, but [also] the report that a physician is going to look at. So our primary customer, if you will, is going to be clinical geneticists as well as pathologists because it's those groups that will ultimately sign off on the report.

The product is essentially that report, and we view our responsibility as making sure we provide the complete solution, so that the clinical geneticist and pathologist can sign off on that report

confidently and in as short a period of time as possible.

How are you developing the report?

There really will be three different categories of what will be ordered by clinicians. We think there will be fixed panels, we think there will be exomes, and we think there will be genomes. I think market adoption will essentially be in that order. There will be groups that will be interested in each of those three categories, but what we're hearing from the medical pathologists is that the largest demand — at least for the next year or two — is going to be in fixed panels. So, Illumina will be developing those panels in collaboration with clinical and academic centers. You'll be hearing more about that in months to come.

Through those panels we also intend to partner with teams that have already incorporated clinical reporting infrastructures for genomics. So, rather than have a black box reporting tool, we're going to adapt to the tools that are already out there.

The [TruSeq Amplicon – Cancer Panel] that we just [launched] is a research [use] only product. ... But generally speaking, to perform these panels as [laboratory-developed tests], customers have to custom-design the content. We don't plan on selling a fully-kitted product for translational use. That's really intended for research use.

What will the clinical products look like then?

Generally, the clinical products are going to be narrower in content than the research products. And the reason is that each institution has its own criteria on what they're going to report clinically. You have some institutions that are only going to report what's in the guidelines — the 23 genes in cystic fibrosis, for example. You'll have others that will only report what's reimbursed. You'll have others that will be a little bit more liberal in the content they provide their physicians, but it has to be confirmed pathogenic genes.

Then, at the other end of the spectrum you have these academic centers that will go all the way to the point where there's some publication-based association with the disease, in which case they'll say [the variant is] likely pathogenic. Each institution obviously has its own criteria and physician base that will help determine that. Our approach is to offer the genes of interest for each individual consumer.

So, each institution or customer would essentially design its own targeted gene panel?

Right, but there is a lot of support that's necessary that we think differentiates this business unit from other options on the market as well as from the research user. We will do all the optimization work for customers for these various panels up front. We'll do all the design work to optimize A to Z. And then customers can order whichever of the letters from A to Z for their specific panel.

Do you anticipate that these customers would be doing the sequencing in house, and then you'd be providing the interpretation? Or would you also be doing the sequencing?

We see the market as being bifurcated into two groups. In the first group are the people who want to bring the technology in house and do their own testing.

The second area of the market [will be users] who, for various reasons, just want to outsource

their samples. They'll either outsource them to reference labs, [to] which we are marketing to offer our products, or they're going to send them to Illumina. And our primary offering that we intend to continue to evolve out of CLIA is whole-genome sequencing. For whole genome what we'll be offering is today's rigorous QC that allows us to run it under CLIA and report the results, but we'll evolve it to include technical as well as clinical annotation services, so full interpretation of what those genome results are.

Where we see this evolving over the next several months is [to] something that takes the onus off the end user to interpret that genome. We'll do the bulk of that interpretation for the end user.

How are you developing the clinical interpretation pipeline? Is this something you're doing in house or are you collaborating with outside groups?

This requires an external evolution, which is happening very quickly, on biological annotation and clinical annotation. So all the public databases of the world essentially have individuals that can populate various variants that they find and show biological and clinical correlation to various diseases and responses to therapies. Then, from an in-house point of view, we have to automate that. We have to keep it updated and pull that information on a timely basis and scale it.

That's something we're taking on at Illumina — developing it internally and taking on solutions from other companies that have developed these systems. [We want something] that makes sense for us so that we can scale when the market gets to the size we expect it to be pretty shortly, which is definitely going to be thousands and thousands of clinical genomes.

How do you see the market for clinical sequencing growing?

Everybody has their own crystal ball, but ... while the number of years that they're looking out may vary — some people would say maybe a few years, others would say five years — everybody expects genomic-influenced healthcare to be based on whole genomes. And we know some very large institutions and some very large entities that are already formulating plans to sequence babies at birth. We're also talking to oncologists and cancer centers that are putting plans in place to ensure that every cancer patient is sequenced during the course of their therapy.

I believe that clinical sequencing for all cancer patients will be seen as standard of care. I think for my children and their generation, particularly, for them and for their kids, clinical sequencing and whole-genome [sequencing] are going to become standard of care.

How have the physicians and pathologists that you've worked with responded? Are they receptive of the technology?

It's really dangerous to generalize, but I would say like all large groups, you have early adopters and you have late adopters. Based on feedback from those we interface with regularly as well as from the American Molecular Pathology group, next-generation sequencing is definitely grabbing the majority of mindshare among that group at levels they've never seen before. So, whether an early adopter or a late adopter, I think everybody's convinced it's coming and [is] extremely interested to see how it actually evolves. [Next-gen sequencing] has had incredible success in the research community, but how it actually makes that leap to the clinical community [is a concern].

So that's a long answer. The short answer is that everybody is prepared and excited about it

coming, but wants to make sure that it's reimbursed, [and that] the quality standards are consistent with a clinical as opposed to a research laboratory.

[Another concern] is, frankly, what I would say is the rate of change. What's made next-gen sequencing so popular in the research community has been in large part its rate of change, but change in a clinical community, if not managed, is very intimidating and generally seen as a negative. So stability and manageability, if you will, of this amazing technology is going to be really critical.

How important are collaborations in bringing sequencing-based diagnostic assays to the market?

Clinical collaborators are very important. They are the subject matter experts. Illumina may be the technology and the instrument expert, but translating that technology into something that actually impacts patient care positively is only something you can find from a clinical collaborator.

The technology also tends to be received faster and have more credibility by customers if they know that the product was developed in collaboration with a medical institution that has a lot of respect.

Where are you in discussion with the US Food and Drug Administration on obtaining 510(k) clearance for the MiSeq, and how has your experience with clinical sequencing informed your discussions?

We've submitted a pre-[investigational device exemption] for the MiSeq and are working with the FDA toward getting that into a clinical trial and ultimately 510(k) cleared. Our diagnostic business unit is in routine discussions with the FDA to ensure that we get the proper labels for the various products that we've been talking about.

And I think that, to their credit, the FDA has been amazingly involved and supportive of next-gen sequencing. They obviously want to make sure that the supply companies get it right. And it's going to shatter some old paradigms and I think create some new standards by which these technologies are evaluated.

For the MiSeq to get 510(k) cleared it will be done with a specific assay. We haven't publicly announced that yet, but there will be a specific assay that goes with that and then all the following assays on top of that, which will be panels.

What are the remaining major challenges to adopting next-gen in the clinic?

For any new diagnostic or technology to be accepted it really has to address the following: it must have compelling clinical utility; clinical and economic outcomes have to be established; and reimbursement has to be established and routine.

A lot of these technologies, including whole-genome sequencing, have been demonstrated to be reimbursed but it's early days yet to determine how long it will take to be standard of care for a reimbursed product or a reimbursed diagnostic nationwide or routinely.

Coupled with that, it has to be something that fits within a clinical laboratory. So whether someone wants to do the testing themselves or outsource it, there has to be ease in ordering that product or diagnostic, relative speed in getting results back, and interpretation that results in

clinically relevant decisions. All of that has to be established in a protocol that is reproducible for other users as well as scalable.

Do you think that whole-genome sequencing will always be physician-mediated, or will it evolve to a point where a consumer can just go and get his or her genome sequenced?

I think it depends on ... what we're calling the consumer. If it's someone that's struggling with an undiagnosed disease, it's always going to go through a physician, without question. If it's somebody that's healthy but just being proactive about understanding genomics or their own DNA, which I would say is more a curiosity angle and more educationally driven, then there are certainly products on the market today on the genotyping side that allow those people to explore.

And for somebody to do that on their own genome, while they couldn't get a CLIA-based genome without going through a physician, I think in the future there will be opportunities for people to explore their own DNA and their entire genome without it having clinical consequences for that patient today because they're healthy.

The risk or the responsibility that's on Illumina and the other providers is [that], when somebody is exploring their own genome, they will find markers that have risk predisposition for different diseases. Making sure those results are provided responsibly and, in some cases, with professional counseling or support to help that individual through that information is the responsibility of the provider of those products.

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- Wells Fargo Begins Coverage of Illumina with Outperform Rating
  September 10, 2013 / GenomeWeb Daily News
- Illumina Q2 Revenues up 23 Percent; Acquires Advanced Liquid Logic for up to $96M
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- NIPT and Cancer Drive Illumina's Clinical Business in Q1 as it Looks to Launch Fetal Aneuploidy IVD
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EXHIBIT 4

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Illumina Unveils Strategy to Enter Molecular Diagnostics Market

January 21, 2009

Illumina Unveils Strategy to Enter Molecular Diagnostics Market

By Turna Ray

Illumina plans to enter the molecular diagnostics space by forging partnerships with customers, opening a new CLIA lab, and launching a research project to study cancer genomes, CEO Jay Flatley said during a recent presentation to investors.

Speaking at the JPMorgan Healthcare Conference in San Francisco last week, Flatley said the company will invest to improve existing sequencing technologies and develop new ones to enable it to play in the molecular diagnostics space, which he estimates to be worth $3 billion.

"We are really excited about what's happening in the sequencing market," Flatley said during his presentation. "We think over the next few years, it's going to be the most exciting segment in life sciences tools, so we continue to make major investments in this space."

As part of what Flatley called Illumina's "platform partnering" program, the company plans to work with customers to develop diagnostic applications using its existing BeadXpress genotyping platform and the sequencing technology it acquired last summer when it bought Avantome.

With the BeadXpress platform, Illumina has already begun partnerships to develop genotyping assays for blood typing, pharmacogenomics, and prenatal testing, Flatley said. Illumina hopes to garner clearance from the US Food and Drug Administration for the BeadXpress platform in the second half of the year.

Illumina has yet to commercialize the Avantome technology. Flatley did not update investors on the types of sequencing-based diagnostic tests Illumina plans to develop with the Avantome platform, or the partners Illumina is working with on this effort.

Additionally, Illumina plans to open its own CLIA-certified diagnostic laboratory, which will allow the company to introduce tests and testing services while waiting for the US Food and Drug Administration to clear test kits being developed under its partnering program.

He said the CLIA lab will also enable Illumina to offer services based on proprietary content from

its licensing and discovery programs, and to offer sequencing services for "traditional [genetic] targets" such as carrier testing for Rett syndrome; drug-resistance testing for HIV and Mycobacterium; mutation detection in the genes P53, KRAS, BRAF, EGFR; and HLA testing.

The company plans to apply for CLIA-certification during the first half of this year and hopes to start generating revenue from diagnostic services in the second half of 2009. An Illumina spokeswoman told *PGx Reporter* sister publication *In Sequence* this week that the company's primary interest for the CLIA lab is to provide sequencing services on its Genome Analyzer.

The last piece of Illumina's plan to enter the diagnostics space involves an internal discovery-research project to study ovarian and gastric cancer. To that end, the company plans this year to sequence approximately 50 cancer genomes and their controls, and to conduct whole-trascriptome and methylation-profiling analyses of these samples, Flatley said.

After validating the results in a larger number of samples, Illumina plans to implement diagnostic tests using these results on its array platform. Specifically, for ovarian cancer, Illumina aims to "identify very early markers for diagnosis" and to "begin to look at the genetics of therapy resistance, in particular resistance to platinum therapy," according to Flatley.

He said Illumina can embark on a project of this scale because "we can sequence so rapidly, and at such great cost points."

The decreasing cost of sequencing technologies has particularly impacted the nascent consumer genomics industry. Both 23andMe and Navigenics have said they plan to offer their customers whole-genome sequencing as the costs of this technology decrease.

Flatley told the JPMorgan conference that the molecular diagnostics market will grow from $3 billion to $5 billion by 2011, while the sequencing market will grow from $1.1 billion to $1.5 billion during that period. Illumina is betting that its sequencing know-how will enable it to win a slice of the broader molecular diagnostics space.

In this regard, Flatley said Illumina plans to launch several new products in the near term, including a sequencing add-on module, called Harmonia. The module works in concert with Illumina's iScan genotyping platform, set for launch in the second half of this year, and will be marketed to the company's genotyping customers who want to try sequencing technology.

Last week, as reported in *In Sequence*, Illumina announced it had made an $18 million investment into UK-based startup Oxford Nanopore Technologies. Oxford's nanopore sequencing technology "holds tremendous promise to be one of the first technologies to reach the sub-$1,000 genome and become the cheapest and fastest way to sequence DNA," Flatley said during his presentation (see *In Sequence* 1/13/2009)

— *Julia Karow, editor of* In Sequence, *contributed to this article.*

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EXHIBIT 5

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BIOTECH

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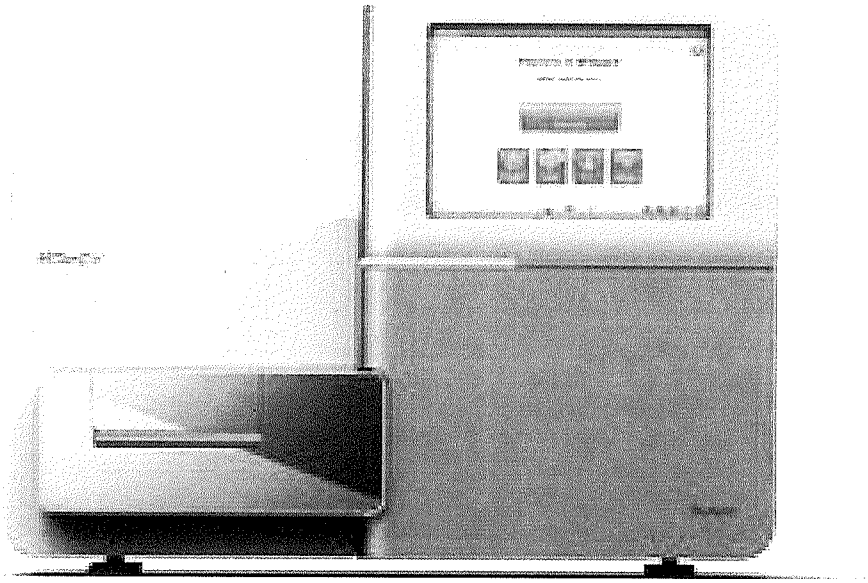
Bradley J. Fikes • U-T 08:05p.m. Nov 26, 2013



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Gregory F. Heath, Ph.D., Illumina Senior Vice President & General Manager, Diagnostics. Courtesy photo

Increasingly powerful DNA sequencers have uncovered a mountain of data on how changes in the human genome affect health and disease. These "next-generation" instruments have greatly speeded up genome sequencing, while bringing down the price from hundreds of millions to as little as $5,000.

But few patients have benefited from this powerful technology, because the sequencers haven't been approved for clinical applications. They are used in research laboratories and only in rare circumstances have been used to guide treatment.

Thanks to a historic decision by the U.S. Food and Drug Administration, that knowledge will now be brought directly to patients as part of normal medical care. And the first company to do so will be Illumina, the San Diego-based DNA sequencing giant.

Illumina received FDA approval last week to sell its new next-generation sequencer for clinical use. The FDA also approved two tests for cystic fibrosis to be performed on the machine, and perhaps most significantly, a kit to help clinical laboratories develop their own tests for the sequencer. European regulators gave approval about two months ago for the instrument, called the MiSeqDx.

Using the kit, laboratories can develop innumerable tests, said Greg Heath, Illumina's senior vice president and general manager of diagnostics.

"The uses are limited only by their creativity," Heath said.

The approval's significance was highlighted by an article in the New England Journal of Medicine. The authors: Francis Collins, director of the National Institutes of Health, and Margaret Hamburg, FDA commissioner.

"Clinicians can selectively look for an almost unlimited number of genetic changes that may be of medical significance," Collins and Hamburg wrote. "Access to these data opens the door for the transformation of research, clinical care and patient engagement."

EXPANDING FIELD

Next-generation is a collective term for technologies that harness microelectronics to analyze genomes in a massively parallel fashion. The instruments use miniaturized devices to study the genome at many places at once. This not only speeds up analysis, it lowers prices, in part because the cost of the instruments can be amortized much more quickly.

Lower price means more patients can benefit. Increased speed means genome scanning can be performed in an increasingly routine fashion. The combination means that research knowledge can become part of daily patient care.

And for Illumina, more sales of sequencers means more revenue. As confidence in next-generation sequencing's future has grown, so has Illumina's market value, which now exceeds $12 billion.

Shares of Illumina closed Tuesday at $98.29. On Monday, shares briefly exceeded $100 apiece.

Illumina's market value was less than half that in January 2012, when Swiss drug giant Roche offered to buy Illumina for $44.50 per share, or about $5.7 billion. On Dec. 21, the day before rumors about the potential purchase surfaced, Illumina shares were trading for $27.17.

Illumina turned down that offer, and a sweetened offer of $51 per share, as far below the company's true value.

One of the few ways Illumina's research technology has reached the public is through the gene-testing company 23andMe, which uses Illumina sequencers. But that use was halted Monday when the FDA ordered the Mountain View company to stop selling its tests. The company said the tests are meant for guidance, not for medical diagnosis. But the FDA said 23andMe needs to prove clinical accuracy. Approval of Illumina's new clinical-grade sequencer offers another path to the market, with formal regulatory blessing.

The approval gives Illumina increased access to a vast and growing clinical diagnostics market, said John McCamant, editor of the Berkeley-based Medical Technology Stock Letter.

NATURAL COMPLEMENT

Clinical diagnostics are a natural complement to drugs, McCamant said. More accurate diagnostics is key to applying what's often called personalized medicine, in which treatments are matched with an individual's biological makeup.

Illumina's cystic fibrosis tests should pair nicely with a new drug being tested by Vertex Pharmaceuticals, McCamant said. There is no cure for cystic fibrosis, and no drug treats the underlying cause, mutations that cause thick mucus to build up in the lungs.

Illumina and its Carlsbad-based rival Life Technologies dominate next-generation sequencing, with a number of smaller competitors vying to leapfrog with other technologies.

Illumina, as its name implies, uses light-based methods to detect DNA sequences. An alternative that has received much attention in recent years directly detects sequences on a computer chip.

The technology was developed by Ion Torrent, now a division of Life Technologies. It is the basis of Life Tech's Personal Genome Machine and the newer Ion Proton next-generation sequencer.

However, the technology needs further development to compete with Illumina, according to a Nov. 11 analyst report from the research and investment banking company Leerink Swann. The Ion Proton device produces three times the error rate of the Personal Genome Machine, according to the report. Life Tech is working on Ion Proton improvements.

A smaller competitor, Oxford Nanopore, sequences DNA and proteins by sending them through an extremely small opening called a nanopore, and measuring changes in how electricity is transmitted as each letter, or base pair, is passed through. Illumina has long had a relationship with Oxford Nanopore, but on Nov. 15 Oxford said Illumina sold its 13.5 percent equity stake to other investors.

Other competitors include Complete Genomics, based in Mountain View; and Pacific Biosciences of Menlo Park.

GENE TO GENOME

Genetic diagnostics began when Linus Pauling discovered a mutation that causes sickle-cell anemia and in the process

described how to think of disease in a new way. Pauling co-wrote a paper on the discovery published in Science in 1949. Its title: "Sickle Cell Anemia, a Molecular Disease."

But the original technology was slow, requiring tedious work to find a disease-causing mutation in just one gene. Exploring the entire 3 billion letters of the human genome was unthinkable. And since genes make up only a small percentage of the genome, scientists focused on that portion, assuming most of the rest had no clinical significance.

Next-generation sequencing, pioneered in the late 1990s, changed that view. It was the product of competition between a government-led consortium and a private effort by Celera Genomics, headed by gene pioneer J. Craig Venter. The competition accelerated efforts on both sides, resulting in the draft of the first human genome, announced in June 2000.

Since then, the story of sequencing has been one of speed, lowered costs and discoveries in hitherto unknown areas. In recent years, the trend has surpassed Moore's Law, the famous statement of Intel founder Gordon Moore that predicted an exponential increase in the number of transistors on semiconductor chips, with a lowered cost.

This newfound ability to plumb the genome at will opens up possibilities that weren't practical before. Already, the genomes of numerous individuals have been sequenced to determine which variants are associated with physical traits. This is called a genome-wide association study. Its power is that GWAS can find variants in any part of the genome, not just in preselected genes.

Cancer will be one of the biggest applications of clinical next-generation sequencing, Heath said. Cancer cells are characterized by unstable genomes that mutate frequently. Some of these mutations fall into predictable patterns that "drive" cancer development. Next-generation sequencing allows frequent sequencing of a patient's cancer to track its progress.

Collins and Hamburg discussed this use in their article in the New England Journal of Medicine. "For instance, lung adenocarcinoma can now be divided into subtypes with unique genomic fingerprints associated with different outcomes and different responses to particular therapies," they wrote. "More broadly, recent work from the Cancer Genome Atlas demonstrates that the tissue of origin of a particular cancer may be much less relevant to prognosis and therapy than the array of causative mutations."

Moreover, next-generation sequencers routinely uncover previously unsuspected relationships between diseases and mutations in the great majority of the genome that has no genes. Much of these "non-coding" stretches of DNA have no identifiable function, but that proportion is less than originally thought.

Last year, a massive genome study called ENCODE used Illumina sequencers to determine that at least 20 percent of the human genome is functional. It set an upper limit of 80 percent of the genome that shows biochemical activity that may be functional. The actual number, which lies in between the two, will need more research to determine. That means more work for the researchers — and more business for Illumina.

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EXHIBIT 6

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Illumina Sees Diagnostics as Largest Growth Opportunity; Dx Strategy to Focus on Cancer

June 20, 2012

Illumina Sees Diagnostics as Largest Growth Opportunity; Dx Strategy to Focus on Cancer

By Julia Karow

Illumina sees the clinical market as its largest opportunity for growth and will focus its diagnostic strategy on cancer, a company representative said last week.

"What we expect to be the largest market, and the most important market for the company over the next decade, is the emerging clinical and translational market," said Christian Henry, Illumina's senior vice president and general manager of genomic solutions, during a presentation at the William Blair Growth Stock Conference, which was webcast. "The diagnostics opportunity is by far the most significant opportunity."

While genetic diagnostics is about a $6 billion market today that is "focused heavily" in the area of infectious disease, he said, it could grow to $23 billion by 2020, driven by infectious disease, cancer, and reproductive medicine, with contributions from pharmacogenomics.

Illumina's goal will be to develop a diagnostic strategy to take advantage of this market opportunity, Henry said. "The focus for us will be primarily in cancer, because we think it's the most complicated [area] and will use the most sequencing, so our core competencies are uniquely suited to going into that market."

Henry also made a projection for how Illumina could gain more than $600 million in additional annual revenues from clinical or diagnostic sequencing once the '$1,000 genome' is available, which he said will likely happen over the next few years.

About $350 million in new revenues could come from newborn screening by whole-genome sequencing, assuming that 1 percent of all newborns in the US and other industrialized countries — about 34.5 million in total — would undergo such a test.

Another $250 million in annual revenues could come from cancer diagnostics if 1 percent of all new cancer patients in the world — a total of about 12.7 million in 2008, according to the World

Cancer Research Fund International — would have their tumor as well as a normal control sequenced. It is likely that each tumor would be sequenced multiple times during the course of therapy, he added. "Achieving 1 percent penetration in this market we expect will be very straightforward, and we think we'll be able to achieve much higher levels of penetration over the next decade," Henry said.

Finally, $25 million in annual revenues could derive from the clinical trial market if 1 percent of all patients entering clinical trials in the US each year would undergo whole-genome sequencing.

These projections are aimed to "impress upon you how significant these markets are going to become, and we are at the very earliest stages of taking advantage of this opportunity," Henry concluded.

He pointed out that the company's HiSeq 2000 sequencer is already being used by several companies, such as Sequenom, in prenatal diagnostics to test for Down syndrome and other chromosomal abnormalities. "This is a really significant opportunity for those companies and for Illumina," he said, adding "that market could be well over $1 billion and move very fast."

Illumina is already using the HiSeq 2500, which has not been commercially released yet, in its service laboratory to generate fast clinical results, for example to "help a clinician with a specific cancer case with a five-day sample-to-answer turnaround," he said. "The implications of this are very significant because it allows us to start pushing the system deeper and deeper into clinical applications, because if you are a patient, you don't want to wait from 10 days to a month for the answers."

Besides rapid turnaround, having a simple workflow, accurate data, and being able to work with small amounts of input DNA will be important for clinical sequencing applications, Henry said, noting that Illumina's TruSeq PCR-free protocol allows users to perform whole-genome sequencing with as little as 500 nanograms of DNA.

"One of our competitive advantages is that we have the fastest workflow, and we have the simplest workflow in the industry," Henry claimed. "That allows researchers of various skill levels to get engaged with the technology, which becomes more and more important as we start to move into the clinical markets."

Julia Karow tracks trends in next-generation sequencing for research and clinical applications for GenomeWeb's *In Sequence* and *Clinical Sequencing News*. E-mail Julia Karow or follow her GenomeWeb Twitter accounts at @InSequence and @ClinSeqNews.

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- Macrogen Expands Sequencing Fleet in Preparation for Clinical Sequencing Service Launch
  March 28, 2012 / Clinical Sequencing News
- Illumina Sees Growing Commercial Customer Base; Doubled Clinical HiSeq Placements in 2011
  February 8, 2012 / Clinical Sequencing News

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EXHIBIT 7

Illumina Receives FDA 510(k) Clearance for Its BeadXpress Multiplex Analysis System

Provides Clinically Validated Platform for the Next Generation of Molecular Diagnostic Tests

SAN DIEGO – May 3, 2010 – (BUSINESSWIRE) – Illumina, Inc. (NASDAQ:ILMN) today announced that the U.S. Food and Drug Administration (FDA) has granted 510(k) market clearance for the company's BeadXpress system for multiplex genetic analysis. According to the FDA's indications of use, the BeadXpress system – consisting of Illumina's BeadXpress Reader and VeraScan software – is an in-vitro diagnostic device intended for the simultaneous detection of multiple analytes in a DNA sample utilizing VeraCode holographic microbead technology.

"This approval represents a significant and exciting transitional step for Illumina into the diagnostics field, where the potential is great for molecular medicine to make a real difference in the way disease is detected and ultimately prevented and treated," said Jay Flatley, president and CEO. "It demonstrates Illumina's ability to meet stringent regulatory requirements in designing and manufacturing an FDA-cleared in-vitro diagnostic device. This will serve as an important foundation for our future plans in the diagnostics area. Ultimately, our goal is to become a leader in translational medicine, focusing on complex diseases that benefit from high performance analysis, including genotyping, copy number, gene expression, methylation and protein analysis."

Illumina introduced the BeadXpress system in 2007 with Research Use Only kits for custom genotyping, gene expression, methylation and protein analysis. Since then it has been adopted by research, agricultural, industrial and pharmaceutical institutions worldwide. Utilizing uniquely inscribed digital microbeads, VeraCode technology provides high-quality data, broad multiplexing capability and assay flexibility. Illumina submitted the system for FDA review in September 2009.

"510(k) clearance opens up a wide range of new possibilities for our many clinical research and commercial partners, who can now pursue diagnostic development on our proven, high-performance BeadXpress platform," said Gregory Heath, Ph.D., senior vice president and general manager, Diagnostics. One of those partners is EraGen Biosciences, Inc., which concluded a licensing agreement with Illumina in 2009 to transfer their assays onto the BeadXpress System. "This clearance is a significant step forward in progressing our partnership in the clinical marketplace," said Irene Hrusovsky, M.D., president and CEO of EraGen Biosciences.

For more information, please visit www.illumina.com.

About Illumina

Illumina (http://www.illumina.com) is the leading developer, manufacturer, and marketer of integrated systems for the analysis of genetic variation and biological function. Using our proprietary technologies, we provide a comprehensive line of products and services that currently serve the sequencing, genotyping, and gene expression markets, and we expect to enter the market for molecular diagnostics. Our customers include leading genomic research centers, pharmaceutical companies, academic institutions, clinical research organizations, and biotechnology companies. Our tools provide researchers

around the world with the performance, throughput, cost effectiveness, and flexibility necessary to perform the billions of genetic tests needed to extract valuable medical information from advances in genomics and proteomics. We believe this information will enable researchers to correlate genetic variation and biological function, which will enhance drug discovery and clinical research, allow diseases to be detected earlier, and permit better choices of drugs for individual patients.

Forward-Looking Statements

This release contains forward-looking statements that involve risks and uncertainties. Important factors that could cause actual results to differ materially from those in any forward-looking statements include challenges inherent in new product development and manufacturing and the other factors detailed in our filings with the Securities and Exchange Commission, including our most recent filings on Forms 10-K and 10-Q, or in information disclosed in public conference calls, the date and time of which are released beforehand. We undertake no obligation, and do not intend, to update any forward-looking statements after the date of this release.

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TruGenome Clinical Sequencing Services for Patients/Guardians

Genome sequencing offers the potential for new diagnostic insights and suggested treatments. The TruGenome Clinical Sequencing Services can provide you and your physician with valuable genomic data which may help guide healthcare decisions and manage care.

If you are interested in TruGenome Clinical Sequencing Services, we recommend that you discuss your interest with a physician who can lead you through the process, know what genetic information you are seeking, and consider what additional information you may, or may not, want to learn based on your genome sequence. With your physician, you should also discuss additional resources he/she may need to analyze and interpret your genome information as well as any additional tests or evaluations that may be necessary to follow up on the genome results.

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What testing do you offer?

We currently offer whole-genome sequencing tests. Whole-genome sequencing enables your physician to review your genetic information to help you make optimal choices for your healthcare management.

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TruGenome Undiagnosed Disease Test	To aid physicians in the diagnosis of a patient presenting with an undiagnosed rare genetic disease of single-gene etiology when previous genetic testing has been unable to find a diagnosis; for a singleton	FT-800-1005	FT-800-1015
TruGenome Undiagnosed Disease Trio Test	The TruGenome Undiagnosed Disease Test for sequencing of patient and parents (trio) for improved analysis of inherited variations	FT-800-1006	FT-800-1016
TruGenome Undiagnosed Disease Reflex Test	The addition of sequencing and analysis of the parent's genomic information to a previously ordered TruGenome Undiagnosed Disease Test (patient only) that revealed limited information to aid in diagnosis	FT-800-1007	FT-800-1017
TruGenome Predisposition Screen	For healthy adults interested in learning about their carrier status and genetic predisposition towards adult-onset conditions	FT-800-1004	Inquire
TruGenome Technical Sequence Data	Clinical whole-genome sequencing in the CLIA-certified, CAP-accredited Illumina Clinical Services Laboratory for labs and physicians who will make their own clinical interpretations	FT-800-1001	FT-800-1011

* TAT = turnaround time. The Rapid TAT service must be arranged in advance to make sure that a system is reserved to sequence the samples upon arrival.

I am interested in TruGenome Clinical Sequencing Services. How do I get started?

TruGenome Clinical Sequencing Services are diagnostic tests and must be ordered by a physician. Speak with your physician, or appropriate healthcare professional, about your desire to have your genome sequenced.

Your physician may need to contact us to discuss how well we cover the genetic regions of interest and the technical support he or she will need to analyze and make use of the test results. Your physician can contact us at everygenome@illumina.com with any questions.

My physician wants to order a TruGenome test for me. What is involved?

To begin the process, we need to receive a Sample Collection Kit request from the ordering physician. This enables us to quickly send the Sample Collection Kit containing the required barcoded tubes and testing paperwork, including the Informed Patient Consent form and the Test Requisition form. All paperwork is required for the TruGenome service. The sample, 4-8 ml of blood, must be returned in the collection tube provided in the Sample Collection Kit. Forms should be returned with the sample. Completed paperwork and payment arrangements are due before we begin sequencing.

TruGenome results are returned to the ordering physician so that he or she can review them with you. It is important to realize that our lab only provides a technical report and not a professional interpretation report. A specialist physician and/or a bioinformatics specialist may need to review the DNA changes identified through sequencing to determine which ones may be important to you based on your symptoms. This is not something we currently provide as part of the test report. Results form the TruGenome Predisposition Screen can be viewed through the Illumina MyGenome app for the iPad. Your physician will have the pass code needed to download your genome. Illumina does not provide an iPad as part of the TruGenome test.

How long does the TruGenome sequencing process take?

TRUGENOME SERVICE	STANDARD TAT*	RAPID TAT*
Undiagnosed Disease Test	90 days	45 days
Predisposition Screen	90 days	*Inquire*
Technical Sequence Data	45 days	14 days

* TAT = turnaround time. The Rapid TAT service must be arranged in advance to make sure that a system is reserved to sequence the samples upon arrival.

Do I need to see a genetic specialist?

Genetics professionals are expertly trained to review your medical history and help determine which testing is necessary for your care. These physicians and counselors can also help you understand the benefits and limitations of genetic testing. If you are planning to use the TruGenome test information for preventive purposes, an Internal Medicine physician or your General Practitioner may be the best professional to integrate the results into your on-going healthcare. If you are seeking a TruGenome test to help diagnose a condition, then a specialist with expertise in your type of condition may be the best person to consult. A specialist evaluation is very important in determining whether whole-genome sequencing through the TruGenome services is the best next step. Frequently, a medical genetics physician is the most appropriate.

The following websites can help you locate a genetic specialist near you:

- American College of Medical Genetics Genetic Service Locator
- National Society of Genetic Counselors Find a Genetic Counselor
- NCBI GeneTests Genetic Clinic Directory
- OrphaNet Rare Disease Specialists and Institutions in Europe

How much does testing cost?

Three services are currently available. Read the test descriptions for details on the intended use of each test. If you have any questions about the appropriateness of a test, contact us.

TRUGENOME SERVICE	PRICING FOR STANDARD TAT*	PRICING FOR RAPID TAT*
Undiagnosed Disease Test	$9,500	$11,400
Undiagnosed Disease Trio Test	$17,500	$21,000
Undiagnosed Disease Reflex Test	$9,500	$11,400
Predisposition Screen	$9,500	$11,400
Technical Sequence Data	$5,000	$6,000

* TAT = turnaround time. The Rapid TAT service must be arranged in advance to make sure that a system is reserved to sequence the samples upon arrival.

Will health insurance cover the cost of a TruGenome test?

TruGenome services may or may not be covered by your patient's health insurance plan depending upon the purpose of the test. Each patient will need to speak with his/her health insurer for more information as each person's case may be unique. Illumina bills the patient, guardian, or hospital directly who is then responsible for seeking reimbursement from insurers as applicable. Illumina does not directly bill insurance companies.

How comprehensive are the results from my TruGenome test?

A TruGenome test covers approximately 90–95% of the human genome. It reports genetic changes caused by single DNA base substitution events. Other types of genetic changes that may lead to genetic disease cannot be detected or reported with a TruGenome test. These include, but are not limited to, larger genetic changes or rearrangements such as deletions, duplications, insertions, copy number variations, or trinucleotide repeats.

Is additional testing required?

Your TruGenome test results may provide important health information, but it is only part of the story. We recommend that you work with a physician or other trained genetic professional (genetic counselor, medical geneticist) who will help you to determine a course of action, which may include ordering a secondary test or interpretive service to validate or investigate your genome sequence results.

How often should I ask my physician to update my TruGenome test report?

You and your physician can deterine how often you should update your TruGenome test report based on the healthcare plan you develop together. Periodic updates will allow you to take into account ongoing scientific discoveries and medical recommendations relevant to your test results.

Are the data from my test private?

Patient information is kept confidential in compliance with all laws.

Where can I learn more about genetic conditions?

The websites listed below are good resources for learning more about inherited genetic diseases as well as the genetic influences on more common diseases and traits.

- Genetics Home Reference
- MedlinePlus

TruGenome Clinical Sequencing Services is performed in the Illumina CLIA (Clinical Laboratory Improvements Amendment)-certified and CAP (College of American Pathologists)-accredited Clinical Services Laboratory. The TruGenome Sequence information is generated by licensed personnel using an analytically validated process. Consistent with Laboratory Developed Tests, it has not been cleared or approved by the U.S. Food and Drug Administration.

This genome sequence information can be analyzed to potentially aid your physician in the evaluation of a broad range of health conditions or physiological traits. You will not receive medical results, or a diagnosis, or a recommendation for treatment from Illumina. Any results arising from the analysis of your genome sequence information that might be deemed medically actionable should be confirmed using alternative testing. If you have any questions or concerns about what you learn through your genome sequence information, you should contact your physician or a genetic counselor. Currently Illumina does not accept orders for TruGenome Clinical Sequencing Services from New York.

Life Sciences | Personal Sequencing | Diagnostics

Applications
Sequencing
Genotyping
SNP Genotyping & CNV Analysis
Gene Regulation & Epigenetic Analysis
Gene Expression Analysis
Real-Time PCR
Cytogenomics
Agrigenomics
Cancer Genomics
Forensic Genomics
Genetic Disease
Microbial Genomics

Systems
HiSeq Systems
Genome Analyzer IIx
MiSeq
HiScanSQ
HiScan
iScan
Eco Real-Time PCR System
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Illumina Clinical Services Laboratory
Translational Genomics
Clinical Informatics

Services
Genome Network
FastTrack Services
CSPro
Core Labs
Service Partnerships
Illumina Financial Solutions
Illumina Connect

Science
Publications
Researchers
Technology
iCommunity
Webinars

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Documentation
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Software
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DesignStudio
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Innovative technologies
At Illumina, our goal is to apply innovative technologies to the analysis of genetic variation and function, making studies possible that were not even imaginable just a few years ago. It is mission critical for us to deliver innovative, flexible, and scalable solutions to meet the needs of our customers. As a global company that places high value on collaborative interactions, rapid delivery of solutions, and providing the highest level of quality, we strive to meet this challenge. Illumina's innovative sequencing and array technologies are fueling groundbreaking advancements in life science research, translational and consumer genomics, and molecular diagnostics.

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Illumina Clinical Services Laboratory

Overview

TruGenome Clinical Sequencing Services

For Physicians

- How to Order
- Test Forms
- Results
- Privacy
- Publications
- Contact Us

For Patients/Guardians

About the Lab

Sign up to receive newsletters, case studies, and information on how WGS is impacting healthcare.

First

Email

Area of Interest:
~ Please select

Lab Type:
~ Please select

SIGN UP

For Physicians

QUESTIONS

Genome-based testing through the TruGenome Clinical Sequencing Services can be used for a comprehensive exploration of your patient's genetic data, which may be helpful in both diagnosing and assessing your patient's risk for certain genetic diseases. Information on this page answers some of the most frequently asked questions about the following topics:

- Service Offerings, Pricing, and Availability
- Process
- Privacy
- TruGenome Undiagnosed Disease Test
- TruGenome Predisposition Screen
- TruGenome Technical Sequence Data
- Methods and Technology

Service Offerings, Pricing, and Availability

What testing do you offer?

Do you offer whole-genome sequencing for cancer patients?

If I don't order the Technical Sequence Data, is there any reason why I would want to receive my patient's technical data?

How do I obtain my patient's technical data if I am not ordering the TruGenome Technical Sequence Data?

How much do the TruGenome Clinical Sequencing Services cost?

Will health insurance cover the cost of TruGenome Clinical Sequencing Services?

Do you support patient testing in all states in the United States?

Do you support patient testing worldwide?

Process

I am interested in ordering a TruGenome Clinical Sequencing Service for my patient. What is involved?

What is a PG number?

How can I obtain forms for the TruGenome services?

How long does it take to receive test results?

Are samples from patients with an existing medical condition prioritized over samples from healthy individuals?

Do I need to consult a genetic counselor or specialist?

What are incidental findings?

Will the Illumina Clinical Services Laboratory report incidental findings to me?

Privacy

Are the data from a TruGenome service private?

Will my patient's information be used for research?

Will my patient's report be updated as new associations of variants-to-disease are discovered?

TruGenome Undiagnosed Disease Test

Who should order the TruGenome Undiagnosed Disease Test?

What is interpreted in the TruGenome Undiagnosed Disease Test?

How do I receive the results for the TruGenome Undiagnosed Disease Test?

What is a trio?

Why do you recommend trio testing for the TruGenome Undiagnosed Disease Test?

What if the patient's parents are not available to participate?

What are the chances you will find something with the TruGenome Undiagnosed Disease Test?

TruGenome Predisposition Screen

Who should order the TruGenome Predisposition Screen?

What does the TruGenome Predisposition Screen include?

How do I receive the results for the TruGenome Predisposition Screen?

Why do you only test for specific diseases/conditions in the TruGenome Predisposition Screen?

How do you define a condition or disease as being "well-characterized"?

How do I get the MyGenome app?

How does my patient access his/her data on the MyGenome app?

TruGenome Technical Sequence Data

Who should order the TruGenome Technical Sequence Data?

What do I receive if I order the TruGenome Technical Sequence Data?

How do I access my patient's technical data on the hard drive?

What is a BAM file?

What is a gVCF?

Methods and Technology

What is genome-based testing?

What is whole-genome sequencing?

Why should I order a whole-genome vs. whole-exome sequencing test?

What are the limitations of whole-genome sequencing?

What methods are used for genome sequencing and variant interpretation in the TruGenome Services and what is the expected accuracy?

TruGenome Clinical Sequencing Services is performed in the Illumina CLIA (Clinical Laboratory Improvements Amendment)-certified and CAP (College of American Pathologists)-accredited Clinical Services Laboratory. The TruGenome Sequence information is generated by licensed personnel using an analytically validated process. Consistent with Laboratory Developed Tests, it has not been cleared or approved by the U.S. Food and Drug Administration.

This genome sequence information can be analyzed to potentially aid your physician in the evaluation of a broad range of health conditions or physiological traits. You will not receive medical results, or a diagnosis, or a recommendation for treatment from Illumina. Any results arising from the analysis of your genome sequence information that might be deemed medically actionable should be confirmed using alternative testing. If you have any questions or concerns about what you learn through your genome sequence information, you should contact your physician or a genetic counselor. Currently Illumina does not accept orders for TruGenome Clinical Sequencing Services from New York.

Life Sciences | Personal Sequencing | Diagnostics

Applications
Sequencing
Genotyping
SNP Genotyping & CNV Analysis
Gene Regulation & Epigenetic Analysis
Gene Expression Analysis
Real-Time PCR
Cytogenomics
Agrigenomics
Cancer Genomics
Forensic Genomics
Genetic Disease
Microbial Genomics

Systems
HiSeq Systems
Genome Analyzer IIx
MiSeq
HiScanSQ
HiScan
iScan
Eco Real-Time PCR System
Software
BaseSpace

Clinical
Molecular Diagnostics
Illumina Clinical Services Laboratory
Translational Genomics
Clinical Informatics

Services
Genome Network
FastTrack Services
CSPro
Core Labs
Service Partnerships
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Innovative technologies
At Illumina, our goal is to apply innovative technologies to the analysis of genetic variation and function, making studies possible that were not even imaginable just a few years ago. It is mission critical for us to deliver innovative, flexible, and scalable solutions to meet the needs of our customers. As a global company that places high value on collaborative interactions, rapid delivery of solutions, and providing the highest level of quality, we strive to meet this challenge. Illumina's innovative sequencing and array technologies are fueling groundbreaking advancements in life science research, translational and consumer genomics, and molecular diagnostics.

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Illumina VariantStudio Data Analysis Software

A powerful analysis and reporting tool that provides biological insight into genomic variant data.

Highlights

- **Easy-to-Use Application**
  Intuitive user interface enables easy data analysis and exploration, without requiring bioinformatics expertise
- **Rapid and Complete Annotation**
  Software aggregates information from a broad range of sources into a single database for comprehensive annotation of genomic data
- **Streamlined Filtering and Classification**
  Extensive filters and efficient categorization processes streamline assessment of biologically relevant variants
- **Customizable Reporting**
  Flexible report generation summarizes disease-relevant and biologically significant results in a structured format

Introduction

The extraction of phenotypically relevant information from genomic variant data often poses a challenge for genetic analysis. Variant annotation and filtering processes are critical for placing data into biological context. These processes provide the functional information necessary to identify variants of interest, determine their biological impact, and identify potential correlations between genotype and phenotype. Illumina VariantStudio software features rapid annotation capabilities, intuitive filtering processes, and flexible classification and reporting functionalities to simplify data analysis and interpretation. This software application enables researchers to explore variant data, identify and classify disease-relevant variants, and report biologically significant findings (Figure 1).

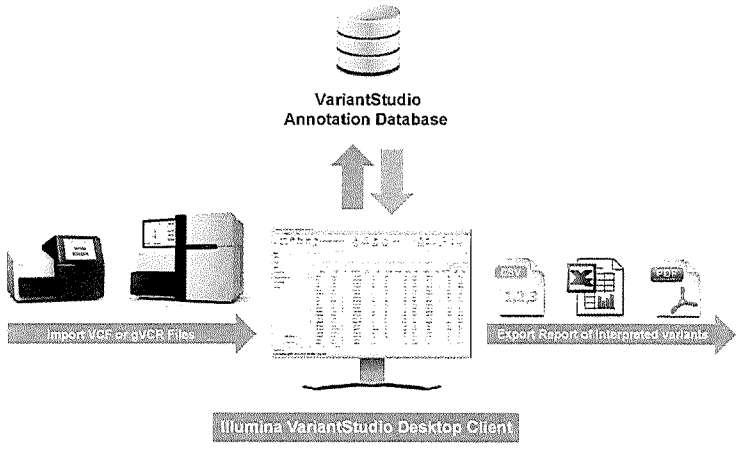
Easy-to-Use Application

VariantStudio software features an intuitive user interface (Figure 2), enabling researchers to analyze sequencing data easily. Designed for scalable analysis, this tool is optimized for data sets ranging in size and complexity, from targeted sequencing to whole-genome data. With VariantStudio software, researchers can perform necessary analyses without informatics expertise.

Rapid and Complete Annotation

By aggregating information from multiple sources into a single, maintained database, the VariantStudio tool eliminates the need for manual assembly of variant information from disparate sources, streamlining the annotation process. This desktop client provides a convenient local environment to analyze and store variant data. The comprehensive database captures annotations at variant, gene, and transcript levels (Table 1). Variant Effect Predictor (VEP)[1] is a central resource for thorough annotation of transcript consequences. VEP also leverages databases such as NCBI Reference Sequence Database (RefSeq)[2] and algorithms such as Polymorphism Phenotyping (PolyPhen)[3] and SIFT[4]. Information about known disease association can be obtained from the Catalogue of Somatic Mutations in Cancer (COSMIC)[5], ClinVar[6], and Online Mendelian Inheritance in Man (OMIM)[7], via the ClinVar database. Resources such as dbSNP[8], the Ensembl 1,000 Genomes Project[9], and Exome Variant Server[10] provide information about the occurrence and frequencies of variants within a population. By delivering rapid and thorough annotation processes, VariantStudio software empowers researchers to identify biological significance in variant data.

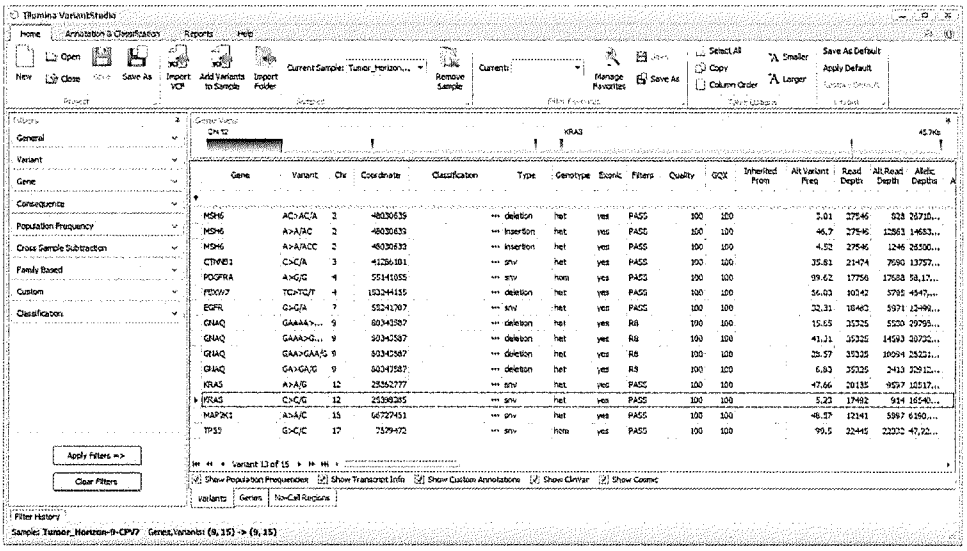
Figure 1: Comprehensive Analysis and Interpretation of Variant Data



The VariantStudio tool is a powerful software application for analyzing and interpreting variant data. This tool aggregates information from a collection of databases to streamline annotation. It also provides flexible filtering options for analyzing variant data and tools to enable classification and reporting of actionable variants.

ILLUM-1633

Figure 2: Intuitive User Interface Simplifies Analysis



VariantStudio software features an intuitive user interface to simplify variant analysis and interpretation, without requiring bioinformatics expertise.

Table 1: Annotation Categories

Category	Description
Transcript consequence	Predicts transcript changes resulting from the variant of interest, allowing user to segregate synonymous from different types of non-synonymous changes
Functional impact	Predicts whether amino acid substitutions affect protein function, indicating variants that are likely deleterious
Allele frequency	Provides the frequency of a variant within a population
Conserved sequence	Denotes sequence similarity if the variant occurs between species, providing phylogenetic information and evolutionary context
Disease association	Indicates whether variant has been previously associated with disease

VariantStudio software provides annotations at variant, transcript, and gene levels for comprehensive assessment of the biological impact of genetic variation.

Flexible Filtering Options

Exome and whole-genome sequencing often detect large numbers of variants per sample, necessitating further analysis to identify the few variants associated with a given phenotype. Virtual subpanels from these broad sequencing assays can be generated within VariantStudio software, enabling the push-button creation of a broad sequencing portfolio. Using a cascade of filtering options, researchers can rapidly isolate the key variants that are consequential to the phenotype under study. For ease of use, VariantStudio software offers commonly applied filters, including variant quality, frequency, functional impact, and known disease association, which are easily accessible through the tool's user interface (Figure 3). To maximize flexibility, the VariantStudio tool also enables users to filter variants based on any available associated information, including user-imported custom annotations. For further convenience, this application offers the option to construct workflows by saving concatenated filters, enabling researchers to standardize workflows and streamline analysis.

In addition to single-sample filtering, VariantStudio software enables multi-sample comparisons that accelerate identification of causative variants. Somatic mutations can be quickly identified in tumor/normal pairs by filtering for variants that are present in a tumor sample but absent in its normal counterpart. To support family-based analyses of inherited disease, this software application provides a collection of filters that identifies variants consistent with specified inheritance modes and patterns of disease progression. Using the VariantStudio tool, researchers can confidently isolate causative variants underlying inherited diseases and traits.

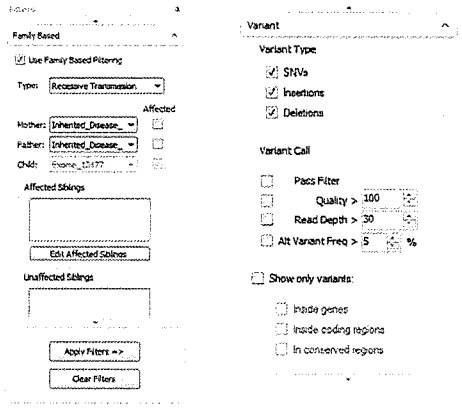
Streamlined Variant Classification

A critical component of translating genetic information into meaningful biological insight is determining the impact of identified variants within the context of observed phenotypes. The classification feature in VariantStudio software facilitates this process, enabling clinical researchers to combine their expertise with provided annotations to categorize variants. Classified variants and associated information entered by the user are saved to a local database. The classifications can then be applied easily to the same variants when they are observed in other samples (Figure 4). Researchers can enrich this database further by importing classified variants from external sources. By enabling automatic recording, tracking, and management of classified variants. VariantStudio software simplifies and accelerates data interpretation.

Customizable Reporting

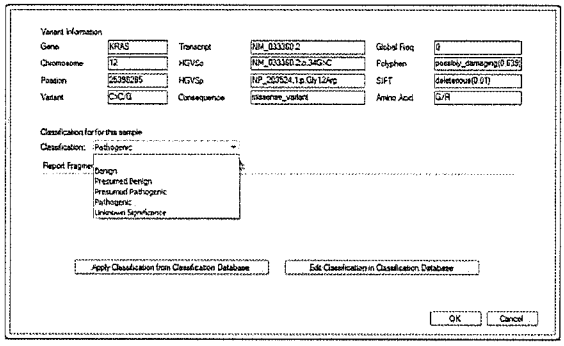
Concise and effective reporting is critical for isolating actionable information from complex data. The VariantStudio application provides powerful and flexible report generation capabilities to facilitate variant reporting. Researchers can create and store multiple templates to optimize reporting for different disease areas. When a template is applied to a sample, the user can populate the template with sample-specific information, such as detected variants in selected classification categories, along with their interpretation (Figure 5). This flexible system enables researchers to customize reports and accommodate requirements that are specific to different areas of disease research. Reports are then exported in PDF or rich-text formats for downstream use.

Figure 3: Comprehensive and Customizable Filters



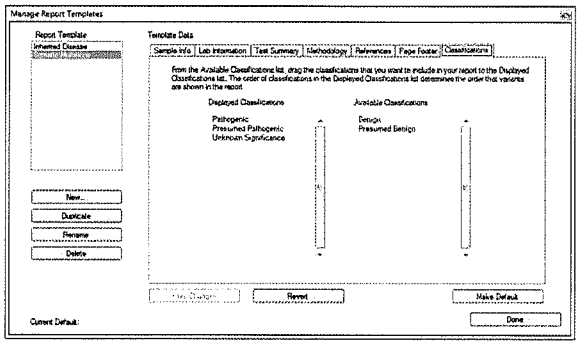
Flexible filtering options enable users to filter variants based on inheritance mode, quality, frequency, functional impact, or custom annotations.

Figure 4: Information Storage Streamlines Interpretation



The VariantStudio tool stores classified variants and associated notes in a local database, making the information easily accessible for future analysis.

Figure 5: Templates Enable Customizable Reporting



Guided template generation and addition of sample-specific information enable customized reporting for different clinical research areas.

Software Availability

The VariantStudio desktop tool is currently only available with the purchase of TruSight™ content sets[11] or under Illumina supply agreement. For more information about how to access VariantStudio software, contact a sales representative. Learn more at www.illumina.com/variantstudio.

Summary

VariantStudio software represents a powerful and flexible analysis method for deriving biological insight from genomic sequence information. The simple user interface delivers an intuitive framework for non-expert users to annotate, filter, and classify variant data easily. Results can be exported in customizable reports tailored to meet the needs of various research areas. With thorough annotation and filtering capabilities, streamlined classification, and customizable reporting, VariantStudio software provides a robust method for enriching variant information with biological context.

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Specifications

Feature	Specification
Broad range of annotation sources	Includes dbSNP, RefSeq, 1,000 Genomes Project, VEP, Exome Variant Server, ClinVar, and COSMIC
Interactive filtering	Includes allele frequency, quality scores, read depth, variant type, functional impact, genotype, available annotation, and overlap with defined gene set
Flexible settings	Supports custom filters and saves selected filters and workflows for convenient reuse
Streamlined classification	Automatically stores variant annotations to facilitate future use
Customizable reporting	Enables generation of custom reports that can be optimized for different disease research areas

Table 3: Minimum System Requirements

Parameter	Specification
Operating system	Windows 7
CPU	64 bits
Memory	2 GB or more (4 GB recommended)
Hard drive	25 MB or larger

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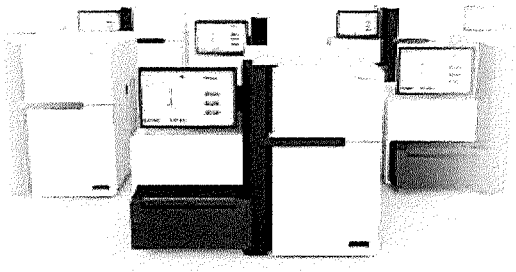
HiSeq X™ Ten

$1000 human genome and extreme throughput for population-scale sequencing.

HiSeq X Ten Highlights

- **World's First $1000 Human Genome**
  First sequencing system to break the $1000 barrier for 30x human genome sequencing, delivering unmatched cost-effectiveness for population-scale projects
- **Purpose-Built For Population-Scale Genome Sequencing**
  Highest daily throughput with the power to sequence tens of thousands of genomes, enabling whole-genome sequencing on an unrivaled scale
- **Proven Performance**
  Highly accurate Illumina sequencing by synthesis (SBS) chemistry delivers industry-leading data quality; gain confidence in your results with the most widely adopted and proven next-generation sequencing (NGS) technology

Figure 1: The HiSeq X Ten



The HiSeq X Ten, a set of 10 HiSeq X Sequencing Systems, is the only high-throughput sequencing system that can produce tens of thousands of human genomes a year for under $1000 per genome.

Introduction

Through continuous innovation, Illumina technology has broken down barriers in human genome sequencing by increasing data throughput at an astounding rate—more than doubling each year—while dramatically reducing the price to sequence a human genome. Illumina technology has forever changed the landscape of genomics research by enabling sequencing of the first genome at 30× coverage, the first cancer genome, and the first genome in a single day.[1-3]

Now, the HiSeq X Ten, a set of 10 HiSeq X Sequencing Systems, has reached yet another milestone, delivering the world's first $1000 human genome and providing the throughput to sequence tens of thousands of high-quality, high-coverage genomes in a single lab. With its massive throughput and unprecedented low price per genome, HiSeq X Ten makes population-level human genome sequencing a reality (Figure 1).

World's First $1000 Human Genome

The HiSeq X Ten is the world's first sequencing platform to break the $1000 barrier for 30x coverage of a human genome. When used at scale, the HiSeq X Ten delivers a $1000 genome, inclusive of instrument depreciation, sequencing consumables, DNA extraction, library preparation, and estimated labor for a typical high-throughput genomics laboratory.*

Figure 2: The HiSeq X Ten Enables Sequencing of Tens of Thousands of Human Genomes per Year

When operating in parallel, the 10 instruments of a HiSeq X Ten generate a staggering level of throughput, capable of sequencing tens of thousands of genomes per year.

* Depreciation schedules and labor may vary due to differences in institutional accounting and staffing.

Purpose-Built for Population-Scale Genome Sequencing

Designed and optimized for large, population-scale, human whole-genome sequencing, an individual HiSeq X System can generate up to 1.8 terabases (Tb) of data in less than 3 days, or approximately 600 gigabases (Gb) of data per day. When operating in parallel, the 10 instruments of a HiSeq X Ten generate a staggering level of throughput, capable of sequencing tens of thousands of genomes per year (Figure 2). With unprecedented throughput and high-quality Illumina SBS data, the HiSeq X Ten will provide researchers with the ability to analyze the human genome like never before, by enabling comparison of whole human genome data across tens of thousands of samples. Exploration of the human genome on this scale will bring the study of cancer and complex diseases to a new level.

Proven Performance

HiSeq X Ten leverages proven Illumina SBS chemistry, the most widely adopted next-generation sequencing technology. This chemistry ensures industry-leading data quality and gives researchers the utmost confidence in their results. The HiSeq X Ten builds on this powerful foundation and offers a number of advanced design features to generate massive throughput. Patterned flow cells contain billions of nanowells at fixed locations—a design that provides optimal spacing and a defined feature size for each sequencing cluster—enabling extremely high cluster density. New clustering chemistry achieves high occupancy and high monoclonality of each well via simultaneous seeding and amplification. Using state-of-the-art optics and fast SBS chemistry, HiSeq X can process flow cells faster than ever before, generating more than 600 Gb per day, per system. With these integrated improvements, the HiSeq X Ten outpaces and outperforms any sequencing system on the market today.

Summary

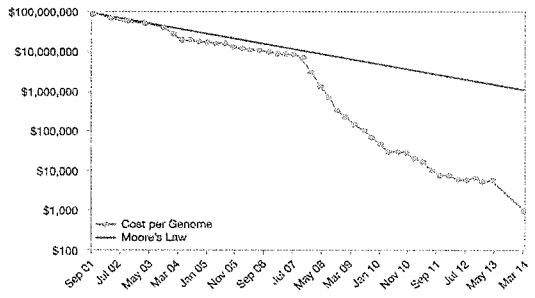
HiSeq X Ten has the power to reshape the economics of human genome sequencing, laying the foundation for visionary scientists, institutions, and nations working to perform ground-breaking research that will forever change our understanding of the human genome. Just as true population-scale human genome sequencing projects are beginning to take shape around the world, HiSeq X Ten delivers the first truly affordable human genome—on a massive scale. By providing the capacity to sequence tens of thousands of genomes, the HiSeq X Ten will bring genome sequencing to an inflection point. It will pave the way to a comprehensive catalog of human variation, forge population-based references, drive far-reaching discoveries, and accelerate a deeper understanding of human biology and genetic disease. We've taken sequencing to the next level. Now it's time to make your vision for human health and genome science a reality.

Table 1: HiSeq X Ten Preliminary Performance Parameters*

	Dual Flow Cell	Single Flow Cell
Output/Run	1.6–1.8 Tb	800–900 Gb
Reads Passing Filter†	≤ 6 billion	≤ 3 billion
Supported Read Length	2 × 150	
Run Time	< 3 days	
Quality	≥ 75% of bases above Q30 at 2 × 150 bp	

*Specifications based on Illumina PhiX control library at supported cluster densities (between 1,255–1,412 K clusters/mm²). Supported library preparation kit includes TruSeq Nano DNA HT kit with 350 bp target insert size and HiSeq X HD reagents. HiSeq X was designed and optimized for human whole-genome sequencing; other applications and species are not supported.
†Single-end reads.

Figure 3: Illumina Sequencing Technology Outpaces Moore's Law for the Price of Whole Human Genome Sequencing



Illumina sequencing technology has been outpacing Moore's Law (purple line), which describes a long-term trend in the computer hardware industry where computing power doubles roughly every two years.[1] HiSeq X Ten dramatically continues this trend and is the first platform to break the $1000 barrier for a 30x human genome.

Join the Illumina Community

When an Illumina platform is installed in their lab, researchers join a worldwide community of more than 60,000 scientists using Illumina technology for their research studies. Illumina schedules community events throughout the year, bringing scientists together from around the world. User group meetings, scientific symposiums, community newsletters, and blog forums provide venues to discuss new research methods, establish collaborations, and reveal ground-breaking results.

Our dedicated service and support team is an integral part of the Illumina community consisting of more than 300 people worldwide—75% of whom have advanced degrees. Illumina support begins when the sequencing system is delivered and continues through system installation, setup, and training of all laboratory personnel. The global support team is available 24/7 to answer questions every step of the way. In addition to on-site assistance, we offer webinars, online training courses, and instructor-led training courses at Illumina's state-of-the-art campus in San Diego to bring laboratory personnel quickly up to speed.

Learn More

For more information about the HiSeq X Ten, visit www.illumina.com/systems/hiseq-x-sequencing-system.ilmn

For more about support, webinars, and training courses, visit support.illumina.com/training.ilmn

To see how Illumina fuels powerful science, visit www.illumina.com/science/publications.ilmn

References

1. Bentley DR, Balasubramanian S, Swerdlow HP, Smith GP, Milton J, et al. (2008) Accurate whole human genome sequencing using reversible terminator chemistry. Nature 456: 53–59.
2. Ley TJ, Mardis ER, Ding L, Fulton B, McLellan MD, et al. (2008) DNA sequencing of a cytogenetically normal acute myeloid leukemia genome. Nature 456(7218): 66–72.
3. Saunders CJ, Miller NA, Soden SE, Dinwiddie DL, Noll A, et al. (2012) Rapid whole-genome sequencing for genetic disease diagnosis in neonatal intensive care units. Sci Transl Med 4(154): 154ra135.
4. Wetterstrand KA. DNA Sequencing Costs: Data from the NHGRI Genome Sequencing Program (GSP). Accessed 02, January 2014, www.genome.gov/sequencingcosts.

HiSeq X System Specifications*

Instrument Configuration

Computer and touch screen display

Installation setup and accessories

Data collection and analysis software

Instrument Control Computer

Base Unit: 2× Intel Xeon E5-2697V2 64 BIT 2.7 GHz CPU 30 MB Cache

Memory: 128 GB RAM

Hard Drive: 8 × 1.0 TB SATA 7200RPM3.5" Constellation ES.3 (2 RAID 0 drives, 6 RAID 5 drives)

Solid State Drive: 5 × 400 GB (5 RAID 0 drives)

Operating System: Microsoft Windows 7 Professional

Note: Computer specifications will be regularly upgraded. Contact your local account manager for current configuration.

Operating Environment

Temperature: 20°C ± 2°C

Humidity: Non-condensing 20%–80%

Altitude: Less than 2000 m (6500 ft)

Air Quality: Pollution degree rating of II

Ventilation: Maximum of 4000 BTU/h

For Indoor Use Only

Laser

532 nm, 660 nm, 650 nm (barcode reader)

Dimensions

W×D×H: 118.6 cm × 76.0 cm × 94.0 cm (46.7 in × 30.0 in × 37.0 in)

Weight: 225.9 kg (498 lbs)

Crated Weight: 316.6 kg (698 lbs)

Power Requirements

100–240V AC 50/60Hz, 20A, 1500W

Illumina provides a region-specific uninterruptible power supply for all HiSeq instruments

Product Safety

CE-marked and ETL-listed instrument

*Specifications refer to an individual HiSeq X System.

HiSeq X System and Accessories

Systems and Accessories	Catalog No.
HiSeq X System*	SY-412-1001
cBot Clonal Amplification System	SY-301-2002
HiSeq X HD Reagent Kit - (300 Cycle)	FC-501-1001

* Catalog number refers to an individual system. Only available as part of the HiSeq X Ten sequencing fleet.

Illumina • 1.800.809.4566 toll-free (U.S.) • +1.858.202.4566 tel • techsupport@illumina.com • www.illumina.com

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NOTICE OF RELIANCE EXHIBIT 9
(CONFIDENTIAL)

EXHIBIT 10

Welcome to the new era of genomics-based healthcare.

Introducing TruGenome Clinical Sequencing Services from Illumina Clinical Services Laboratory

ILLUM-1856

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Genomics-based healthcare is available *now* for you and your patients

We are in the beginning of a new era of using genomic information to make critical healthcare decisions. To offer you and your patients all the advantages of genetic analysis technologies, Illumina Clinical Services Laboratory provides the most advanced solution in genomics-based healthcare: TruGenome Sequencing.

TruGenome Clinical Sequencing Services helps you both diagnose and assess your patients' risk for certain genetic diseases.

- With whole-genome sequencing, we can deliver comprehensive answers—accurately and quickly—to your most challenging questions about genetic aberrations and rare diseases.
- You can make genetically informed decisions personalized to each patient.
- Ultimately, genomics-based healthcare may enable us to manage health through wellness, not illness.

"Whole-genome sequencing is proving to be an invaluable tool in the identification of rare and undiagnosed disease, and as we learn more about the human genome and its impact on human health, I expect sequencing to become a regular component of healthcare. Medical College of Wisconsin's partnership with Illumina for clinical testing services has greatly advanced our capacity in this area."

- **Howard Jacob**, *Director of the Human and Molecular Genetics Center and Warren P. Knowles Chair of Genetics at the Medical College of Wisconsin.*

ILLUM-1857

The first CLIA-certified, CAP-accredited laboratory protocol

Since 2001, Illumina has been the research community's partner of choice for innovations in DNA analysis technology.

In 2009, Illumina Clinical Services Laboratory became the first CLIA-certified, CAP-accredited lab to offer easy access to human whole-genome sequencing services. By providing the technology and interpretation expertise and tools to perform genomics-based testing, Illumina is paving the way for more clinical laboratories to offer these services worldwide.

A single test for comprehensive evaluation, today and tomorrow

Innovative Illumina technology enables genome-wide evaluation with just one test.

- We use the industry-leading, most widely published, next-generation sequencing technology to ensure results you can trust.
- With the most extensive experience interpreting whole-genome data, we provide comprehensive variant classifications based on known clinical relevance.
- Sequence today, plan for tomorrow: Our service ensures the capability for reanalysis in the future to keep pace with new discoveries.

Unsurpassed power to capture true biology

Offerings from the Illumina Clinical Services Laboratory—tailored to each patient's condition and needs—focus on three major areas:

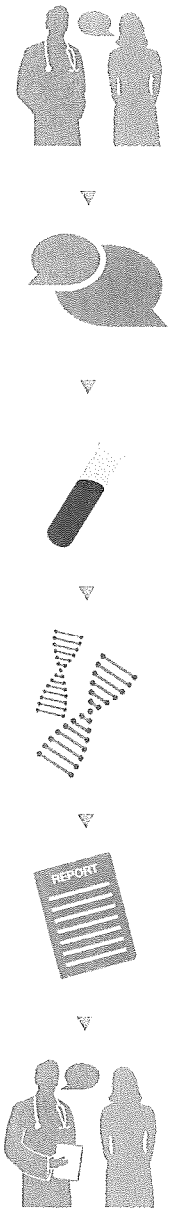
TruGenome Undiagnosed Disease Test
For your patients with a suspected genetic disease who have gone through traditional genetic testing without a definitive diagnosis, we test for inherited diseases of single-gene etiology, such as mitochondrial-inherited cardiomyopathies, as well as multiple-symptom conditions, including seizures and degenerative neurogenetic conditions.

TruGenome Predisposition Screen
For your healthy adult patients interested in learning about their carrier status or risk for adult-onset conditions, we perform sequencing and interpretation to analyze potential future risk for Mendelian (single-gene) conditions.

TruGenome Technical Sequence Data
For labs and physicians performing their own clinical interpretations, we do all the sequencing using our CLIA-certified protocols.

See how simple it is to use TruGenome Clinical Sequencing Services

ILLUM-1858



Physician–Patient Discussion

You discuss whole-genome sequencing with your patient and obtain formal consent. (Genetic counseling is also recommended.)

Physician–Illumina Clinical Geneticist Consultation

You place the order, request a sample kit, and consult with an Illumina Clinical Geneticist, depending upon the service selected.

Sample Collection

In your office or a reference lab, the patient's blood sample is collected and then shipped to us.

Whole-genome sequencing at Illumina Clinical Services Laboratory

At our CLIA-certified, CAP-accredited lab, the DNA is sequenced, and variants are identified and classified. Our bioinformaticians, medical geneticists, and genetic counselors analyze and interpret the relevant gene variants.

Report Sent to Physician

We send you a report containing the clinical classifications of the variants found. (A clinical report is not provided with the Technical service.)

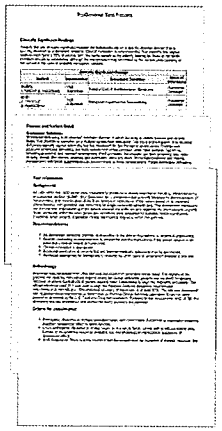
Physician–Patient Discussion

You use this report to discuss the results and next steps with your patient.

Accurate interpretation and clear reporting

The TruGenome clinical report includes:

- Summary
- Tables highlighting the number and category of variants clinically significant for the patient or for carrier status
- Brief description of the aberration or disease associated with the variant
- Explanation of the basis for our interpretation of the variant
- Information regarding relevant papers on the variant and allele frequency
- Information regarding the sequencing test itself
- Recommendations for follow up
- Appendix of all variants deemed to be benign, likely benign, or of uncertain significance



Six standards for clinical classification of variants

Pathogenic:
Segregates with disease in > 3 unrelated cases with control data. Located in a highly conserved region. Functional studies or other evidence suggest deleterious effect on gene expression.

Likely Pathogenic:
Reported in a few case studies with or without control data. Functional studies or other evidence suggest deleterious effect on gene expression.

Unknown Significance—Suspicious*:
Reported in a single or very limited number of cases, weakly suggestive of pathogenicity.

Unknown Significance:
Nothing has been reported regarding this variant, or reported information is incomplete and/or contradictory.

Likely Benign:
Reported in few cases, with little or no control data. May be non-conserved and/or predicted to be well tolerated. Frequency is higher than expected in the general population based on disease prevalence and penetrance. Functionally normal.

Benign:
Reported at high frequency in control data/does not segregate with disease. Variant may be non-conserved and/or predicted to be well tolerated. Functionally normal.

* Unique to Illumina

ILLUM-1859

TruGenome Clinical Sequencing Services

From **Illumina Clinical Services Laboratory**

www.illumina.com/clinicallab

You can start using TruGenome Clinical Sequencing Services *today.*

Welcome to the new era of genomics-based healthcare. With TruGenome Clinical Sequencing Services. Only from the **Illumina Clinical Services Laboratory.**

Learn more at www.illumina.com/clinicallab

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This laboratory test was developed and its performance characteristics were determined by the Illumina Clinical Services Laboratory (CLIA-certified, CAP-accredited). Consistent with laboratory-developed tests, it has not been cleared or approved by the U.S. Food and Drug Administration. Patients who have any questions or concerns about what they might learn through their genome sequence information should be directed to contact their physician or a genetic counselor. Please note that Illumina does not accept orders for TruGenome Clinical Sequencing Services from New York. Pub No. 0686-2013-019

ILLUM-1860

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illumina®

For all you seek.

You can use the power of genomics to change the world.

It's all about harnessing genetic energy—that unstoppable force that drives all of us to find answers. To be the first.

We provide the tools: the systems, services, and informatics to accelerate genetic analysis. You provide the drive: the passion, commitment, and inspiration to move your field forward.

Never stop seeking.
www.illumina.com/iseek

I seek hope.
Cancer Genomics

I seek justice.
Forensic Genomics

I seek to end hunger.
Agrigenomics

I seek answers.
Genetic Disease

I seek to control outbreaks.
Microbial Genomics

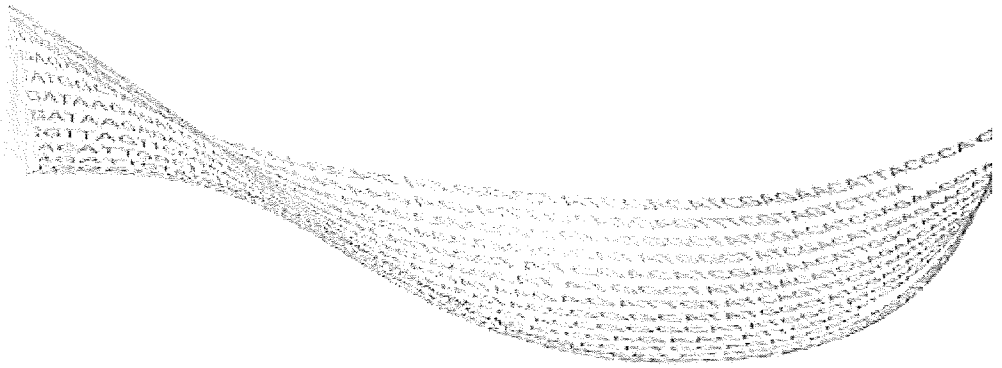
ILLUM-1861

EXHIBIT 11

The Universal Kit for the MiSeqDx™

Flexible diagnostic testing – now on the world's first FDA-cleared NGS platform

ILLUM-1697



For *in vitro* diagnostic use. Not available in all countries and regions.

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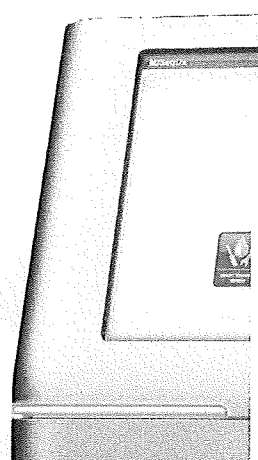
Illumina®

First and ONLY next generation sequencing system for *in vitro diagnostic* use



MiSeqDx™

U.S. Food and Drug Administration
Protecting and Promoting *Your* Health

Home | Food | Drugs | Medical Devices | Radiation-Emitting Products | Vaccines, Blood & Biologics

News & Events

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FDA NEWS RELEASE

For Immediate Release: Nov. 19, 2013
Media Inquiries: Susan Laine, 301-796-5349, susan.laine@fda.hhs.gov
Consumer Inquiries: 888-INFO-FDA

FDA allows marketing of four "next generation" gene sequencing devices
Two devices aid in screening and diagnosis of cystic fibrosis

The NEW ENGLAND JOURNAL of MEDICINE

Perspective

First FDA Authorization for Next-Generation Sequencer

Francis S. Collins, M.D., Ph.D., and Margaret A. Hamburg, M.D.

This year marks 60 years since James Watson and Francis Crick described the structure of DNA and 10 years since the complete sequencing of the human genome. Fittingly, today the Food and Drug Administration (FDA) has granted marketing authorization for the first high-throughput (next-generation) genomic sequencer, Illumina's MiSeqDx, which will allow the development and use of innumerable new genome-based tests. When a global team of researchers sequenced that first human genome, it took more than a decade and cost hundreds of millions of dollars. Today, because of federal and private investment, sequencing technologies have advanced dramatically and a human genome can be sequenced in about 24 hours for what is now less than $5,000 (see graph). This is a rare example of technology development in which faster, cheaper, and better have coincided: as costs have plummeted and capacity has increased, the accuracy of sequencing has substantially improved. With the FDA's announcement, a platform that took nearly a decade to develop from an initial research project funded by the National Institutes of Health will be brought into use for clinical care. Clinicians can selectively look for an almost unlimited number of genetic changes that may be of medical significance. Access to these data opens the door for the transformation of research, clinical care, and patient engagement.

To see how this technology could be used, consider cancer. Comprehensive analysis of the genome sequence of individual cancers has helped uncover the specific mutations that contribute to the malignant phenotype, identify new targets for therapy, and increase the opportunities for choosing the optimal treatment for each patient. For instance, lung adenocarcinoma can now be divided into subtypes with unique genomic fingerprints associated with different outcomes and different responses to particular therapies. More broadly, recent work from the Cancer Genome Atlas demonstrates that the tissue of origin of a particular cancer may be much less relevant to prognosis and response to therapy than the array of causative mutations.[1] As a result, patients diagnosed with a cancer for which there are few therapeutic options may increasingly benefit from drug therapies originally aimed

NEWSLETTER SUMMIT 1

The New England Journal of Medicine
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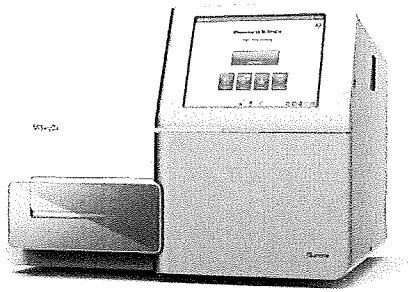
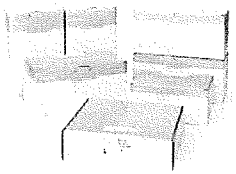
The Expanding Line of MiSeqDx Assays & Kits

Flexibility to meet your diverse needs

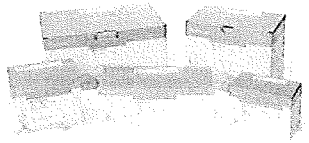


MiSeqDx

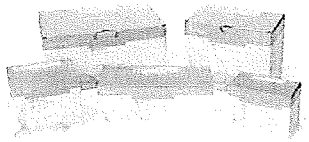
Diagnostic



MiSeqDx Cystic Fibrosis 139-Variant Assay

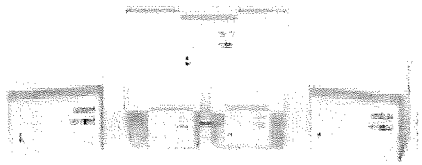


MiSeqDx Cystic Fibrosis Clinical Sequencing Assay



MiSeqDx Universal Kit

Research



Any RUO Library Prep

+

MiSeq Reagent Kit (v2) ~~v3~~

ILLUM-1699

The Universal Kit Overview

Intended for targeted sequencing of DNA extracted from whole blood

INTENDED USE:

The MiSeqDx Universal Kit 1.0 is a set of reagents and consumables used in the processing of human genomic DNA samples derived from peripheral whole blood, and in the subsequent targeted sequencing of the resulting sample libraries. User-supplied analyte specific reagents are required for the preparation of libraries targeting specific genomic regions of interest. The MiSeqDx Universal Kit 1.0 is intended for use with the MiSeqDx instrument

ILLUM-1700

- The MiSeqDx + Universal Kit facilitates bringing your assays through FDA clearance:
  - Performance of the instrument and associated consumables has been demonstrated
  - Only the clinical and analytical validity of your specific assay needs to be demonstrated in-house

The Universal Kit At-A-Glance

Amplicon sequencing on the MiSeqDx

- The Universal Kit includes:

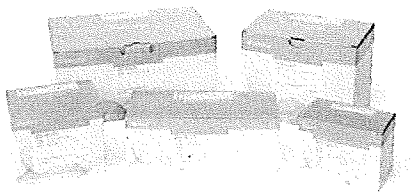
Library prep reagents

+

Index kit (96 indices)

+

MiSeq v1 reagents (300 cycles) **x 2**



Universal Kit

ILLUM-1701

- Library prep based on TruSeq Custom Amplicon reagents (v1)
- The kit is configured for two sequencing runs (up to 96 samples)
- List Price = $125/sample (96 samples/kit)
- Customers must provide analyte specific reagents (i.e., oligos)

The Universal Kit Workflow

Leverages Illumina TruSeq Custom Amplicon Workflow

Universal Kit Workflow:

Customer-provided oligo probes

Customer provided

Prepare Libraries

Generate template libraries

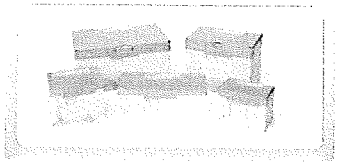
Attach sample indices to libraries

Normalize and pool libraries

Sequence

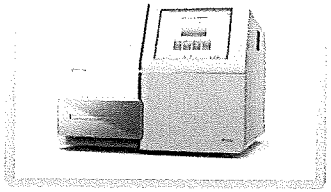
Load pooled library on to MiSeqDx reagent cartridge

MiSeqDx performs automated cluster generation and sequencing



Universal Kit

+



MiSeqDx

Analyze

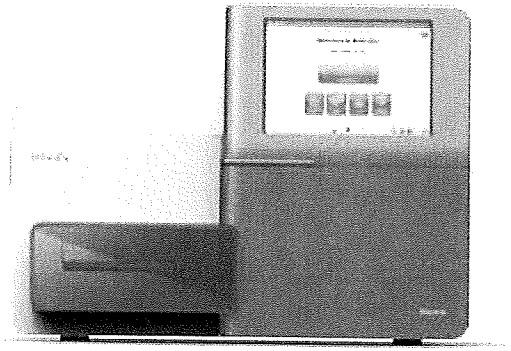
vcf file output provides customers with flexibility in analysis and reporting

vcf output

ILLUM-1702

MiSeqDx System Workflow

Standardized workflow for IVD assays streamlines laboratory effort



Prepare
- Start with genomic DNA
- Create sample sheets
- Generate indexed libraries

Sequence
- Start the MiSeqDx instrument
- Add the library to the pre-aliquoted, ready-to-use MiSeqDx reagent cartridge
- Load into MiSeqDx and press GO

Analyze
- See results in the MiSeq Reporter Software*
- Interpret results

ILLUM-1703

Start: gDNA

250 ng

Prepare library
6-7 hours

130 min

Sequencing
27 hours

5 min

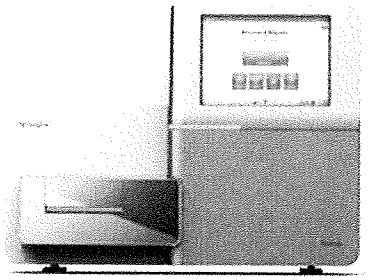
Analysis &
Interpretation

5 - 30 min

** Report generation is only available for the MiSeqDx Cystic Fibrosis 139-Variant Assay and the MiSeqDx Cystic Fibrosis Clinical Sequencing Assay*

VCF File Output for the MiSeqDx Universal Kit

Provides you with flexibility in analysis and reporting



MiSeqDx

Illumina User Management → *Illumina Worklist Manager* → *MiSeq Operating Software* → *Real Time Analysis* → *MiSeq Reporter Software* → ***.vcf***

validated system software

ILLUM-1704

- Primary and secondary analysis has been validated
  - Base calling, sequencing alignment, variant calls

.vcf file output allows you to conduct your own downstream analysis

Accuracy Data – Universal Kit

Performance specifications provide you design flexibility for your assays

- Data from three accuracy studies supports the claim that the MiSeqDx and Universal Kit can accurately sequence genomic content with the following characteristics:

19% ≤ GC content ≤ 72%
PolyA lengths ≤ 7
PolyT lengths ≤ 8
PolyG lengths ≤ 6
PolyC lengths ≤ 7
Dinucleotide repeat lengths ≤ 5x
Trinucleotide repeat lengths ≤ 4x
1 bp insertions
3 bp or fewer deletions

ILLUM-1705

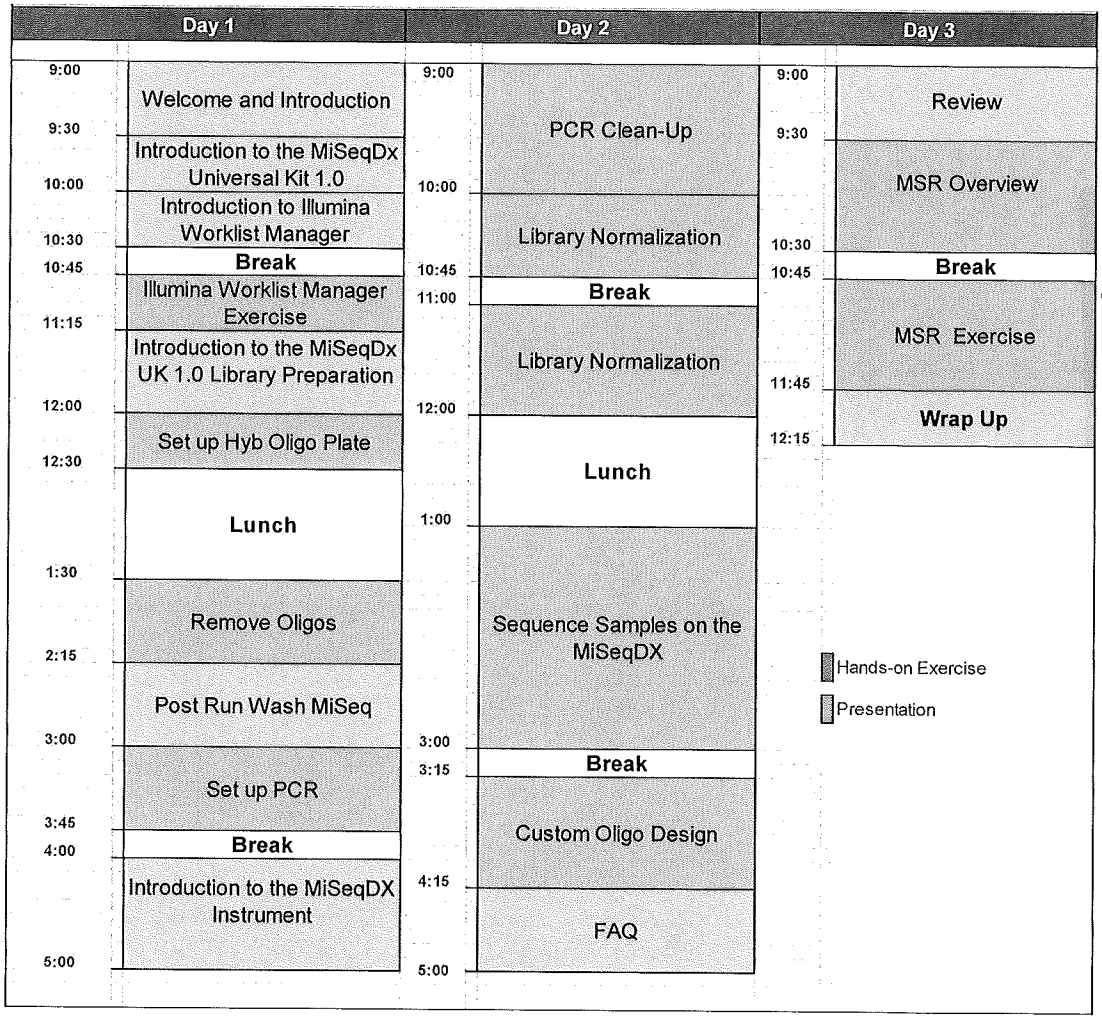
MiSeqDx Customer Support

Providing you with a new level of support

MiSeqDx Service Contracts:

	MiSeqDx
Replacement Parts	Yes
Labor	Yes
5x24 Email Support	Yes
5x18 Phone Support	Yes
Average Onsite Response Time (business days)	3
PMs per year	1
OQ per year (performed with PM)	1
IPV upon Instrument Hardware Failure	Yes
Software/Hardware Updates	Yes
Applications Support	Yes

Universal Kit On-Site Training:



ILLUM-1706

Illumina

Illumina IVD Products

Validated inputs, enhanced quality processes & change notification

- All IVD products have been validated across numerous DNA extraction methods, a range of DNA input, and against multiple interfering substances
- > 99% assay reproducibility has been demonstrated[1]
- RUO versus IVD kits:

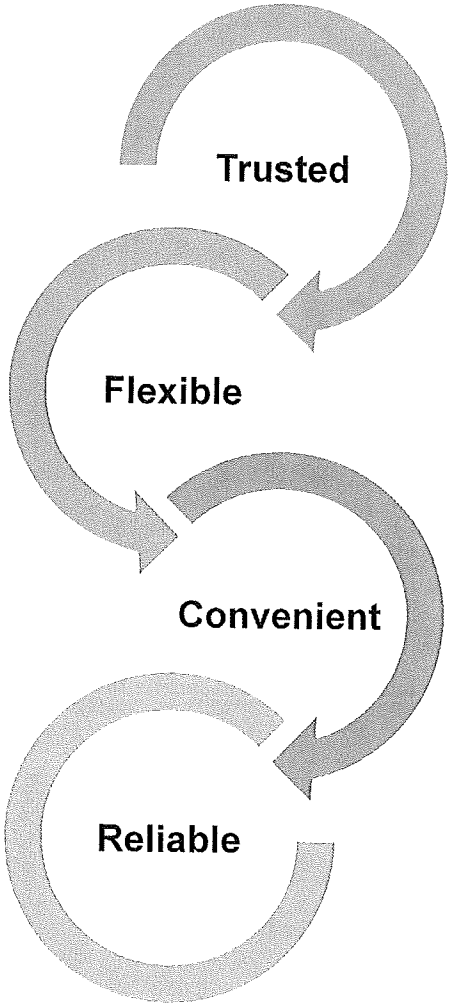
	RUO	IVD
Manufactured under GMP	✓	✓
Kit lot testing	Tube-level testing	Tube-level + kit-level testing
Certificate of Analysis	✗	✓
Single lot shipments	✗	✓
Shelf life at ship	3 months	9 months[2]
IQ/OQ/IPV	Available	Included
Process validated	✗	✓
Advance notification of changes	✗	✓

[1] *Based on a representative assay (Illumina MiSeqDx Cystic Fibrosis 139-Variant Assay)*
[2] *Available late-2013.*

ILLUM-1707

For Clinical Customers Who Want to Develop Dx Tests

The Universal Kit provides a trusted, flexible, convenient, & reliable solution



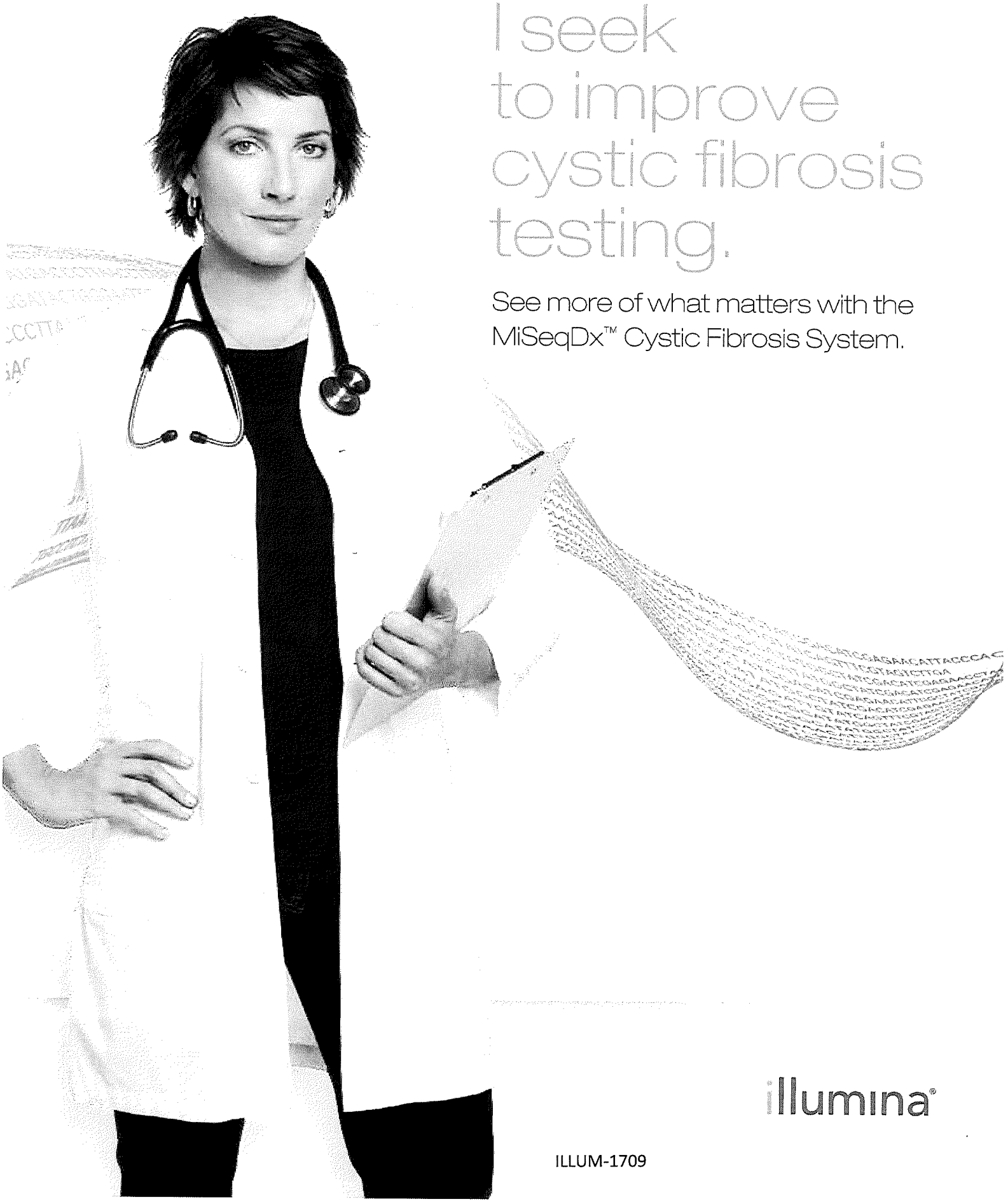
The Universal Kit is an IVD set of reagents designed for amplicon sequencing and based on the trusted TruSeq Custom Amplicon chemistry

Oligos are decoupled from the library prep reagents, providing flexibility for clinical customers to design and source their own amplicons

Library prep reagents and sequencing consumables are bundled into one convenient package – at one low price

As IVD products, the Universal Kit and MiSeqDx will remain stable platforms – minimizing costly re-validation required with product revisions

ILLUM-1708



I seek to improve cystic fibrosis testing.

See more of what matters with the MiSeqDx™ Cystic Fibrosis System.

illumina®

ILLUM-1709

Cystic fibrosis (CF) is one of the most common genetic disorders affecting about 70,000 children and adults worldwide[1]. Our best defenses against this disease are prevention and early diagnosis.

Next-generation sequencing (NGS) provides visibility into the whole cystic fibrosis transmembrane conductance regulator (*CFTR*) gene for increased clarity in molecular CF testing. NGS data can help couples understand their reproductive risks and family planning options for prevention. These results can also enable earlier detection in affected individuals and selection of optimized therapies. Ultimately, the information can lead to a better quality of life.

Introducing the MiSeqDx Cystic Fibrosis System.

The first and only CE marked IVD next-generation sequencing system to provide a complete solution for accurate, comprehensive molecular CF testing.

Get a more complete answer the first time

- Accurate data— ≥ 99.7% overall agreement with Sanger sequencing and PCR reference methods at reported positions
- Confident results—sample first pass rate of ≥ 99.7%*
- Established Illumina sequencing by synthesis (SBS) technology**

See more of the data that matters

- Largest commercially available IVD panel—carrier screening assay detects 139 *CFTR* variants†
- Full-gene sequence—the diagnostic assay accurately sequences protein coding regions and intron/exon boundaries of the *CFTR* gene

* Number of samples passing QC metrics on the first attempt in clinical studies; assay specific. Data on file.

** Wide adoption in the clinical research community as demonstrated by the number of publications in the PubMed database.

† Variants defined by the CFTR2 database (http://www.cftr2.org).

Improved CF testing.

The MiSeqDx Cystic Fibrosis System performs both carrier screening and diagnostic testing for CF.

Gain peace of mind.

Carrier Screening Assay

As the population increases in diversity, so does the need for CF tests that target mutations seen in a wider variety of ethnic groups. The MiSeqDx Cystic Fibrosis Carrier Screening Assay enables screening of 139 *CFTR* variants, representing the full set of clinically validated variants in the CFTR2 database at Johns Hopkins University[1]. By offering the most comprehensive panel of validated *CFTR* variants for carrier screening, the assay reduces residual risk, providing confidence that you are getting the right answer the first time.

Get the complete genetic story with a single test.

Diagnostic Assay

The MiSeqDx Cystic Fibrosis Diagnostic Assay sequences all protein coding regions and intron/exon boundaries, including the most challenging regions, within the *CFTR* gene. Unlike the tedious Sanger sequencing process, which requires 27 separate PCR steps, the MiSeqDx assay uses a single sequencing test with one PCR step to identify all gene variants, possibly isolating causative variants. This streamlined method drastically shortens the time and expense of current diagnostic odysseys. Ultimately, affected individuals can receive optimal treatment as early as possible.

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Easy-to-use, reliable system.

The MiSeqDx Cystic Fibrosis System provides a complete molecular CF testing solution. The easy-to-use workflow with Illumina User Management Software yields high positive and negative predictive values that eliminate the need for Sanger sequencing confirmation, resulting in an efficient, cost-effective CF testing workflow (Figure 1).

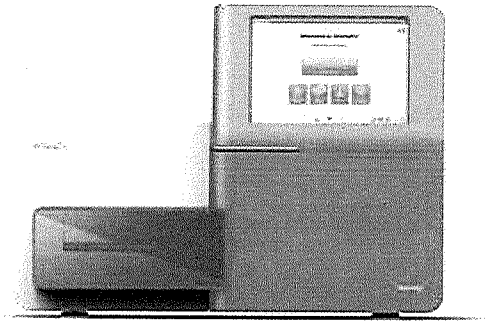
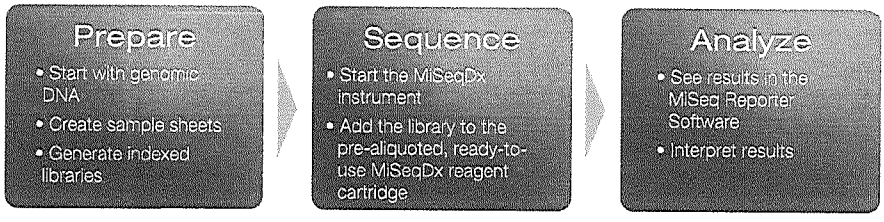


Figure 1: An Overview of the MiSeqDx Cystic Fibrosis System Workflow



Single platform. Complete solution.

The MiSeqDx Cystic Fibrosis System runs both carrier screening and diagnostic assays, providing a complete molecular CF testing workflow on a single instrument. This reduces the amount of iterative testing required to produce a comprehensive patient report, eliminates the need to train technicians on the use and maintenance of multiple systems, and consolidates reagent ordering, use, and storage, increasing operational efficiency.

Easy data interpretation.

Results from the MiSeqDx system are presented in an easy-to-read report that can be easily interpreted by a certified medical geneticist or equivalent. All results include:

- Variant type
- HGVS nomenclature
- dbSNP ID
- Call rates

The MiSeqDx Cystic Fibrosis Carrier Screening Assay report indicates what variants, out of a possible 139, were present in each tested sample.

The MiSeqDx Cystic Fibrosis Diagnostic Assay report includes base-by-base analysis of variations found within the protein coding regions, intron/exon boundaries, and deep intronic regions.

Seek confidence in your results.

The MiSeqDx Cystic Fibrosis System is the first IVD NGS system for molecular CF testing. With accuracy and reproducibility rates ≥ 99.7% for all reported positions and a sample first pass rate of ≥ 99.7%, the MiSeqDx system delivers best-in-class performance.

Learn more at **www.illumina.com/cysticfibrosis**

The MiSeqDx Cystic Fibrosis System.

Components

- MiSeqDx Instrument
- MiSeqDx Cystic Fibrosis Carrier Screening Assay
- MiSeqDx Cystic Fibrosis Diagnostic Assay

MiSeqDx System Performance Parameters

- Accuracy: ≥ 99.7%* for all reported positions
- Reproducibility: ≥ 99.7%* for all reported positions

MiSeqDx Cystic Fibrosis Carrier Screening Assay

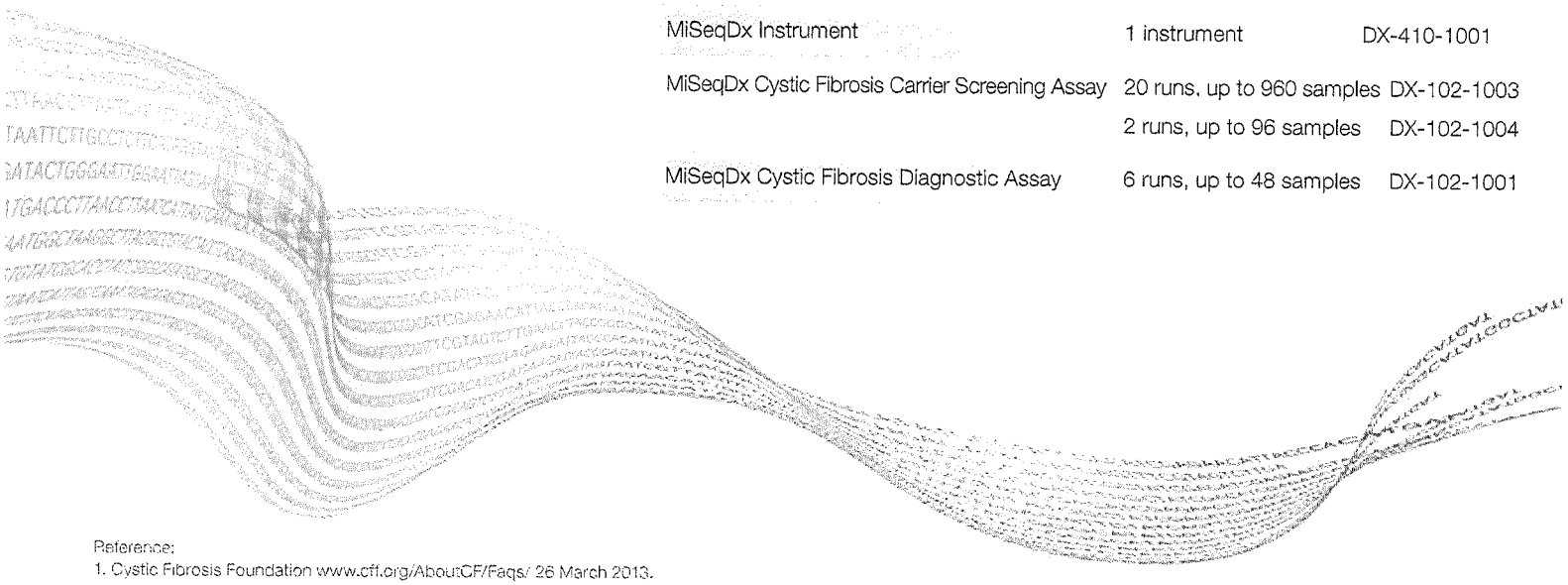
- Detects 139 *CFTR* variants as defined by the CFTR2 database
- Number of samples per assay run: up to 48

MiSeqDx Cystic Fibrosis Diagnostic Assay

- Sequence all protein coding regions and intron exon boundaries
- Detects two large deletions: Exon 2,3 and Exon 22,23
- Detects two deep intronic mutations: 1811+1.6Kb A>G, 3849+10Kb C>T
- Full detection of homopolymer variants (i.e., 2184delA deletion)
- Number of samples per assay run: up to 8

Ordering Information

Product	Quantity	Catalog No.
MiSeqDx Instrument	1 instrument	DX-410-1001
MiSeqDx Cystic Fibrosis Carrier Screening Assay	20 runs, up to 960 samples	DX-102-1003
	2 runs, up to 96 samples	DX-102-1004
MiSeqDx Cystic Fibrosis Diagnostic Assay	6 runs, up to 48 samples	DX-102-1001



Reference:
1. Cystic Fibrosis Foundation www.cff.org/AboutCF/Faqs/ 26 March 2013.

For *in vitro* diagnostic use. Not available in the United States. Please contact an Illumina representative for information regarding regional availability.

Illumina • 1.800.809.4566 toll-free (U.S.) • +1.858.202.4566 tel • techsupport@illumina.com • www.illumina.com

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Pub. No. 670-2013-004 Current as of 19 September 2013

illumina®

Exhibit 12: ILLUM-formative Marks

Mark	Owner	Registration No.
CSA ILLUMINA	Cambridge Scientific Abstracts	3612773
ILLUMABOND	Epoxies, Inc.	3660170
ILLUMASK	La Lumiere, LLC	4534705
ILLUMASK (stylized)	La Lumiere, LLC	4557547
ILLUMAVEIN	Pet Sugar Check LLC	3924018
ILLUMENA	Liebel-Flarsheim Company	2237169
ILLUMINA	Cambridge Scientific Abstracts	3612772
ILLUMINATE	Softek Solutions, Inc.	3608560
ILLUMINATE THE CHANGE	Hitachi Aloka Medical, Ltd.	3734384
ILLUMINATIONS	FHC Property Management, LLC	4655976
ILLUMINOSS	IlluminOss Medical, Inc.	3951065
ILLUMINOSS MEDICAL	IlluminOss Medical, Inc.	3955181
ILLUMINOSTICS	Eberich, Stephan	4419422
ILUMIEN	Lightlab Imaging, Inc.	4258470
ILUMIEN	Lightlab Imaging, Inc.	4577532
ILUMIEN OPTIS	Lightlab Imaging, Inc.	4577531

*16 different trademarks

*11 different owners

Generated on: This page was generated by TSDR on 2015-01-16 09:03:09 EST

Mark: CSA ILLUMINA

CSA ILLUMINA

US Serial Number: 76607168 **Application Filing Date:** Aug. 16, 2004

US Registration Number: 3612773 **Registration Date:** Apr. 28, 2009

Register: Principal

Mark Type: Service Mark

Status: Registered. The registration date is used to determine when post-registration maintenance documents are due.

Status Date: Apr. 28, 2009

Publication Date: Sep. 09, 2008 **Notice of Allowance Date:** Dec. 02, 2008

Mark Information

Mark Literal Elements: CSA ILLUMINA

Standard Character Claim: Yes. The mark consists of standard characters without claim to any particular font style, size, or color.

Mark Drawing Type: 4 - STANDARD CHARACTER MARK

Translation: The wording "ILLUMINA" in the mark has no meaning in a foreign language.

Goods and Services

Note: The following symbols indicate that the registrant/owner has amended the goods/services:

- Brackets [..] indicate deleted goods/services;
- Double parenthesis ((..)) identify any goods/services not claimed in a Section 15 affidavit of incontestability; and
- Asterisks *..* identify additional (new) wording in the goods/services.

For: Providing temporary use of online non-downloadable software that enables the user to build and execute an online search of research databases

International Class(es): 042 - Primary Class **U.S Class(es):** 100, 101

Class Status: ACTIVE

Basis: 1(a)

First Use: Dec. 16, 2004 **Use in Commerce:** Dec. 16, 2004

Basis Information (Case Level)

Filed Use:	No	**Currently Use:**	Yes	**Amended Use:**	No
Filed ITU:	Yes	**Currently ITU:**	No	**Amended ITU:**	No
Filed 44D:	No	**Currently 44D:**	No	**Amended 44D:**	No
Filed 44E:	No	**Currently 44E:**	No	**Amended 44E:**	No
Filed 66A:	No	**Currently 66A:**	No		
Filed No Basis:	No	**Currently No Basis:**	No		

Current Owner(s) Information

Owner Name: Cambridge Scientific Abstracts

Composed of: Cambridge Information Group, Inc., a corporation of the State of Maryland

Owner Address: 7200 Wisconsin Avenue
Bethesda, MARYLAND 20814
UNITED STATES

Legal Entity Type: LIMITED PARTNERSHIP **State or Country Where Organized:** MARYLAND

Attorney/Correspondence Information

Attorney of Record

Attorney Name: Tsan Abrahamson

Attorney Primary Email Address: trademarks@cobaltlaw.com **Attorney Email Authorized:** Yes

Correspondent

Correspondent Name/Address: Tsan Abrahamson
Cobalt LLP

819 Bancroft Way
Berkeley, CALIFORNIA 94710
UNITED STATES

Phone: 510-841-9800 **Fax:** 510-295-2401

Correspondent e-mail: trademarks@cobaltlaw.com **Correspondent e-mail Authorized:** Yes

Domestic Representative - Not Found

Prosecution History

Date	Description	Proceeding Number
Dec. 24, 2014	ASSIGNMENT OF OWNERSHIP NOT UPDATED AUTOMATICALLY	
Nov. 05, 2014	ASSIGNMENT OF OWNERSHIP NOT UPDATED AUTOMATICALLY	
May 02, 2012	ASSIGNMENT OF OWNERSHIP NOT UPDATED AUTOMATICALLY	
Sep. 29, 2010	ASSIGNMENT OF OWNERSHIP NOT UPDATED AUTOMATICALLY	
Aug. 07, 2009	ATTORNEY REVOKED AND/OR APPOINTED	
Aug. 07, 2009	TEAS REVOKE/APPOINT ATTORNEY RECEIVED	
Apr. 28, 2009	REGISTERED-PRINCIPAL REGISTER	
Mar. 23, 2009	LAW OFFICE REGISTRATION REVIEW COMPLETED	74221
Mar. 20, 2009	ALLOWED PRINCIPAL REGISTER - SOU ACCEPTED	
Mar. 04, 2009	STATEMENT OF USE PROCESSING COMPLETE	66530
Feb. 13, 2009	USE AMENDMENT FILED	66530
Mar. 04, 2009	CASE ASSIGNED TO INTENT TO USE PARALEGAL	66530
Feb. 13, 2009	TEAS STATEMENT OF USE RECEIVED	
Dec. 02, 2008	NOA MAILED - SOU REQUIRED FROM APPLICANT	
Sep. 09, 2008	PUBLISHED FOR OPPOSITION	
Aug. 20, 2008	NOTICE OF PUBLICATION	
Aug. 07, 2008	LAW OFFICE PUBLICATION REVIEW COMPLETED	74221
Aug. 07, 2008	APPROVED FOR PUB - PRINCIPAL REGISTER	
Jul. 14, 2008	JURISDICTION RESTORED TO EXAMINING ATTORNEY	607168
Apr. 29, 2008	EX PARTE APPEAL-INSTITUTED	607168
Apr. 29, 2008	EXPARTE APPEAL RECEIVED AT TTAB	
Oct. 29, 2007	FINAL REFUSAL MAILED	
Oct. 27, 2007	FINAL REFUSAL WRITTEN	77868
Sep. 27, 2007	LIE CHECKED SUSP - TO ATTY FOR ACTION	74221
Apr. 18, 2007	ASSIGNMENT OF OWNERSHIP NOT UPDATED AUTOMATICALLY	
Dec. 16, 2006	REPORT COMPLETED SUSPENSION CHECK CASE STILL SUSPENDED	74221
Dec. 16, 2006	ASSIGNED TO LIE	74221
May 24, 2006	REPORT COMPLETED SUSPENSION CHECK CASE STILL SUSPENDED	71466
Oct. 18, 2005	CORRESPONDENCE MAILED	
Oct. 18, 2005	SUSPENSION LETTER WRITTEN	77868
Sep. 30, 2005	AMENDMENT FROM APPLICANT ENTERED	71466
Sep. 23, 2005	CORRESPONDENCE RECEIVED IN LAW OFFICE	71466
Sep. 23, 2005	PAPER RECEIVED	
Mar. 23, 2005	NON-FINAL ACTION MAILED	
Mar. 23, 2005	NON-FINAL ACTION WRITTEN	77868
Mar. 18, 2005	ASSIGNED TO EXAMINER	77868
Aug. 27, 2004	NEW APPLICATION ENTERED IN TRAM	

TM Staff and Location Information

TM Staff Information - None

File Location

Current Location: PUBLICATION AND ISSUE SECTION **Date in Location:** Mar. 23, 2009

Assignment Abstract Of Title Information

Summary

Total Assignments: 7 **Registrant:** Cambridge Scientific Abstracts

Assignment 1 of 7

Conveyance: FIRST LIEN IP SECURITY AGREEMENT

Reel/Frame: 3520/0017 **Pages:** 25

Date Recorded: Apr. 11, 2007

Supporting Documents: assignment-tm-3520-0017.pdf

Assignor

Name: PROQUEST-CSA LLC **Execution Date:** Feb. 09, 2007

Legal Entity Type: LIMITED LIABILITY COMPANY **State or Country Where Organized:** No Place Where Organized Found

Name: CAMBRIDGE SCIENTIFIC ABSTRACTS, LP **Execution Date:** Feb. 09, 2007

Legal Entity Type: LIMITED PARTNERSHIP **State or Country Where Organized:** No Place Where Organized Found

Name: I & L OPERATING LLC **Execution Date:** Feb. 09, 2007

Legal Entity Type: LIMITED LIABILITY COMPANY **State or Country Where Organized:** No Place Where Organized Found

Name: PROQUEST INFORMATION AND LEARNING LLC **Execution Date:** Feb. 09, 2007

Legal Entity Type: LIMITED LIABILITY COMPANY **State or Country Where Organized:** No Place Where Organized Found

Name: BIGCHALK, INC. **Execution Date:** Feb. 09, 2007

Legal Entity Type: CORPORATION **State or Country Where Organized:** No Place Where Organized Found

Assignee

Name: MORGAN STANLEY & CO. INCORPORATED

Legal Entity Type: CORPORATION **State or Country Where Organized:** No Place Where Organized Found

Address: ONE PIERREPONT PLAZA, 7TH FLOOR
300 CADMAN PLAZA WEST
BROOKLYN, NEW YORK 11201

Correspondent

Correspondent Name: LUCIA GUH-SIESEL

Correspondent Address: SHEARMAN & STERLING LLP
1080 MARSH RD.
MENLO PARK, CA 94025

Domestic Representative - Not Found

Assignment 2 of 7

Conveyance: SECOND LIEN IP SECURITY AGREEMENT

Reel/Frame: 3522/0144 **Pages:** 25

Date Recorded: Apr. 13, 2007

Supporting Documents: assignment-tm-3522-0144.pdf

Assignor

Name: PROQUEST-CSA LLC **Execution Date:** Feb. 09, 2007

Legal Entity Type: LIMITED LIABILITY COMPANY **State or Country Where Organized:** No Place Where Organized Found

Name: CAMBRIDGE SCIENTIFIC ABSTRACTS, LP **Execution Date:** Feb. 09, 2007

Legal Entity Type: LIMITED PARTNERSHIP **State or Country Where Organized:** No Place Where Organized Found

Name: I&L OPERATING LLC **Execution Date:** Feb. 09, 2007

Legal Entity Type: LIMITED LIABILITY COMPANY **State or Country Where Organized:** No Place Where Organized Found

Name: PROQUEST INFORMATION AND LEARNING LLC **Execution Date:** Feb. 09, 2007

Legal Entity Type: LIMITED LIABILITY COMPANY **State or Country Where** No Place Where Organized Found

		Organized:	
Name:	BIGCHALK, INC.	**Execution Date:**	Feb. 09, 2007
Legal Entity Type:	CORPORATION	**State or Country Where Organized:**	No Place Where Organized Found

Assignee

Name:	MORGAN STANLEY & CO. INCORPORATED		
Legal Entity Type:	CORPORATION	**State or Country Where Organized:**	No Place Where Organized Found
Address:	ONE PIERREPONT PLAZA, 7TH FLOOR 300 CADMAN PLAZA WEST BROOKLYN, NEW YORK 11201		

Correspondent

Correspondent Name:	LUCIA GUH-SIESEL
Correspondent Address:	SHEARMAN & STERLING LLP 1080 MARSH RD. MENLO PARK, CA 94025

Domestic Representative - Not Found

Assignment 3 of 7

Conveyance:	INTELLECTUAL PROPERTY SECOND LIEN SECURITY AGREEMENT RELEASE		
Reel/Frame:	4283/0661	**Pages:**	24
Date Recorded:	Sep. 23, 2010		
Supporting Documents:	assignment-tm-4283-0661.pdf		

Assignor

Name:	MORGAN STANLEY & CO. INCORPORATED	**Execution Date:**	Sep. 23, 2010
Legal Entity Type:	CORPORATION	**State or Country Where Organized:**	DELAWARE

Assignee

Name:	CAMBRIDGE SCIENTIFIC ABSTRACTS, LIMITED PARTNERSHIP		
Legal Entity Type:	LIMITED PARTNERSHIP	**State or Country Where Organized:**	MARYLAND
Address:	7200 WISCONSIN AVENUE BETHESDA, MARYLAND 20814		

Name:	PROQUEST LLC (FORMERLY PROQUEST-CSA LLC)		
Legal Entity Type:	LIMITED LIABILITY COMPANY	**State or Country Where Organized:**	DELAWARE
Address:	7200 WISCONSIN AVENUE BETHESDA, MARYLAND 20814		

Name:	I&L OPERATING LLC		
Legal Entity Type:	LIMITED LIABILITY COMPANY	**State or Country Where Organized:**	DELAWARE
Address:	789 E. EISENHOWER PARKWAY P.O. BOX 1346 ANN ARBOR, MICHIGAN 48106		

Name:	PROQUEST INFORMATION AND LEARNING LLC		
Legal Entity Type:	LIMITED LIABILITY COMPANY	**State or Country Where Organized:**	DELAWARE
Address:	789 E. EISENHOWER PARKWAY P.O. BOX 1346 ANN ARBOR, MICHIGAN 48106		

Name:	BIGCHALK, INC.		
Legal Entity Type:	CORPORATION	**State or Country Where Organized:**	DELAWARE
Address:	789 E. EISENHOWER PARKWAY P.O. BOX 1346 ANN ARBOR, MICHIGAN 48106		

Correspondent

Correspondent Name:	GLORIA JUNG
Correspondent Address:	599 LEXINGTON AVENUE SHEARMAN & STERLING LLP NEW YORK, NY 10022

Domestic Representative - Not Found

Assignment 4 of 7

Conveyance: AMENDED AND RESTATED INTELLECTUAL PROPERTY SECURITY AGREEMENT

Reel/Frame: 4763/0171 **Pages:** 29

Date Recorded: Apr. 24, 2012

Supporting Documents: assignment-tm-4763-0171.pdf

Assignor

Name: CAMBRIDGE SCIENTIFIC ABSTRACTS, LIMITED PARTNERSHIP **Execution Date:** Apr. 13, 2012

Legal Entity Type: LIMITED PARTNERSHIP **State or Country Where Organized:** MARYLAND

Name: PROQUEST LLC **Execution Date:** Apr. 13, 2012

Legal Entity Type: LIMITED LIABILITY COMPANY **State or Country Where Organized:** DELAWARE

Name: PROQUEST INFORMATION AND LEARNING LLC **Execution Date:** Apr. 13, 2012

Legal Entity Type: LIMITED LIABILITY COMPANY **State or Country Where Organized:** DELAWARE

Name: DIALOG LLC **Execution Date:** Apr. 13, 2012

Legal Entity Type: LIMITED LIABILITY COMPANY **State or Country Where Organized:** DELAWARE

Name: EBRARY **Execution Date:** Apr. 13, 2012

Legal Entity Type: CORPORATION **State or Country Where Organized:** CALIFORNIA

Assignee

Name: MORGAN STANLEY SENIOR FUNDING, INC.

Legal Entity Type: CORPORATION **State or Country Where Organized:** DELAWARE

Address: 300 CADMAN PLAZA WEST
ONE PIERREPONT PLAZA, 7TH FLOOR
BROOKLYN, NEW YORK 11201

Correspondent

Correspondent Name: ZHENG BAO

Correspondent Address: 3000 EL CAMINO REAL, 6TH FLOOR
SHEARMAN & STERLING LLP
PALO ALTO, CA 94306

Domestic Representative - Not Found

Assignment 5 of 7

Conveyance: CHANGE OF NAME

Reel/Frame: 5420/0582 **Pages:** 4

Date Recorded: Dec. 16, 2014

Supporting Documents: assignment-tm-5420-0582.pdf

Assignor

Name: CAMBRIDGE SCIENTIFIC ABSTRACTS, LIMITED PARTNERSHIP **Execution Date:** Nov. 13, 2013

Legal Entity Type: LIMITED PARTNERSHIP **State or Country Where Organized:** MARYLAND

Assignee

Name: PROQUEST LP

Legal Entity Type: LIMITED PARTNERSHIP **State or Country Where Organized:** MARYLAND

Address: 789 E. EISENHOWER PARKWAY, P.O. BOX 1346
ANN ARBOR, MICHIGAN 48106

Correspondent

Correspondent Name: AMANDA CONLEY

Correspondent Address: 918 PARKER STREET, BLDG. A21
BERKELEY, CA 94710

Domestic Representative - Not Found

Assignment 6 of 7

Conveyance: SECURITY INTEREST

Reel/Frame: 5387/0531 **Pages:** 14

Date Recorded: Oct. 24, 2014

Supporting Documents: assignment-tm-5387-0531.pdf

Assignor

Name: PROQUEST LLC
Execution Date: Oct. 24, 2014
Legal Entity Type: LIMITED LIABILITY COMPANY
State or Country Where Organized: DELAWARE

Name: EBRARY
Execution Date: Oct. 24, 2014
Legal Entity Type: CORPORATION
State or Country Where Organized: CALIFORNIA

Name: PROQUEST LP
Execution Date: Oct. 24, 2014
Legal Entity Type: LIMITED PARTNERSHIP
State or Country Where Organized: MARYLAND

Name: DIALOG LLC
Execution Date: Oct. 24, 2014
Legal Entity Type: LIMITED LIABILITY COMPANY
State or Country Where Organized: DELAWARE

Assignee

Name: BANK OF AMERICA, N.A., AS COLLATERAL AGENT
Legal Entity Type: NATIONAL BANKING ASSOCIATION
State or Country Where Organized: NORTH CAROLINA
Address: 100 N. TRYON STREET
CHARLOTTE, NORTH CAROLINA 28255

Correspondent

Correspondent Name: MILBANK, TWEED, HADLEY & MCCLOY
Correspondent Address: 1 CHASE MANHATTAN PLAZA
C/O LAWRENCE KASS
NEW YORK, NY 10005

Domestic Representative - Not Found

Assignment 7 of 7

Conveyance: RELEASE OF SECURITY INTEREST
Reel/Frame: 5391/0326
Pages: 55
Date Recorded: Oct. 30, 2014
Supporting Documents: assignment-tm-5391-0326.pdf

Assignor

Name: MORGAN STANLEY SENIOR FUNDING, INC., AS COLLATERAL AGENT
Execution Date: Oct. 28, 2014
Legal Entity Type: CORPORATION
State or Country Where Organized: DELAWARE

Assignee

Name: PROQUEST LLC
Legal Entity Type: LIMITED LIABILITY COMPANY
State or Country Where Organized: DELAWARE
Address: 7200 WISCONSIN AVENUE
BETHESDA, MARYLAND 20814

Name: EBRARY
Legal Entity Type: CORPORATION
State or Country Where Organized: CALIFORNIA
Address: 360 NORTH BERNARDO AVENUE
MOUNTAIN VIEW, CALIFORNIA 94043

Name: DIALOG LLC
Legal Entity Type: LIMITED LIABILITY COMPANY
State or Country Where Organized: DELAWARE
Address: 789 E. EISENHOWER PARKWAY
ANN ARBOR, MICHIGAN 48106

Name: CAMBRIDGE SCIENTIFIC ABSTRACTS, LIMITED PARTNERSHIP
Legal Entity Type: LIMITED PARTNERSHIP
State or Country Where Organized: MARYLAND
Address: 7200 WISCONSIN AVENUE
BETHESDA, MARYLAND 20814

Name: PROQUEST INFORMATION AND LEARNING LLC
Legal Entity Type: LIMITED LIABILITY COMPANY
State or Country Where Organized: DELAWARE

Address: 789 E. EISENHOWER PARKWAY, P.O. BOX 1346
ANN ARBOR, MICHIGAN 48106

Correspondent

Correspondent Name: MILBANK, TWEED, HADLEY & MCCLOY

Correspondent Address: 1 CHASE MANHATTAN PLAZA
C/O LAWRENCE KASS
NEW YORK, NY 10005

Domestic Representative - Not Found

Proceedings

Summary

Number of Proceedings: 1

Type of Proceeding: Exparte Appeal

Proceeding Number: 76607168 **Filing Date:** Apr 29, 2008

Status: Terminated **Status Date:** Sep 30, 2008

Interlocutory Attorney:

Plaintiff(s)

Name: Cambridge Scientific Abstracts

Correspondent Address: SIMOR L. MOSKOWITZ
JACOBSON HOLMAN PLLC
THE JENIFER BUILDING400 SEVENTH STREET, N.W.
WASHINGTON DC , 20004-2201
UNITED STATES

Correspondent e-mail: trademark@jhip.com,smoskowitz@jhip.com

Associated marks

Mark	Application Status	Serial Number	Registration Number
CSA ILLUMINA	Registered	76607168	3612773

Prosecution History

Entry Number	History Text	Date	Due Date
1	APPEAL TO BOARD	Apr 29, 2008	
2	APPEAL ACKNOWLEDGED	Apr 29, 2008	
3	INSTITUTED	Apr 29, 2008	
4	APPLICANT'S REQUEST FOR REMAND	Jun 30, 2008	
5	REMANDED TO EXAMINER	Jul 14, 2008	
6	TERMINATED	Sep 30, 2008	

Int. Cl.: 42

Prior U.S. Cls.: 100 and 101

United States Patent and Trademark Office

Reg. No. 3,612,773

Registered Apr. 28, 2009

SERVICE MARK
PRINCIPAL REGISTER

CSA ILLUMINA

CAMBRIDGE SCIENTIFIC ABSTRACTS (MARYLAND LIMITED PARTNERSHIP)
7200 WISCONSIN AVENUE
BETHESDA, MD 20814

FOR: PROVIDING TEMPORARY USE OF ONLINE NON-DOWNLOADABLE SOFTWARE THAT ENABLES THE USER TO BUILD AND EXECUTE AN ONLINE SEARCH OF RESEARCH DATABASES , IN CLASS 42 (U.S. CLS. 100 AND 101).

FIRST USE 12-16-2004; IN COMMERCE 12-16-2004.

THE MARK CONSISTS OF STANDARD CHARACTERS WITHOUT CLAIM TO ANY PARTICULAR FONT, STYLE, SIZE, OR COLOR.

THE WORDING "ILLUMINA" IN THE MARK HAS NO MEANING IN A FOREIGN LANGUAGE.

SN 76-607,168, FILED 8-16-2004.

KATHRYN COWARD, EXAMINING ATTORNEY

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Databases & Collections

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- Natural Sciences
- Social Sciences
- Technology
- Alphabetical List

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CSA (database company)

From Wikipedia, the free encyclopedia

CSA Illumina also known as **CSA Illustrata** (formerly *Cambridge Scientific Abstracts*) is a provider of online databases, based in Ann Arbor, Michigan.[1] It is now a division of ProQuest, which in turn is now a subsidiary of the Cambridge Information Group.[2] The company produces numerous bibliographic databases in different fields of the arts and humanities, natural and social sciences, and technology.[3] Thus, coverage includes materials science, environmental sciences and pollution management, biological sciences, aquatic sciences and fisheries, biotechnology, engineering, computer science, sociology, linguistics, and other areas.[4]

CSA

Successor	ProQuest
Country of origin	United States
Headquarters location	Ann Arbor, Michigan
Publication types	Databases
Official website	www.csa.com

Contents [hide]

1 Aluminium Industry Abstracts
2 Ceramic Abstracts
3 Civil Engineering Abstracts
4 Computer and Information Systems Abstracts
5 Earthquake Engineering Abstracts
6 Electronics and Communications Abstracts
7 Engineered Materials Abstracts
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8 Environmental Sciences & Pollution Management
8.1 Environmental Engineering Abstracts
8.2 Environmental Periodicals Bibliography
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10.1 Aerospace & High Technology Database
10.1.1 International Aerospace Abstracts
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1/21/2015

Generated on: This page was generated by TSDR on 2015-01-23 10:18:00 EST

Mark: ILLUMABOND

ILLUMABOND

US Serial Number: 77519828 **Application Filing Date:** Jul. 11, 2008

US Registration Number: 3660170 **Registration Date:** Jul. 28, 2009

Register: Principal

Mark Type: Trademark

Status: A Sections 8 and 15 combined declaration has been accepted and acknowledged.

Status Date: Sep. 20, 2014

Publication Date: May 12, 2009

Mark Information

Mark Literal Elements: ILLUMABOND

Standard Character Claim: Yes. The mark consists of standard characters without claim to any particular font style, size, or color.

Mark Drawing Type: 4 - STANDARD CHARACTER MARK

Goods and Services

Note: The following symbols indicate that the registrant/owner has amended the goods/services:

- Brackets [..] indicate deleted goods/services;
- Double parenthesis ((..)) identify any goods/services not claimed in a Section 15 affidavit of incontestability; and
- Asterisks *..* identify additional (new) wording in the goods/services.

For: Adhesives for use in industrial, electronic, medical and aerospace bonding applications; Potting compounds, namely, UV curable acrylic, urethane and epoxy resins used to conceal, protect and insulate electronic components and devices

International Class(es): 001 - Primary Class **U.S Class(es):** 001, 005, 006, 010, 026, 046

Class Status: ACTIVE

Basis: 1(a)

First Use: Jun. 27, 2008 **Use in Commerce:** Jun. 27, 2008

Basis Information (Case Level)

Filed Use:	Yes	**Currently Use:**	Yes	**Amended Use:**	No
Filed ITU:	No	**Currently ITU:**	No	**Amended ITU:**	No
Filed 44D:	No	**Currently 44D:**	No	**Amended 44D:**	No
Filed 44E:	No	**Currently 44E:**	No	**Amended 44E:**	No
Filed 66A:	No	**Currently 66A:**	No		
Filed No Basis:	No	**Currently No Basis:**	No		

Current Owner(s) Information

Owner Name: Epoxies, Inc.

Owner Address: 21 Starline Way
Cranston, RHODE ISLAND 02921
UNITED STATES

Legal Entity Type: CORPORATION **State or Country Where Organized:** RHODE ISLAND

Attorney/Correspondence Information

Attorney of Record

Attorney Name: Robert Salter **Docket Number:** T004479

Attorney Primary Email Address: rsalter@saltermichaelson.com **Attorney Email Authorized:** Yes

Correspondent

Correspondent Name/Address: ROBERT SALTER
SALTER & MICHAELSON

321 S MAIN ST STE 501
PROVIDENCE, RHODE ISLAND 02903
UNITED STATES

Phone: 401-421-3141 **Fax:** 401-861-1953

Correspondent e-mail: rsalter@saltermichaelson.com **Correspondent e-mail Authorized:** Yes

Domestic Representative - Not Found

Prosecution History

Date	Description	Proceeding Number
Sep. 20, 2014	NOTICE OF ACCEPTANCE OF SEC. 8 & 15 - E-MAILED	
Sep. 20, 2014	REGISTERED - SEC. 8 (6-YR) ACCEPTED & SEC. 15 ACK.	67603
Sep. 20, 2014	CASE ASSIGNED TO POST REGISTRATION PARALEGAL	67603
Sep. 10, 2014	TEAS SECTION 8 & 15 RECEIVED	
Jul. 28, 2009	REGISTERED-PRINCIPAL REGISTER	
May 12, 2009	PUBLISHED FOR OPPOSITION	
Apr. 22, 2009	NOTICE OF PUBLICATION	
Apr. 06, 2009	LAW OFFICE PUBLICATION REVIEW COMPLETED	78289
Apr. 03, 2009	ASSIGNED TO LIE	78289
Apr. 03, 2009	APPROVED FOR PUB - PRINCIPAL REGISTER	
Mar. 10, 2009	TEAS/EMAIL CORRESPONDENCE ENTERED	88889
Mar. 10, 2009	CORRESPONDENCE RECEIVED IN LAW OFFICE	88889
Mar. 10, 2009	TEAS REQUEST FOR RECONSIDERATION RECEIVED	
Feb. 12, 2009	NOTIFICATION OF FINAL REFUSAL EMAILED	
Feb. 12, 2009	FINAL REFUSAL E-MAILED	
Feb. 12, 2009	FINAL REFUSAL WRITTEN	85334
Jan. 13, 2009	TEAS/EMAIL CORRESPONDENCE ENTERED	88889
Jan. 13, 2009	CORRESPONDENCE RECEIVED IN LAW OFFICE	88889
Jan. 13, 2009	TEAS RESPONSE TO OFFICE ACTION RECEIVED	
Oct. 24, 2008	NOTIFICATION OF NON-FINAL ACTION E-MAILED	6325
Oct. 24, 2008	NON-FINAL ACTION E-MAILED	6325
Oct. 24, 2008	NON-FINAL ACTION WRITTEN	85334
Oct. 20, 2008	ASSIGNED TO EXAMINER	85334
Jul. 16, 2008	NOTICE OF PSEUDO MARK MAILED	
Jul. 15, 2008	NEW APPLICATION ENTERED IN TRAM	

Maintenance Filings or Post Registration Information

Affidavit of Continued Use: Section 8 - Accepted

Affidavit of Incontestability: Section 15 - Accepted

TM Staff and Location Information

TM Staff Information - None

File Location

Current Location: TMO LAW OFFICE 112 **Date in Location:** Sep. 20, 2014

From: TMOfficialNotices@USPTO.GOV
Sent: Saturday, September 20, 2014 11:01 PM
To: rsalter@saltermichaelson.com
Subject: Official USPTO Notice of Acceptance/Acknowledgement Sections 8 and 15: U.S. Trademark RN 3660170: ILLUMABOND: Docket/Reference No. T004479

Serial Number: 77519828
Registration Number: 3660170
Registration Date: Jul 28, 2009
Mark: ILLUMABOND
Owner: Epoxies, Inc.

Sep 20, 2014

NOTICE OF ACCEPTANCE UNDER SECTION 8

The declaration of use or excusable nonuse filed for the above-identified registration meets the requirements of Section 8 of the Trademark Act, 15 U.S.C. §1058. **The Section 8 declaration is accepted.**

NOTICE OF ACKNOWLEDGEMENT UNDER SECTION 15

The declaration of incontestability filed for the above-identified registration meets the requirements of Section 15 of the Trademark Act, 15 U.S.C. §1065. **The Section 15 declaration is acknowledged.**

The registration will remain in force for the class(es) listed below for the remainder of the ten-year period, calculated from the registration date, unless canceled by an order of the Commissioner for Trademarks or a Federal Court.

Class(es):
001

TRADEMARK SPECIALIST
POST-REGISTRATION DIVISION
571-272-9500

REQUIREMENTS FOR MAINTAINING REGISTRATION

WARNING: Your registration will be canceled if you do not file the documents below during the specified time periods.

Requirements in the First Ten Years

What and When to File: You must file a declaration of use (or excusable nonuse) **and** an application for renewal between the 9th and 10th years after the registration date. See 15 U.S.C. §§1058, 1059.

Requirements in Successive Ten-Year Periods

What and When to File: You must file a declaration of use (or excusable nonuse) **and** an application for renewal between every 9th and 10th-year period, calculated from the registration date. See 15 U.S.C. §§1058, 1059.

Grace Period Filings

The above documents will be considered as timely if filed within six months after the deadlines listed above with the payment of an additional fee.

*****The USPTO WILL NOT SEND ANY FURTHER NOTICE OR REMINDER OF THESE REQUIREMENTS. THE REGISTRANT SHOULD CONTACT THE USPTO ONE YEAR BEFORE THE EXPIRATION OF THE TIME PERIODS SHOWN ABOVE TO DETERMINE APPROPRIATE REQUIREMENTS AND FEES.*****

To view this notice and other documents for this application on-line, go to http://tdr.uspto.gov/search.action?sn=77519828.
NOTE: This notice will only be available on-line the next business day after receipt of this e-mail.

Int. Cl.: 1

Prior U.S. Cls.: 1, 5, 6, 10, 26 and 46

United States Patent and Trademark Office

Reg. No. 3,660,170

Registered July 28, 2009

TRADEMARK
PRINCIPAL REGISTER

ILLUMABOND

EPOXIES, INC. (RHODE ISLAND CORPORATION)
21 STARLINE WAY
CRANSTON, RI 02921

FOR: ADHESIVES FOR USE IN INDUSTRIAL, ELECTRONIC, MEDICAL AND AEROSPACE BONDING APPLICATIONS; POTTING COMPOUNDS, NAMELY, UV CURABLE ACRYLIC, URETHANE AND EPOXY RESINS USED TO CONCEAL, PROTECT AND INSULATE ELECTRONIC COMPONENTS AND DEVICES, IN CLASS 1 (U.S. CLS. 1, 5, 6, 10, 26 AND 46).

FIRST USE 6-27-2008; IN COMMERCE 6-27-2008.

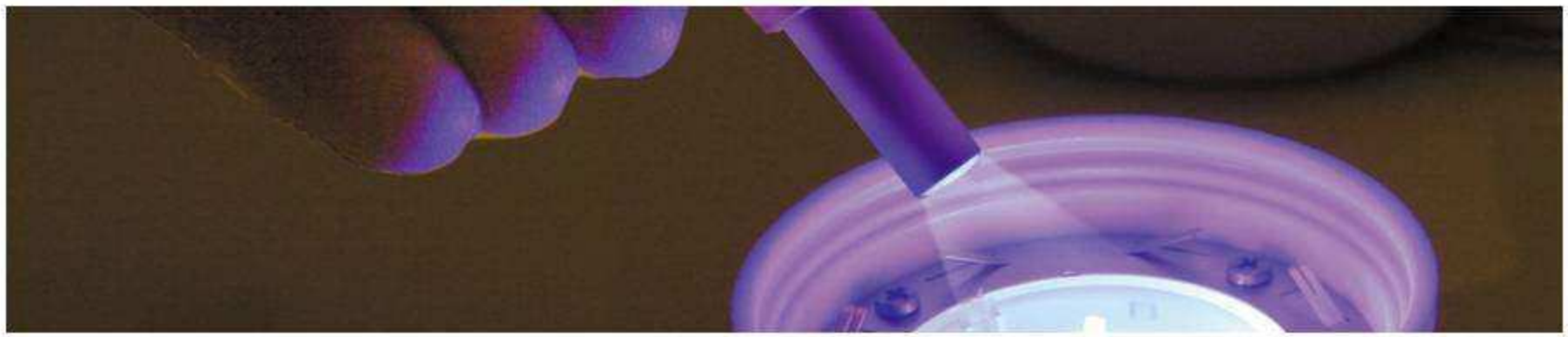
THE MARK CONSISTS OF STANDARD CHARACTERS WITHOUT CLAIM TO ANY PARTICULAR FONT, STYLE, SIZE, OR COLOR.

SER. NO. 77-519,828, FILED 7-11-2008.

TARA PATE, EXAMINING ATTORNEY

EPOXIES®
INNOVATIVE BONDING SOLUTIONS ETC.

UV Curable - Illumabond



Listed below are several one-component UV curable coatings, adhesives, and potting compounds. Epoxies, Etc's UV curable epoxy systems do not require the addition of curing agents, cure within minutes or even seconds, and have unlimited working times. Not all products are listed, and custom UV curable formulations are available upon consultation. Illumabond is trademark of Epoxies, Etc.

	Short Description	Viscosity cP	Hardness	Cure Schedule	Operating Temperature Range, °C
+ 60-7105	UV Urethane Resin with good adhesion and toughness	3,000	78D	12 Seconds with UV Cure 100 Spot Cure	-50 to +155
+ 60-7108	Non-Yellowing clear UV adhesive or potting compound	800	80D	12 Seconds with UV Cure 100 Spot Cure	-50 to +155
+ 60-7111	Flexible non-yellowing urethane with good water resistance	3,500	80A/30D	10 Seconds with UV Cure 100 Spot Cure	-50 to +155
+ 60-7114	Low viscosity urethane adhesive and potting compound	3,000	50D	2 Seconds with UV Cure 100 Spot Cure	-50 to +155
+ 60-7155	Cures with black light or high intensity UV lamps	1,000	70D	15 Minutes With Black Light or 10 seconds with UV Cure 100 Spot Cure	-50 to +200
+ 60-7156	Flexible version of the 60-7155, low in viscosity	600	95A	2-5 Seconds with UV Cure 100 Spot Cure	-50 to +200

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Mark: ILLUMASK

ILLUMASK

US Serial Number: 85918704 **Application Filing Date:** Apr. 30, 2013

US Registration Number: 4534705 **Registration Date:** May 20, 2014

Register: Principal

Mark Type: Trademark

Status: Registered. The registration date is used to determine when post-registration maintenance documents are due.

Status Date: May 20, 2014

Publication Date: Oct. 08, 2013 **Notice of Allowance Date:** Dec. 03, 2013

Mark Information

Mark Literal Elements: ILLUMASK

Standard Character Claim: Yes. The mark consists of standard characters without claim to any particular font style, size, or color.

Mark Drawing Type: 4 - STANDARD CHARACTER MARK

Related Properties Information

International Registration Number: 1219881

International Application(s) /Registration(s) Based on this Property: A0043242/1219881

Goods and Services

Note: The following symbols indicate that the registrant/owner has amended the goods/services:

- Brackets [..] indicate deleted goods/services;
- Double parenthesis ((..)) identify any goods/services not claimed in a Section 15 affidavit of incontestability; and
- Asterisks *..* identify additional (new) wording in the goods/services.

For: Phototherapeutic light delivery apparatus for medical purposes

International Class(es): 010 - Primary Class **U.S Class(es):** 026, 039, 044

Class Status: ACTIVE

Basis: 1(a)

First Use: Jan. 07, 2014 **Use in Commerce:** Jan. 07, 2014

Basis Information (Case Level)

Filed Use:	No	**Currently Use:**	Yes	**Amended Use:**	No
Filed ITU:	Yes	**Currently ITU:**	No	**Amended ITU:**	No
Filed 44D:	No	**Currently 44D:**	No	**Amended 44D:**	No
Filed 44E:	No	**Currently 44E:**	No	**Amended 44E:**	No
Filed 66A:	No	**Currently 66A:**	No		
Filed No Basis:	No	**Currently No Basis:**	No		

Current Owner(s) Information

Owner Name: La Lumiere LLC

Owner Address: 7690 First Place, Suite D
Cleveland, OHIO 44146
UNITED STATES

Legal Entity Type: LIMITED LIABILITY COMPANY **State or Country Where Organized:** DELAWARE

Attorney/Correspondence Information

Attorney of Record

Attorney Name:	Patrick R. Roche	**Docket Number:**	LUMI 200007U
Attorney Primary Email Address:	proche@faysharpe.com	**Attorney Email Authorized:**	Yes

Correspondent

Correspondent Name/Address:	PATRICK R. ROCHE FAY SHARPE LLP 1228 EUCLID AVE CLEVELAND, OHIO 44115-1834 UNITED STATES

Phone:	216.363.9000	**Fax:**	216.363.9001
Correspondent e-mail:	proche@faysharpe.com cterchek@faysharpe.com	**Correspondent e-mail Authorized:**	Yes

Domestic Representative - Not Found

Prosecution History

Date	Description	Proceeding Number
May 20, 2014	REGISTERED-PRINCIPAL REGISTER	
Apr. 16, 2014	NOTICE OF ACCEPTANCE OF STATEMENT OF USE E-MAILED	
Apr. 15, 2014	LAW OFFICE REGISTRATION REVIEW COMPLETED	70997
Apr. 10, 2014	ALLOWED PRINCIPAL REGISTER - SOU ACCEPTED	
Apr. 07, 2014	STATEMENT OF USE PROCESSING COMPLETE	65362
Mar. 17, 2014	USE AMENDMENT FILED	65362
Apr. 07, 2014	CASE ASSIGNED TO INTENT TO USE PARALEGAL	65362
Mar. 17, 2014	TEAS STATEMENT OF USE RECEIVED	
Mar. 13, 2014	APPLICANT/CORRESPONDENCE CHANGES (NON-RESPONSIVE) ENTERED	88888
Mar. 13, 2014	TEAS CHANGE OF OWNER ADDRESS RECEIVED	
Dec. 03, 2013	NOA E-MAILED - SOU REQUIRED FROM APPLICANT	
Oct. 08, 2013	OFFICIAL GAZETTE PUBLICATION CONFIRMATION E-MAILED	
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Sep. 18, 2013	APPLICANT/CORRESPONDENCE CHANGES (NON-RESPONSIVE) ENTERED	88888
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Sep. 18, 2013	NOTIFICATION OF NOTICE OF PUBLICATION E-MAILED	
Aug. 30, 2013	LAW OFFICE PUBLICATION REVIEW COMPLETED	70997
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Aug. 20, 2013	APPROVED FOR PUB - PRINCIPAL REGISTER	
Aug. 18, 2013	EXAMINER'S AMENDMENT ENTERED	88888
Aug. 18, 2013	NOTIFICATION OF EXAMINERS AMENDMENT E-MAILED	6328
Aug. 18, 2013	EXAMINERS AMENDMENT E-MAILED	6328
Aug. 18, 2013	EXAMINERS AMENDMENT -WRITTEN	88574
Aug. 18, 2013	ASSIGNED TO EXAMINER	88574
May 06, 2013	NEW APPLICATION OFFICE SUPPLIED DATA ENTERED IN TRAM	
May 03, 2013	NEW APPLICATION ENTERED IN TRAM	

TM Staff and Location Information

TM Staff Information - None

File Location

Current Location:	PUBLICATION AND ISSUE SECTION	**Date in Location:**	Apr. 15, 2014

United States of America
United States Patent and Trademark Office

ILLUMASK

Reg. No. 4,534,705

Registered May 20, 2014

Int. Cl.: 10

TRADEMARK

PRINCIPAL REGISTER

LA LUMIERE LLC (DELAWARE LIMITED LIABILITY COMPANY)
7690 FIRST PLACE, SUITE D
CLEVELAND, OH 44146

FOR: PHOTOTHERAPEUTIC LIGHT DELIVERY APPARATUS FOR MEDICAL PURPOSES, IN CLASS 10 (U.S. CLS. 26, 39 AND 44).

FIRST USE 1-7-2014; IN COMMERCE 1-7-2014.

THE MARK CONSISTS OF STANDARD CHARACTERS WITHOUT CLAIM TO ANY PARTICULAR FONT, STYLE, SIZE, OR COLOR.

SN 85-918,704, FILED 4-30-2013.

MIAH ROSENBERG, EXAMINING ATTORNEY

Michelle K. Lee

Deputy Director of the United States Patent and Trademark Office

REQUIREMENTS TO MAINTAIN YOUR FEDERAL TRADEMARK REGISTRATION

WARNING: YOUR REGISTRATION WILL BE CANCELLED IF YOU DO NOT FILE THE DOCUMENTS BELOW DURING THE SPECIFIED TIME PERIODS.

Requirements in the First Ten Years*
What and When to File:

First Filing Deadline: You must file a Declaration of Use (or Excusable Nonuse) between the 5th and 6th years after the registration date. *See* 15 U.S.C. §§1058, 1141k. If the declaration is accepted, the registration will continue in force for the remainder of the ten-year period, calculated from the registration date, unless cancelled by an order of the Commissioner for Trademarks or a federal court.

Second Filing Deadline: You must file a Declaration of Use (or Excusable Nonuse) **and** an Application for Renewal between the 9th and 10th years after the registration date.* *See* 15 U.S.C. §1059.

Requirements in Successive Ten-Year Periods*
What and When to File:

You must file a Declaration of Use (or Excusable Nonuse) **and** an Application for Renewal between every 9th and 10th-year period, calculated from the registration date.*

Grace Period Filings*

The above documents will be accepted as timely if filed within six months after the deadlines listed above with the payment of an additional fee.

The United States Patent and Trademark Office (USPTO) will NOT send you any future notice or reminder of these filing requirements.

***ATTENTION MADRID PROTOCOL REGISTRANTS:** The holder of an international registration with an extension of protection to the United States under the Madrid Protocol must timely file the Declarations of Use (or Excusable Nonuse) referenced above directly with the USPTO. The time periods for filing are based on the U.S. registration date (not the international registration date). The deadlines and grace periods for the Declarations of Use (or Excusable Nonuse) are identical to those for nationally issued registrations. *See* 15 U.S.C. §§1058, 1141k. However, owners of international registrations do not file renewal applications at the USPTO. Instead, the holder must file a renewal of the underlying international registration at the International Bureau of the World Intellectual Property Organization, under Article 7 of the Madrid Protocol, before the expiration of each ten-year term of protection, calculated from the date of the international registration. *See* 15 U.S.C. §1141j. For more information and renewal forms for the international registration, see http://www.wipo.int/madrid/en/.

NOTE: Fees and requirements for maintaining registrations are subject to change. Please check the USPTO website for further information. With the exception of renewal applications for registered extensions of protection, you can file the registration maintenance documents referenced above online at http://www.uspto.gov.

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illuMask®

SPECIAL TV OFFER! ACNE MASK

SPECIAL TV OFFER! ANTI-AGING

FOLLOW @ILLUMASK "@Brambilabong: back to when dance moves like this were better than Twerking #illumask #tbt #notwerking... http://t.co/NAQd6QOED8"

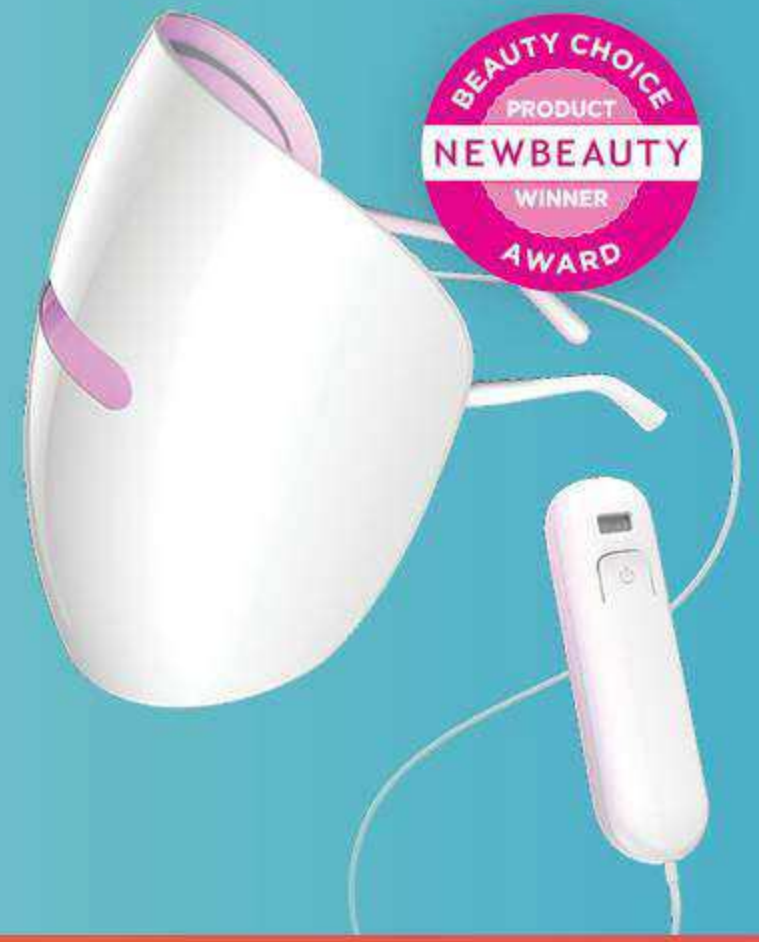
Acne Light Therapy Mask

Clearer skin, reduced redness, and fewer breakouts

Our revolutionary LED Anti-Acne Light Therapy Mask uses blue and red light to eliminate the bacteria that cause acne. There's no damaging UV rays, no harsh chemicals, and no side effects.*

*Based on patient data from an illuMask clinical study.

See More!



4 Items

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Mark: ILLUMASK

US Serial Number: 86068492 **Application Filing Date:** Sep. 18, 2013

US Registration Number: 4557547 **Registration Date:** Jun. 24, 2014

Register: Principal

Mark Type: Trademark

Status: Registered. The registration date is used to determine when post-registration maintenance documents are due.

Status Date: Jun. 24, 2014

Publication Date: Feb. 11, 2014 **Notice of Allowance Date:** Apr. 08, 2014

Mark Information

Mark Literal Elements: ILLUMASK

Standard Character Claim: No

Mark Drawing Type: 5 - AN ILLUSTRATION DRAWING WITH WORD(S) /LETTER(S)/ NUMBER(S) INSTYLIZED FORM

Description of Mark: The mark consists of a stylized use of the word "ILLUMASK", which includes the letters i, l, l, u, a, s, k, shown in lower-case letters, and the letter M in upper-case.

Color(s) Claimed: Color is not claimed as a feature of the mark.

Goods and Services

Note: The following symbols indicate that the registrant/owner has amended the goods/services:

- Brackets [..] indicate deleted goods/services;
- Double parenthesis ((..)) identify any goods/services not claimed in a Section 15 affidavit of incontestability; and
- Asterisks *..* identify additional (new) wording in the goods/services.

For: Phototherapeutic light delivery apparatus for medical purposes

International Class(es): 010 - Primary Class **U.S Class(es):** 026, 039, 044

Class Status: ACTIVE

Basis: 1(a)

First Use: Jan. 07, 2014 **Use in Commerce:** Jan. 07, 2014

Basis Information (Case Level)

Filed Use:	No	**Currently Use:**	Yes	**Amended Use:**	No
Filed ITU:	Yes	**Currently ITU:**	No	**Amended ITU:**	No
Filed 44D:	No	**Currently 44D:**	No	**Amended 44D:**	No
Filed 44E:	No	**Currently 44E:**	No	**Amended 44E:**	No
Filed 66A:	No	**Currently 66A:**	No		
Filed No Basis:	No	**Currently No Basis:**	No		

Current Owner(s) Information

Owner Name: La Lumiere LLC

Owner Address: 7690 First Place, Suite D
Cleveland, OHIO 44146
UNITED STATES

Legal Entity Type: LIMITED LIABILITY COMPANY **State or Country Where Organized:** DELAWARE

Attorney/Correspondence Information

Attorney of Record

Attorney Name: Patrick R. Roche **Docket Number:** LUMI 500009U

Attorney Primary Email Address:	proche@faysharpe.com	**Attorney Email Authorized:**	Yes

Correspondent

Correspondent Name/Address:	PATRICK R. ROCHE FAY SHARPE LLP 1228 EUCLID AVE CLEVELAND, OHIO 44115-1834 UNITED STATES
Phone:	216.363.9000
Fax:	216.363.9001
Correspondent e-mail:	proche@faysharpe.com cterchek@faysharpe.com
Correspondent e-mail Authorized:	Yes

Domestic Representative - Not Found

Prosecution History

Date	Description	Proceeding Number
Jun. 24, 2014	REGISTERED-PRINCIPAL REGISTER	
May 21, 2014	NOTICE OF ACCEPTANCE OF STATEMENT OF USE E-MAILED	
May 20, 2014	ALLOWED PRINCIPAL REGISTER - SOU ACCEPTED	
May 20, 2014	STATEMENT OF USE PROCESSING COMPLETE	65362
Apr. 21, 2014	USE AMENDMENT FILED	65362
May 12, 2014	CASE ASSIGNED TO INTENT TO USE PARALEGAL	65362
Apr. 21, 2014	TEAS STATEMENT OF USE RECEIVED	
Apr. 08, 2014	NOA E-MAILED - SOU REQUIRED FROM APPLICANT	
Mar. 13, 2014	APPLICANT/CORRESPONDENCE CHANGES (NON-RESPONSIVE) ENTERED	88888
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Feb. 11, 2014	PUBLISHED FOR OPPOSITION	
Jan. 22, 2014	NOTIFICATION OF NOTICE OF PUBLICATION E-MAILED	
Dec. 29, 2013	APPROVED FOR PUB - PRINCIPAL REGISTER	
Dec. 29, 2013	ASSIGNED TO EXAMINER	78434
Sep. 27, 2013	NOTICE OF PSEUDO MARK E-MAILED	
Sep. 26, 2013	NEW APPLICATION OFFICE SUPPLIED DATA ENTERED IN TRAM	
Sep. 21, 2013	NEW APPLICATION ENTERED IN TRAM	

TM Staff and Location Information

TM Staff Information - None

File Location

Current Location:	PUBLICATION AND ISSUE SECTION	**Date in Location:**	May 20, 2014

United States of America

United States Patent and Trademark Office

Reg. No. 4,557,547

Registered June 24, 2014

Int. Cl.: 10

TRADEMARK

PRINCIPAL REGISTER

LA LUMIERE LLC (DELAWARE LIMITED LIABILITY COMPANY)
7690 FIRST PLACE, SUITE D
CLEVELAND, OH 44146

FOR: PHOTOTHERAPEUTIC LIGHT DELIVERY APPARATUS FOR MEDICAL PURPOSES, IN CLASS 10 (U.S. CLS. 26, 39 AND 44).

FIRST USE 1-7-2014; IN COMMERCE 1-7-2014.

THE MARK CONSISTS OF A STYLIZED USE OF THE WORD "ILLUMASK", WHICH INCLUDES THE LETTERS I, L, L, U, A, S, K, SHOWN IN LOWER-CASE LETTERS, AND THE LETTER M IN UPPER-CASE.

SN 86-068,492, FILED 9-18-2013.

RENEE MCCRAY, EXAMINING ATTORNEY

Michelle K. Lee

Deputy Director of the United States Patent and Trademark Office

REQUIREMENTS TO MAINTAIN YOUR FEDERAL TRADEMARK REGISTRATION

WARNING: YOUR REGISTRATION WILL BE CANCELLED IF YOU DO NOT FILE THE DOCUMENTS BELOW DURING THE SPECIFIED TIME PERIODS.

Requirements in the First Ten Years*
What and When to File:

First Filing Deadline: You must file a Declaration of Use (or Excusable Nonuse) between the 5th and 6th years after the registration date. *See* 15 U.S.C. §§1058, 1141k. If the declaration is accepted, the registration will continue in force for the remainder of the ten-year period, calculated from the registration date, unless cancelled by an order of the Commissioner for Trademarks or a federal court.

Second Filing Deadline: You must file a Declaration of Use (or Excusable Nonuse) **and** an Application for Renewal between the 9th and 10th years after the registration date.* *See* 15 U.S.C. §1059.

Requirements in Successive Ten-Year Periods*
What and When to File:

You must file a Declaration of Use (or Excusable Nonuse) **and** an Application for Renewal between every 9th and 10th-year period, calculated from the registration date.*

Grace Period Filings*

The above documents will be accepted as timely if filed within six months after the deadlines listed above with the payment of an additional fee.

The United States Patent and Trademark Office (USPTO) will NOT send you any future notice or reminder of these filing requirements.

***ATTENTION MADRID PROTOCOL REGISTRANTS:** The holder of an international registration with an extension of protection to the United States under the Madrid Protocol must timely file the Declarations of Use (or Excusable Nonuse) referenced above directly with the USPTO. The time periods for filing are based on the U.S. registration date (not the international registration date). The deadlines and grace periods for the Declarations of Use (or Excusable Nonuse) are identical to those for nationally issued registrations. *See* 15 U.S.C. §§1058, 1141k. However, owners of international registrations do not file renewal applications at the USPTO. Instead, the holder must file a renewal of the underlying international registration at the International Bureau of the World Intellectual Property Organization, under Article 7 of the Madrid Protocol, before the expiration of each ten-year term of protection, calculated from the date of the international registration. *See* 15 U.S.C. §1141j. For more information and renewal forms for the international registration, see http://www.wipo.int/madrid/en/.

NOTE: Fees and requirements for maintaining registrations are subject to change. Please check the USPTO website for further information. With the exception of renewal applications for registered extensions of protection, you can file the registration maintenance documents referenced above online at http://www.uspto.gov.

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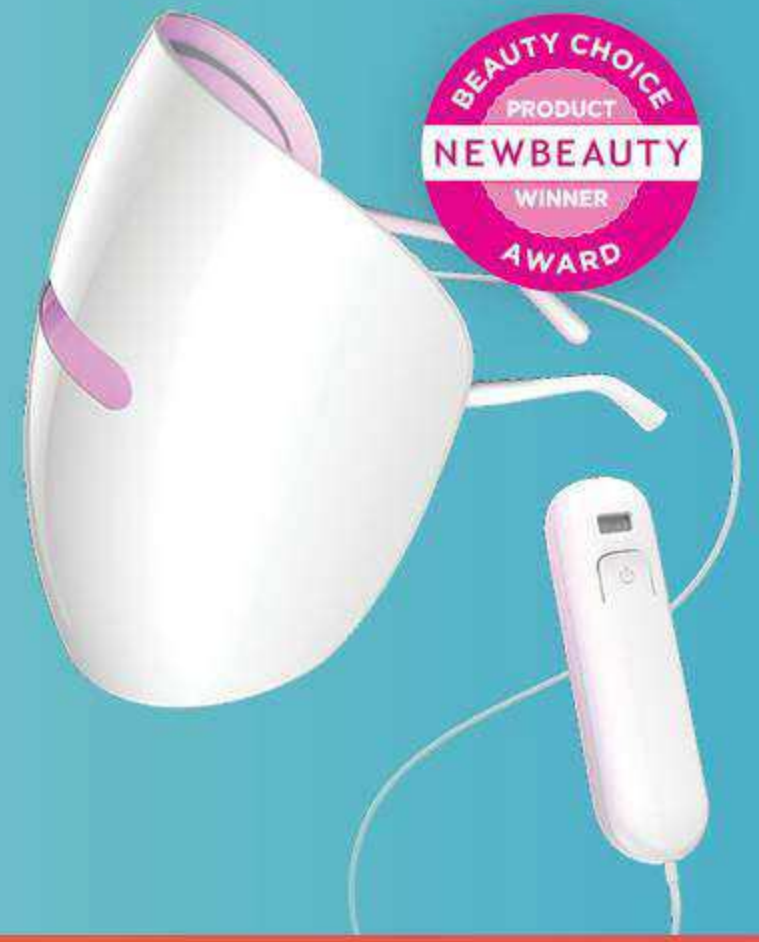

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Mark: ILLUMAVEIN

ILLUMAVEIN

US Serial Number:	77878578	**Application Filing Date:**	Nov. 23, 2009
US Registration Number:	3924018	**Registration Date:**	Feb. 22, 2011
Register:	Principal		
Mark Type:	Trademark		
Status:	Registered. The registration date is used to determine when post-registration maintenance documents are due.		
Status Date:	Feb. 22, 2011		
Publication Date:	Apr. 20, 2010	**Notice of Allowance Date:**	Jun. 15, 2010

Mark Information

Mark Literal Elements: ILLUMAVEIN

Standard Character Claim: Yes. The mark consists of standard characters without claim to any particular font style, size, or color.

Mark Drawing Type: 4 - STANDARD CHARACTER MARK

Goods and Services

Note: The following symbols indicate that the registrant/owner has amended the goods/services:

- Brackets [..] indicate deleted goods/services;
- Double parenthesis ((..)) identify any goods/services not claimed in a Section 15 affidavit of incontestability; and
- Asterisks *..* identify additional (new) wording in the goods/services.

For: MEDICAL INSTRUMENTS, NAMELY, APPARATUS FOR TAKING BLOOD SAMPLES FROM ANIMALS

International Class(es):	010 - Primary Class	**U.S Class(es):**	026, 039, 044
Class Status:	ACTIVE		
Basis:	1(a)		
First Use:	Feb. 26, 2010	**Use in Commerce:**	Feb. 26, 2010

Basis Information (Case Level)

Filed Use:	No	**Currently Use:**	Yes	**Amended Use:**	No
Filed ITU:	Yes	**Currently ITU:**	No	**Amended ITU:**	No
Filed 44D:	No	**Currently 44D:**	No	**Amended 44D:**	No
Filed 44E:	No	**Currently 44E:**	No	**Amended 44E:**	No
Filed 66A:	No	**Currently 66A:**	No		
Filed No Basis:	No	**Currently No Basis:**	No		

Current Owner(s) Information

Owner Name: Pet Sugar Check LLC

Owner Address: 2528 Grand Avenue South
Minneapolis, MINNESOTA 55405
UNITED STATES

Legal Entity Type:	LIMITED LIABILITY COMPANY	**State or Country Where Organized:**	MINNESOTA

Attorney/Correspondence Information

Attorney of Record

Attorney Name:	Michael A. Bondi	**Docket Number:**	P846.602.101
Attorney Primary Email Address:	uspto@dbclaw.com	**Attorney Email Authorized:**	No

Correspondent

Correspondent Name/Address: MICHAEL A. BONDI
DICKE, BILLIG & CZAJA, PLLC
100 S 5TH ST STE 2250

MINNEAPOLIS, MINNESOTA 55402-1235
UNITED STATES

Phone: (612) 573-2000 **Fax:** (612) 573-2005

Correspondent e-mail: uspto@dbclaw.com **Correspondent e-mail Authorized:** No

Domestic Representative - Not Found

Prosecution History

Date	Description	Proceeding Number
Feb. 22, 2011	REGISTERED-PRINCIPAL REGISTER	
Jan. 15, 2011	NOTICE OF ACCEPTANCE OF STATEMENT OF USE E-MAILED	
Jan. 14, 2011	LAW OFFICE REGISTRATION REVIEW COMPLETED	73797
Jan. 14, 2011	ASSIGNED TO LIE	73797
Dec. 18, 2010	ALLOWED PRINCIPAL REGISTER - SOU ACCEPTED	
Dec. 16, 2010	STATEMENT OF USE PROCESSING COMPLETE	76874
Nov. 29, 2010	USE AMENDMENT FILED	76874
Dec. 16, 2010	CASE ASSIGNED TO INTENT TO USE PARALEGAL	76874
Nov. 29, 2010	TEAS STATEMENT OF USE RECEIVED	
Jun. 15, 2010	NOA E-MAILED - SOU REQUIRED FROM APPLICANT	
Apr. 20, 2010	OFFICIAL GAZETTE PUBLICATION CONFIRMATION E-MAILED	
Apr. 20, 2010	PUBLISHED FOR OPPOSITION	
Mar. 17, 2010	LAW OFFICE PUBLICATION REVIEW COMPLETED	78145
Mar. 17, 2010	ASSIGNED TO LIE	78145
Mar. 01, 2010	APPROVED FOR PUB - PRINCIPAL REGISTER	
Mar. 01, 2010	ASSIGNED TO EXAMINER	80803
Nov. 27, 2009	NEW APPLICATION OFFICE SUPPLIED DATA ENTERED IN TRAM	
Nov. 26, 2009	NEW APPLICATION ENTERED IN TRAM	

TM Staff and Location Information

TM Staff Information - None

File Location

Current Location: PUBLICATION AND ISSUE SECTION **Date in Location:** Jan. 14, 2011

United States of America
United States Patent and Trademark Office

ILLUMAVEIN

Reg. No. 3,924,018

Registered Feb. 22, 2011

Int. Cl.: 10

TRADEMARK

PRINCIPAL REGISTER

PET SUGAR CHECK LLC (MINNESOTA LIMITED LIABILITY COMPANY)
2528 GRAND AVENUE SOUTH
MINNEAPOLIS, MN 55405

FOR: MEDICAL INSTRUMENTS, NAMELY, APPARATUS FOR TAKING BLOOD SAMPLES FROM ANIMALS, IN CLASS 10 (U.S. CLS. 26, 39 AND 44).

FIRST USE 2-26-2010; IN COMMERCE 2-26-2010.

THE MARK CONSISTS OF STANDARD CHARACTERS WITHOUT CLAIM TO ANY PARTICULAR FONT, STYLE, SIZE, OR COLOR.

SN 77-878,578, FILED 11-23-2009.

GISELLE AGOSTO, EXAMINING ATTORNEY

David J. Kappos

Director of the United States Patent and Trademark Office

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Mark: ILLUMENA

US Serial Number: 75157235

Application Filing Date: Aug. 28, 1996

US Registration Number: 2237169

Registration Date: Apr. 06, 1999

Register: Principal

Mark Type: Trademark

Status: The registration has been renewed.

Status Date: Dec. 11, 2009

Publication Date: Oct. 14, 1997

Notice of Allowance Date: Jan. 06, 1998

Mark Information

Mark Literal Elements: ILLUMENA

Standard Character Claim: No

Mark Drawing Type: 1 - TYPESET WORD(S) /LETTER(S) /NUMBER(S)

Goods and Services

Note: The following symbols indicate that the registrant/owner has amended the goods/services:

- Brackets [..] indicate deleted goods/services;
- Double parenthesis ((..)) identify any goods/services not claimed in a Section 15 affidavit of incontestability; and
- Asterisks *..* identify additional (new) wording in the goods/services.

For: powered injectors for injecting contrast media into the body of a human or animal to facilitate imaging body organs and [systems] by radiography, [ultrasound, magnetic resonance], computed tomography, and the like; medical tubing for administration and draining of fluids; [catheters;]containers, namely, syringes; medical apparatus, namely, contrast media power injection operator consoles, console and injector power head mounts, and accessories, namely, extension and interconnect cables, remote switches, ECG interfaces and pre-amplifiers; syringe pressure jackets and heaters, and bottle holders; all for use in connection with such contrast media power injectors

International Class(es): 010 - Primary Class

U.S Class(es): 026, 039, 044

Class Status: ACTIVE

Basis: 1(a)

First Use: Dec. 15, 1998

Use in Commerce: Dec. 15, 1998

Basis Information (Case Level)

Filed Use: No

Currently Use: Yes

Amended Use: No

Filed ITU: Yes

Currently ITU: No

Amended ITU: No

Filed 44D: No

Currently 44D: No

Amended 44D: No

Filed 44E: No

Currently 44E: No

Amended 44E: No

Filed 66A: No

Currently 66A: No

Filed No Basis: No

Currently No Basis: No

Current Owner(s) Information

Owner Name: LIEBEL-FLARSHEIM COMPANY

Owner Address: 2111 East Galbraith Road
Cincinnati, OHIO 45237
UNITED STATES

Legal Entity Type: CORPORATION

State or Country Where Organized: DELAWARE

Attorney/Correspondence Information

Attorney of Record			
Attorney Name:	Kenneth D. Goetz	**Docket Number:**	M-185:H
Attorney Primary Email Address:	trademarks@covidien.com	**Attorney Email Authorized:**	Yes

Correspondent			
Correspondent Name/Address:	Kenneth D. Goetz Covidien 675 McDonnell Boulevard Hazelwood, MISSOURI 63042 UNITED STATES		
Correspondent e-mail:	trademarks@covidien.com	**Correspondent e-mail Authorized:**	Yes

Domestic Representative - Not Found

Prosecution History

Date	Description	Proceeding Number
Aug. 17, 2011	ASSIGNMENT OF OWNERSHIP NOT UPDATED AUTOMATICALLY	
Dec. 11, 2009	REGISTERED AND RENEWED (FIRST RENEWAL - 10 YRS)	68335
Dec. 11, 2009	REGISTERED - SEC. 8 (10-YR) ACCEPTED/SEC. 9 GRANTED	
Apr. 06, 2009	ASSIGNED TO PARALEGAL	68335
Apr. 02, 2009	TEAS SECTION 8 & 9 RECEIVED	
Mar. 03, 2009	CASE FILE IN TICRS	
May 06, 2006	REGISTERED - SEC. 8 (6-YR) ACCEPTED & SEC. 15 ACK.	67723
May 06, 2006	ASSIGNED TO PARALEGAL	67723
Mar. 14, 2005	REGISTERED - SEC. 8 (6-YR) & SEC. 15 FILED	
Mar. 14, 2005	TEAS SECTION 8 & 15 RECEIVED	
Mar. 14, 2005	ATTORNEY REVOKED AND/OR APPOINTED	
Mar. 14, 2005	TEAS REVOKE/APPOINT ATTORNEY RECEIVED	
Apr. 06, 1999	REGISTERED-PRINCIPAL REGISTER	
Feb. 12, 1999	ALLOWED PRINCIPAL REGISTER - SOU ACCEPTED	
Feb. 10, 1999	ASSIGNED TO EXAMINER	72146
Jan. 06, 1999	STATEMENT OF USE PROCESSING COMPLETE	
Jan. 06, 1999	USE AMENDMENT FILED	
Jul. 23, 1998	EXTENSION 1 GRANTED	
Jul. 06, 1998	EXTENSION 1 FILED	
Jan. 06, 1998	NOA MAILED - SOU REQUIRED FROM APPLICANT	
Oct. 14, 1997	PUBLISHED FOR OPPOSITION	
Sep. 12, 1997	NOTICE OF PUBLICATION	
Aug. 15, 1997	APPROVED FOR PUB - PRINCIPAL REGISTER	
Jul. 10, 1997	CORRESPONDENCE RECEIVED IN LAW OFFICE	
Mar. 12, 1997	NON-FINAL ACTION MAILED	
Feb. 27, 1997	ASSIGNED TO EXAMINER	72146

Maintenance Filings or Post Registration Information

Affidavit of Continued Use:	Section 8 - Accepted
Affidavit of Incontestability:	Section 15 - Accepted
Renewal Date:	Apr. 06, 2009

TM Staff and Location Information

TM Staff Information - None

File Location

Current Location: GENERIC WEB UPDATE **Date in Location:** Dec. 11, 2009

Assignment Abstract Of Title Information

Summary

Total Assignments: 2 **Registrant:** LIEBEL-FLARSHEIM COMPANY

Assignment 1 of 2

Conveyance: CHANGE OF LEGAL ENTITY

Reel/Frame: 4603/0224 **Pages:** 8

Date Recorded: Aug. 12, 2011

Supporting Documents: assignment-tm-4603-0224.pdf

Assignor

Name: LIEBEL-FLARSHEIM COMPANY **Execution Date:** Jun. 23, 2011

Legal Entity Type: CORPORATION **State or Country Where Organized:** DELAWARE

Assignee

Name: LIEBEL-FLARSHEIM COMPANY LLC

Legal Entity Type: LIMITED LIABILITY COMPANY **State or Country Where Organized:** DELAWARE

Address: 675 MCDONNELL BLVD.
HAZELWOOD,, MISSOURI 63042

Correspondent

Correspondent Name: CPA GLOBAL

Correspondent Address: LIBERATION HOUSE
CASTLE STREET
ST. HELIER, JE1 1BL JERSEY

Domestic Representative - Not Found

Assignment 2 of 2

Conveyance: SECURITY INTEREST

Reel/Frame: 5240/0081 **Pages:** 14

Date Recorded: Mar. 19, 2014

Supporting Documents: assignment-tm-5240-0081.pdf

Assignor

Name: MALLINCKRODT INTERNATIONAL FINANCE S.A. **Execution Date:** Mar. 19, 2014

Legal Entity Type: LIMITED LIABILITY COMPANY **State or Country Where Organized:** LUXEMBOURG

Name: MALLINCKRODT CB LLC **Execution Date:** Mar. 19, 2014

Legal Entity Type: LIMITED LIABILITY COMPANY **State or Country Where Organized:** DELAWARE

Name: MALLINCKRODT FINANCE GMBH **Execution Date:** Mar. 19, 2014

Legal Entity Type: LIMITED LIABILITY COMPANY **State or Country Where Organized:** SWITZERLAND

Name: MALLINCKRODT US HOLDINGS INC. **Execution Date:** Mar. 19, 2014

Legal Entity Type: CORPORATION **State or Country Where Organized:** NEVADA

Name: MALLINCKRODT CARIBBEAN, INC. **Execution Date:** Mar. 19, 2014

Legal Entity Type: CORPORATION **State or Country Where Organized:** DELAWARE

Name: MALLINCKRODT US POOL LLC **Execution Date:** Mar. 19, 2014

Legal Entity Type: LIMITED LIABILITY COMPANY **State or Country Where Organized:** NEVADA

Name: MALLINCKRODT INC. **Execution Date:** Mar. 19, 2014

Legal Entity Type: CORPORATION **State or Country Where Organized:** DELAWARE

Name: LUDLOW CORPORATION **Execution Date:** Mar. 19, 2014

Legal Entity Type: CORPORATION **State or Country Where Organized:** MASSACHUSETTS

Name: CNS THERAPEUTICS, INC. **Execution Date:** Mar. 19, 2014

Legal Entity Type:	CORPORATION	**State or Country Where Organized:**	DELAWARE
Name:	ENTERPRISES HOLDINGS, INC.	**Execution Date:**	Mar. 19, 2014
Legal Entity Type:	CORPORATION	**State or Country Where Organized:**	DELAWARE
Name:	MALLINCKRODT ENTERPRISES LLC	**Execution Date:**	Mar. 19, 2014
Legal Entity Type:	LIMITED LIABILITY COMPANY	**State or Country Where Organized:**	DELAWARE
Name:	MALLINCKRODT LLC	**Execution Date:**	Mar. 19, 2014
Legal Entity Type:	LIMITED LIABILITY COMPANY	**State or Country Where Organized:**	DELAWARE
Name:	LAFAYETTE PHARMACEUTICALS LLC	**Execution Date:**	Mar. 19, 2014
Legal Entity Type:	LIMITED LIABILITY COMPANY	**State or Country Where Organized:**	DELAWARE
Name:	LIEBEL-FLARSHEIM COMPANY LLC	**Execution Date:**	Mar. 19, 2014
Legal Entity Type:	LIMITED LIABILITY COMPANY	**State or Country Where Organized:**	DELAWARE
Name:	MALLINCKRODT BRAND PHARMACEUTICALS, INC.	**Execution Date:**	Mar. 19, 2014
Legal Entity Type:	CORPORATION	**State or Country Where Organized:**	DELAWARE
Name:	MALLINCKRODT VETERINARY, INC.	**Execution Date:**	Mar. 19, 2014
Legal Entity Type:	CORPORATION	**State or Country Where Organized:**	DELAWARE
Name:	MALLINCKRODT US HOLDINGS LLC	**Execution Date:**	Mar. 19, 2014
Legal Entity Type:	LIMITED LIABILITY COMPANY	**State or Country Where Organized:**	DELAWARE
Name:	IMC EXPLORATION COMPANY	**Execution Date:**	Mar. 19, 2014
Legal Entity Type:	COMPANY	**State or Country Where Organized:**	MARYLAND
Name:	MEH, INC.	**Execution Date:**	Mar. 19, 2014
Legal Entity Type:	CORPORATION	**State or Country Where Organized:**	NEVADA
Name:	MALLINCKRODT ENTERPRISES HOLDINGS, INC.	**Execution Date:**	Mar. 19, 2014
Legal Entity Type:	CORPORATION	**State or Country Where Organized:**	CALIFORNIA

Assignee

Name:	DEUTSCHE BANK AG NEW YORK BRANCH		
Legal Entity Type:	BANKING CORPORATION	**State or Country Where Organized:**	GERMANY
Address:	60 WALL STREET NEW YORK, NEW YORK 10006		

Correspondent

Correspondent Name:	WHITE & CASE LLP / CHRISTINA ISHIHARA
Correspondent Address:	3000 EL CAMINO REAL, BLDG 5, 9TH FLOOR PALO ALTO, CA 94306

Domestic Representative - Not Found

Side - 1

NOTICE OF ACCEPTANCE OF §8 DECLARATION AND §9 RENEWAL

MAILING DATE: Dec 11, 2009

The declaration and renewal application filed in connection with the registration identified below meets the requirements of Sections 8 and 9 of the Trademark Act, 15 U.S.C. §§1058 and 1059. The declaration is accepted and renewal is granted. The registration remains in force.

For further information about this notice, visit our website at: http://www.uspto.gov. To review information regarding the referenced registration, go to http://tarr.uspto.gov.

REG NUMBER:	**2237169**
MARK:	**ILLUMENA**
OWNER:	**LIEBEL-FLARSHEIM COMPANY**

Side - 2

UNITED STATES PATENT AND TRADEMARK OFFICE
COMMISSIONER FOR TRADEMARKS
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ALEXANDRIA, VA 22313-1451

FIRST-CLASS MAIL
U.S POSTAGE PAID

Kenneth D. Goetz
Covidien
675 McDonnell Boulevard
Hazelwood, MO 63042

Int. Cl.: 10

Prior U.S. Cls.: 26, 39, and 44

Reg. No. 2,237,169

United States Patent and Trademark Office

Registered Apr. 6, 1999

TRADEMARK
PRINCIPAL REGISTER

ILLUMENA

LIEBEL-FLARSHEIM COMPANY (DELAWARE CORPORATION)
2111 EAST GALBRAITH ROAD
CINCINNATI, OH 45237

FOR: POWERED INJECTORS FOR INJECTING CONTRAST MEDIA INTO THE BODY OF A HUMAN OR ANIMAL TO FACILITATE IMAGING BODY ORGANS AND SYSTEMS BY RADIOGRAPHY, ULTRASOUND, MAGNETIC RESONANCE, COMPUTED TOMOGRAPHY, AND THE LIKE; MEDICAL TUBING FOR ADMINISTRATION AND DRAINING OF FLUIDS; CATHETERS; CONTAINERS, NAMELY, SYRINGES; MEDICAL APPARATUS, NAMELY, CONTRAST MEDIA POWER INJECTION OPERATOR CONSOLES, CONSOLE AND INJECTOR POWER HEAD MOUNTS, AND ACCESSORIES, NAMELY, EXTENSION AND INTERCONNECT CABLES, REMOTE SWITCHES, ECG INTERFACES AND PRE-AMPLIFIERS; SYRINGE PRESSURE JACKETS AND HEATERS, AND BOTTLE HOLDERS; ALL FOR USE IN CONNECTION WITH SUCH CONTRAST MEDIA POWER INJECTORS , IN CLASS 10 (U.S. CLS. 26, 39 AND 44).

FIRST USE 12-15-1998; IN COMMERCE 12-15-1998.

SN 75-157,235, FILED 8-28-1996.

LEIGH CAROLINE CASE, EXAMINING ATTORNEY

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- OptiSuite™
- OptiSync
- Power Injectors & Accessories
- Prefilled Syringes
- Ready-Box™

Modalities
Resources
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Contact Contrast Media and Devices

Distributor Information
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PRODUCTS

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Angiomat™ Illumena™ CONTRAST DELIVERY SYSTEM

OptiSync™ Data Management System

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Mallinckrodt Pharmaceuticals is a registered business name of Mallinckrodt plc, which is registered in Ireland as a public limited company with registration number 522227 and has its registered office at Damastown, Mulhuddart, Dublin 15, Ireland.

3:47 PM
1/21/2015

About Us
Our Products
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- OptiSuite™
- OptiSync
- Power Injectors & Accessories
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    - Angiomat™ Accessories
    - Angiomat™ Disposables
  - Optivantage Dual-Head CT
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Pedestal version	1	each		7161M	n/a
Remote floor stand, console wall mount	1	each		7141M	n/a
Wall mount suspension	1	each		7174M	n/a

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Mallinckrodt Pharmaceuticals is a registered business name of Mallinckrodt plc, which is registered in Ireland as a public limited company with registration number 522227 and has its registered office at Damastown, Mulhuddart, Dublin 15, Ireland.

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Mark: ILLUMINA

ILLUMINA

US Serial Number: 76607167 **Application Filing Date:** Aug. 16, 2004

US Registration Number: 3612772 **Registration Date:** Apr. 28, 2009

Register: Principal

Mark Type: Service Mark

Status: Registered. The registration date is used to determine when post-registration maintenance documents are due.

Status Date: Apr. 28, 2009

Publication Date: Sep. 16, 2008 **Notice of Allowance Date:** Dec. 09, 2008

Mark Information

Mark Literal Elements: ILLUMINA

Standard Character Claim: Yes. The mark consists of standard characters without claim to any particular font style, size, or color.

Mark Drawing Type: 4 - STANDARD CHARACTER MARK

Translation: The wording "ILLUMINA" has no meaning in a foreign language.

Goods and Services

Note: The following symbols indicate that the registrant/owner has amended the goods/services:

- Brackets [..] indicate deleted goods/services;
- Double parenthesis ((..)) identify any goods/services not claimed in a Section 15 affidavit of incontestability; and
- Asterisks *..* identify additional (new) wording in the goods/services.

For: Providing temporary use on online non-downloadable software that enables the user to build and execute an online search of research databases

International Class(es): 042 - Primary Class **U.S Class(es):** 100, 101

Class Status: ACTIVE

Basis: 1(a)

First Use: Dec. 16, 2004 **Use in Commerce:** Dec. 16, 2004

Basis Information (Case Level)

Filed Use:	No	**Currently Use:**	Yes	**Amended Use:**	No
Filed ITU:	Yes	**Currently ITU:**	No	**Amended ITU:**	No
Filed 44D:	No	**Currently 44D:**	No	**Amended 44D:**	No
Filed 44E:	No	**Currently 44E:**	No	**Amended 44E:**	No
Filed 66A:	No	**Currently 66A:**	No		
Filed No Basis:	No	**Currently No Basis:**	No		

Current Owner(s) Information

Owner Name: Cambridge Scientific Abstracts

Composed of: Cambridge Information Group, Inc., a corporation of the State of Maryland

Owner Address: 7200 Wisconsin Avenue
Bethesda, MARYLAND 20814
UNITED STATES

Legal Entity Type: LIMITED PARTNERSHIP **State or Country Where Organized:** MARYLAND

Attorney/Correspondence Information

Attorney of Record

Attorney Name: Tsan Abrahamson

Attorney Primary Email Address: trademarks@cobaltlaw.com **Attorney Email Authorized:** Yes

Correspondent

Correspondent Tsan Abrahamson

Name/Address: Cobalt LLP
819 Bancroft Way
Berkeley, CALIFORNIA 94710
UNITED STATES

Phone: 510-841-9800 **Fax:** 510-295-2401

Correspondent e-mail: trademarks@cobaltlaw.com **Correspondent e-mail Authorized:** Yes

Domestic Representative - Not Found

Prosecution History

Date	Description	Proceeding Number
Dec. 24, 2014	ASSIGNMENT OF OWNERSHIP NOT UPDATED AUTOMATICALLY	
Nov. 05, 2014	ASSIGNMENT OF OWNERSHIP NOT UPDATED AUTOMATICALLY	
May 02, 2012	ASSIGNMENT OF OWNERSHIP NOT UPDATED AUTOMATICALLY	
Sep. 29, 2010	ASSIGNMENT OF OWNERSHIP NOT UPDATED AUTOMATICALLY	
Aug. 07, 2009	ATTORNEY REVOKED AND/OR APPOINTED	
Aug. 07, 2009	TEAS REVOKE/APPOINT ATTORNEY RECEIVED	
Apr. 28, 2009	REGISTERED-PRINCIPAL REGISTER	
Mar. 23, 2009	LAW OFFICE REGISTRATION REVIEW COMPLETED	74221
Mar. 20, 2009	ALLOWED PRINCIPAL REGISTER - SOU ACCEPTED	
Mar. 04, 2009	STATEMENT OF USE PROCESSING COMPLETE	66530
Feb. 13, 2009	USE AMENDMENT FILED	66530
Mar. 04, 2009	CASE ASSIGNED TO INTENT TO USE PARALEGAL	66530
Feb. 13, 2009	TEAS STATEMENT OF USE RECEIVED	
Dec. 09, 2008	NOA MAILED - SOU REQUIRED FROM APPLICANT	
Sep. 16, 2008	PUBLISHED FOR OPPOSITION	
Aug. 27, 2008	NOTICE OF PUBLICATION	
Aug. 12, 2008	LAW OFFICE PUBLICATION REVIEW COMPLETED	74221
Aug. 07, 2008	APPROVED FOR PUB - PRINCIPAL REGISTER	
Jul. 25, 2008	JURISDICTION RESTORED TO EXAMINING ATTORNEY	607167
Apr. 29, 2008	EX PARTE APPEAL-INSTITUTED	607167
Apr. 29, 2008	EXPARTE APPEAL RECEIVED AT TTAB	
Oct. 29, 2007	FINAL REFUSAL MAILED	
Oct. 27, 2007	FINAL REFUSAL WRITTEN	77868
Sep. 27, 2007	LIE CHECKED SUSP - TO ATTY FOR ACTION	74221
Apr. 18, 2007	ASSIGNMENT OF OWNERSHIP NOT UPDATED AUTOMATICALLY	
Dec. 16, 2006	REPORT COMPLETED SUSPENSION CHECK CASE STILL SUSPENDED	74221
Dec. 16, 2006	ASSIGNED TO LIE	74221
May 24, 2006	REPORT COMPLETED SUSPENSION CHECK CASE STILL SUSPENDED	71466
Oct. 18, 2005	CORRESPONDENCE MAILED	
Oct. 18, 2005	SUSPENSION LETTER WRITTEN	77868
Sep. 30, 2005	AMENDMENT FROM APPLICANT ENTERED	71466
Sep. 23, 2005	CORRESPONDENCE RECEIVED IN LAW OFFICE	71466
Sep. 23, 2005	PAPER RECEIVED	
Mar. 23, 2005	NON-FINAL ACTION MAILED	
Mar. 23, 2005	NON-FINAL ACTION WRITTEN	77868
Mar. 18, 2005	ASSIGNED TO EXAMINER	77868
Aug. 27, 2004	NEW APPLICATION ENTERED IN TRAM	

TM Staff and Location Information

TM Staff Information - None

File Location

Current Location: PUBLICATION AND ISSUE SECTION **Date in Location:** Mar. 23, 2009

Assignment Abstract Of Title Information

Summary

Total Assignments: 7 **Registrant:** Cambridge Scientific Abstracts

Assignment 1 of 7

Conveyance: FIRST LIEN IP SECURITY AGREEMENT

Reel/Frame: 3520/0017 **Pages:** 25

Date Recorded: Apr. 11, 2007

Supporting Documents: assignment-tm-3520-0017.pdf

Assignor

Name: PROQUEST-CSA LLC **Execution Date:** Feb. 09, 2007

Legal Entity Type: LIMITED LIABILITY COMPANY **State or Country Where Organized:** No Place Where Organized Found

Name: CAMBRIDGE SCIENTIFIC ABSTRACTS, LP **Execution Date:** Feb. 09, 2007

Legal Entity Type: LIMITED PARTNERSHIP **State or Country Where Organized:** No Place Where Organized Found

Name: I & L OPERATING LLC **Execution Date:** Feb. 09, 2007

Legal Entity Type: LIMITED LIABILITY COMPANY **State or Country Where Organized:** No Place Where Organized Found

Name: PROQUEST INFORMATION AND LEARNING LLC **Execution Date:** Feb. 09, 2007

Legal Entity Type: LIMITED LIABILITY COMPANY **State or Country Where Organized:** No Place Where Organized Found

Name: BIGCHALK, INC. **Execution Date:** Feb. 09, 2007

Legal Entity Type: CORPORATION **State or Country Where Organized:** No Place Where Organized Found

Assignee

Name: MORGAN STANLEY & CO. INCORPORATED

Legal Entity Type: CORPORATION **State or Country Where Organized:** No Place Where Organized Found

Address: ONE PIERREPONT PLAZA, 7TH FLOOR
300 CADMAN PLAZA WEST
BROOKLYN, NEW YORK 11201

Correspondent

Correspondent Name: LUCIA GUH-SIESEL

Correspondent Address: SHEARMAN & STERLING LLP
1080 MARSH RD.
MENLO PARK, CA 94025

Domestic Representative - Not Found

Assignment 2 of 7

Conveyance: SECOND LIEN IP SECURITY AGREEMENT

Reel/Frame: 3522/0144 **Pages:** 25

Date Recorded: Apr. 13, 2007

Supporting Documents: assignment-tm-3522-0144.pdf

Assignor

Name: PROQUEST-CSA LLC **Execution Date:** Feb. 09, 2007

Legal Entity Type: LIMITED LIABILITY COMPANY **State or Country Where Organized:** No Place Where Organized Found

Name: CAMBRIDGE SCIENTIFIC ABSTRACTS, LP **Execution Date:** Feb. 09, 2007

Legal Entity Type: LIMITED PARTNERSHIP **State or Country Where Organized:** No Place Where Organized Found

Name: I&L OPERATING LLC **Execution Date:** Feb. 09, 2007

Legal Entity Type: LIMITED LIABILITY COMPANY **State or Country Where Organized:** No Place Where Organized Found

Name: PROQUEST INFORMATION AND LEARNING LLC **Execution Date:** Feb. 09, 2007

Legal Entity Type: LIMITED LIABILITY COMPANY
State or Country Where Organized: No Place Where Organized Found

Name: BIGCHALK, INC.
Execution Date: Feb. 09, 2007
Legal Entity Type: CORPORATION
State or Country Where Organized: No Place Where Organized Found

Assignee

Name: MORGAN STANLEY & CO. INCORPORATED
Legal Entity Type: CORPORATION
State or Country Where Organized: No Place Where Organized Found
Address: ONE PIERREPONT PLAZA, 7TH FLOOR
300 CADMAN PLAZA WEST
BROOKLYN, NEW YORK 11201

Correspondent

Correspondent Name: LUCIA GUH-SIESEL
Correspondent Address: SHEARMAN & STERLING LLP
1080 MARSH RD.
MENLO PARK, CA 94025

Domestic Representative - Not Found

Assignment 3 of 7

Conveyance: INTELLECTUAL PROPERTY SECOND LIEN SECURITY AGREEMENT RELEASE
Reel/Frame: 4283/0661
Pages: 24
Date Recorded: Sep. 23, 2010
Supporting Documents: assignment-tm-4283-0661.pdf

Assignor

Name: MORGAN STANLEY & CO. INCORPORATED
Execution Date: Sep. 23, 2010
Legal Entity Type: CORPORATION
State or Country Where Organized: DELAWARE

Assignee

Name: CAMBRIDGE SCIENTIFIC ABSTRACTS, LIMITED PARTNERSHIP
Legal Entity Type: LIMITED PARTNERSHIP
State or Country Where Organized: MARYLAND
Address: 7200 WISCONSIN AVENUE
BETHESDA, MARYLAND 20814

Name: PROQUEST LLC (FORMERLY PROQUEST-CSA LLC)
Legal Entity Type: LIMITED LIABILITY COMPANY
State or Country Where Organized: DELAWARE
Address: 7200 WISCONSIN AVENUE
BETHESDA, MARYLAND 20814

Name: I&L OPERATING LLC
Legal Entity Type: LIMITED LIABILITY COMPANY
State or Country Where Organized: DELAWARE
Address: 789 E. EISENHOWER PARKWAY
P.O. BOX 1346
ANN ARBOR, MICHIGAN 48106

Name: PROQUEST INFORMATION AND LEARNING LLC
Legal Entity Type: LIMITED LIABILITY COMPANY
State or Country Where Organized: DELAWARE
Address: 789 E. EISENHOWER PARKWAY
P.O. BOX 1346
ANN ARBOR, MICHIGAN 48106

Name: BIGCHALK, INC.
Legal Entity Type: CORPORATION
State or Country Where Organized: DELAWARE
Address: 789 E. EISENHOWER PARKWAY
P.O. BOX 1346
ANN ARBOR, MICHIGAN 48106

Correspondent

Correspondent Name: GLORIA JUNG
Correspondent Address: 599 LEXINGTON AVENUE
SHEARMAN & STERLING LLP
NEW YORK, NY 10022

Domestic Representative - Not Found

Assignment 4 of 7

Conveyance: AMENDED AND RESTATED INTELLECTUAL PROPERTY SECURITY AGREEMENT

Reel/Frame: 4763/0171 **Pages:** 29

Date Recorded: Apr. 24, 2012

Supporting Documents: assignment-tm-4763-0171.pdf

Assignor

Name: CAMBRIDGE SCIENTIFIC ABSTRACTS, LIMITED PARTNERSHIP **Execution Date:** Apr. 13, 2012

Legal Entity Type: LIMITED PARTNERSHIP **State or Country Where Organized:** MARYLAND

Name: PROQUEST LLC **Execution Date:** Apr. 13, 2012

Legal Entity Type: LIMITED LIABILITY COMPANY **State or Country Where Organized:** DELAWARE

Name: PROQUEST INFORMATION AND LEARNING LLC **Execution Date:** Apr. 13, 2012

Legal Entity Type: LIMITED LIABILITY COMPANY **State or Country Where Organized:** DELAWARE

Name: DIALOG LLC **Execution Date:** Apr. 13, 2012

Legal Entity Type: LIMITED LIABILITY COMPANY **State or Country Where Organized:** DELAWARE

Name: EBRARY **Execution Date:** Apr. 13, 2012

Legal Entity Type: CORPORATION **State or Country Where Organized:** CALIFORNIA

Assignee

Name: MORGAN STANLEY SENIOR FUNDING, INC.

Legal Entity Type: CORPORATION **State or Country Where Organized:** DELAWARE

Address: 300 CADMAN PLAZA WEST
ONE PIERREPONT PLAZA, 7TH FLOOR
BROOKLYN, NEW YORK 11201

Correspondent

Correspondent Name: ZHENG BAO

Correspondent Address: 3000 EL CAMINO REAL, 6TH FLOOR
SHEARMAN & STERLING LLP
PALO ALTO, CA 94306

Domestic Representative - Not Found

Assignment 5 of 7

Conveyance: CHANGE OF NAME

Reel/Frame: 5420/0582 **Pages:** 4

Date Recorded: Dec. 16, 2014

Supporting Documents: assignment-tm-5420-0582.pdf

Assignor

Name: CAMBRIDGE SCIENTIFIC ABSTRACTS, LIMITED PARTNERSHIP **Execution Date:** Nov. 13, 2013

Legal Entity Type: LIMITED PARTNERSHIP **State or Country Where Organized:** MARYLAND

Assignee

Name: PROQUEST LP

Legal Entity Type: LIMITED PARTNERSHIP **State or Country Where Organized:** MARYLAND

Address: 789 E. EISENHOWER PARKWAY, P.O. BOX 1346
ANN ARBOR, MICHIGAN 48106

Correspondent

Correspondent Name: AMANDA CONLEY

Correspondent Address: 918 PARKER STREET, BLDG. A21
BERKELEY, CA 94710

Domestic Representative - Not Found

Assignment 6 of 7

Conveyance: SECURITY INTEREST

Reel/Frame: 5387/0531 **Pages:** 14

Date Recorded: Oct. 24, 2014

Supporting Documents: assignment-tm-5387-0531.pdf

Assignor

Name: PROQUEST LLC
Execution Date: Oct. 24, 2014
Legal Entity Type: LIMITED LIABILITY COMPANY
State or Country Where Organized: DELAWARE

Name: EBRARY
Execution Date: Oct. 24, 2014
Legal Entity Type: CORPORATION
State or Country Where Organized: CALIFORNIA

Name: PROQUEST LP
Execution Date: Oct. 24, 2014
Legal Entity Type: LIMITED PARTNERSHIP
State or Country Where Organized: MARYLAND

Name: DIALOG LLC
Execution Date: Oct. 24, 2014
Legal Entity Type: LIMITED LIABILITY COMPANY
State or Country Where Organized: DELAWARE

Assignee

Name: BANK OF AMERICA, N.A., AS COLLATERAL AGENT
Legal Entity Type: NATIONAL BANKING ASSOCIATION
State or Country Where Organized: NORTH CAROLINA
Address: 100 N. TRYON STREET
CHARLOTTE, NORTH CAROLINA 28255

Correspondent

Correspondent Name: MILBANK, TWEED, HADLEY & MCCLOY
Correspondent Address: 1 CHASE MANHATTAN PLAZA
C/O LAWRENCE KASS
NEW YORK, NY 10005

Domestic Representative - Not Found

Assignment 7 of 7

Conveyance: RELEASE OF SECURITY INTEREST
Reel/Frame: 5391/0326
Pages: 55
Date Recorded: Oct. 30, 2014
Supporting Documents: assignment-tm-5391-0326.pdf

Assignor

Name: MORGAN STANLEY SENIOR FUNDING, INC., AS COLLATERAL AGENT
Execution Date: Oct. 28, 2014
Legal Entity Type: CORPORATION
State or Country Where Organized: DELAWARE

Assignee

Name: PROQUEST LLC
Legal Entity Type: LIMITED LIABILITY COMPANY
State or Country Where Organized: DELAWARE
Address: 7200 WISCONSIN AVENUE
BETHESDA, MARYLAND 20814

Name: EBRARY
Legal Entity Type: CORPORATION
State or Country Where Organized: CALIFORNIA
Address: 360 NORTH BERNARDO AVENUE
MOUNTAIN VIEW, CALIFORNIA 94043

Name: DIALOG LLC
Legal Entity Type: LIMITED LIABILITY COMPANY
State or Country Where Organized: DELAWARE
Address: 789 E. EISENHOWER PARKWAY
ANN ARBOR, MICHIGAN 48106

Name: CAMBRIDGE SCIENTIFIC ABSTRACTS, LIMITED PARTNERSHIP
Legal Entity Type: LIMITED PARTNERSHIP
State or Country Where Organized: MARYLAND
Address: 7200 WISCONSIN AVENUE
BETHESDA, MARYLAND 20814

Name: PROQUEST INFORMATION AND LEARNING LLC
Legal Entity Type: LIMITED LIABILITY COMPANY
State or Country Where DELAWARE

Organized:

Address: 789 E. EISENHOWER PARKWAY, P.O. BOX 1346
ANN ARBOR, MICHIGAN 48106

Correspondent

Correspondent Name: MILBANK, TWEED, HADLEY & MCCLOY

Correspondent Address: 1 CHASE MANHATTAN PLAZA
C/O LAWRENCE KASS
NEW YORK, NY 10005

Domestic Representative - Not Found

Proceedings

Summary

Number of Proceedings: 1

Type of Proceeding: Exparte Appeal

Proceeding Number: 76607167 **Filing Date:** Apr 29, 2008

Status: Terminated **Status Date:** Sep 30, 2008

Interlocutory Attorney:

Plaintiff(s)

Name: Cambridge Scientific Abstracts

Correspondent Address: SIMOR L. MOSKOWITZ
JACOBSON HOLMAN PLLC
THE JENIFER BUILDING400 SEVENTH STREET, N.W.
WASHINGTON DC , 20004-2201
UNITED STATES

Correspondent e-mail: trademark@jhip.com,smoskowitz@jhip.com

Associated marks

Mark	Application Status	Serial Number	Registration Number
ILLUMINA	Registered	76607167	3612772

Prosecution History

Entry Number	History Text	Date	Due Date
1	APPEAL TO BOARD	Apr 29, 2008	
2	APPEAL ACKNOWLEDGED	Apr 29, 2008	
3	INSTITUTED	Apr 29, 2008	
4	APPLICANT'S REQUEST FOR REMAND	Jun 30, 2008	
5	REMANDED TO EXAMINER	Jul 25, 2008	
6	TERMINATED	Sep 30, 2008	

Int. Cl.: 42

Prior U.S. Cls.: 100 and 101

United States Patent and Trademark Office

Reg. No. 3,612,772

Registered Apr. 28, 2009

SERVICE MARK
PRINCIPAL REGISTER

ILLUMINA

CAMBRIDGE SCIENTIFIC ABSTRACTS (MARYLAND LIMITED PARTNERSHIP)
7200 WISCONSIN AVENUE
BETHESDA, MD 20814

FOR: PROVIDING TEMPORARY USE ON ONLINE NON-DOWNLOADABLE SOFTWARE THAT ENABLES THE USER TO BUILD AND EXECUTE AN ONLINE SEARCH OF RESEARCH DATABASES , IN CLASS 42 (U.S. CLS. 100 AND 101).

FIRST USE 12-16-2004; IN COMMERCE 12-16-2004.

THE MARK CONSISTS OF STANDARD CHARACTERS WITHOUT CLAIM TO ANY PARTICULAR FONT, STYLE, SIZE, OR COLOR.

THE WORDING "ILLUMINA" HAS NO MEANING IN A FOREIGN LANGUAGE.

SN 76-607,167, FILED 8-16-2004.

KATHRYN COWARD, EXAMINING ATTORNEY

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Mark: ILLUMINATE

ILLUMINATE

US Serial Number: 77562892 **Application Filing Date:** Sep. 04, 2008

US Registration Number: 3608560 **Registration Date:** Apr. 21, 2009

Register: Principal

Mark Type: Trademark

Status: Registered. The registration date is used to determine when post-registration maintenance documents are due.

Status Date: Apr. 21, 2009

Publication Date: Feb. 03, 2009

Mark Information

Mark Literal Elements: ILLUMINATE

Standard Character Claim: Yes. The mark consists of standard characters without claim to any particular font style, size, or color.

Mark Drawing Type: 4 - STANDARD CHARACTER MARK

Goods and Services

Note: The following symbols indicate that the registrant/owner has amended the goods/services:

- Brackets [..] indicate deleted goods/services;
- Double parenthesis ((..)) identify any goods/services not claimed in a Section 15 affidavit of incontestability; and
- Asterisks *..* identify additional (new) wording in the goods/services.

For: Computer software for managing patient medical information; computer software for indexing, searching, displaying, and managing electronic health records and electronic medical records; computer software for indexing, searching, displaying, and managing radiology images, radiology examinations, radiology reports, radiology data, and patient data

International Class(es): 009 - Primary Class **U.S Class(es):** 021, 023, 026, 036, 038

Class Status: ACTIVE

Basis: 1(a)

First Use: Apr. 01, 2008 **Use in Commerce:** Apr. 01, 2008

Basis Information (Case Level)

Filed Use:	Yes	**Currently Use:**	Yes	**Amended Use:**	No
Filed ITU:	No	**Currently ITU:**	No	**Amended ITU:**	No
Filed 44D:	No	**Currently 44D:**	No	**Amended 44D:**	No
Filed 44E:	No	**Currently 44E:**	No	**Amended 44E:**	No
Filed 66A:	No	**Currently 66A:**	No		
Filed No Basis:	No	**Currently No Basis:**	No		

Current Owner(s) Information

Owner Name: Softek Solutions, Inc.

Owner Address: Suite 100
4500 W. 89th St.
Prairie Village, KANSAS 66207
UNITED STATES

Legal Entity Type: CORPORATION **State or Country Where Organized:** KANSAS

Attorney/Correspondence Information

Attorney of Record

Attorney Name: James M. Stipek **Docket Number:** 056183-12661

Attorney Primary Email Address: uspt@polsinelli.com **Attorney Email Authorized:** No

Correspondent

Correspondent Name/Address:	Matthew J. Smith Polsinelli Shughart PC 100 South Fourth Street Suite 1000 St. Louis, MISSOURI 63102 UNITED STATES
Phone:	314-889-8000
Fax:	314-231-1776
Correspondent e-mail:	uspt@polsinelli.com
Correspondent e-mail Authorized:	Yes

Domestic Representative - Not Found

Prosecution History

Date	Description	Proceeding Number
Dec. 22, 2011	TEAS CHANGE OF CORRESPONDENCE RECEIVED	
Apr. 21, 2009	REGISTERED-PRINCIPAL REGISTER	
Feb. 03, 2009	PUBLISHED FOR OPPOSITION	
Jan. 14, 2009	NOTICE OF PUBLICATION	
Dec. 29, 2008	LAW OFFICE PUBLICATION REVIEW COMPLETED	76537
Dec. 29, 2008	ASSIGNED TO LIE	76537
Dec. 16, 2008	APPROVED FOR PUB - PRINCIPAL REGISTER	
Dec. 09, 2008	ASSIGNED TO EXAMINER	77979
Sep. 10, 2008	NOTICE OF PSEUDO MARK MAILED	
Sep. 09, 2008	NEW APPLICATION ENTERED IN TRAM	

TM Staff and Location Information

TM Staff Information - None

File Location

Current Location:	PUBLICATION AND ISSUE SECTION	**Date in Location:**	Apr. 21, 2009

Proceedings

Summary

Number of Proceedings: 1

Type of Proceeding: Opposition

Proceeding Number:	91206338	**Filing Date:**	Aug 01, 2012
Status:	Terminated	**Status Date:**	Nov 16, 2012
Interlocutory Attorney:	YONG OH (RICHARD) KIM		

Defendant

Name:	Orlando Health, Inc.
Correspondent Address:	JOSEPH R ENGLANDER SHUTTS & BOWEN LLP 200 E BROWARD BLVD STE 2100 FORT LAUDERDALE FL , 33301-1972 UNITED STATES
Correspondent e-mail:	ptomail@shutts.com

Associated marks

Mark	Application Status	Serial Number	Registration Number
ILLUMINATE	Abandoned - After Inter-Partes Decision	85418909	

Plaintiff(s)

Name:	Softek Solutions, Inc.
Correspondent Address:	JAMES J KERNELL ERICKSON KERNELL DERUSSEAU & KLEYPAS LLC 8900 STATE LINE RD, STE 500 LEAWOOD KS , 66206 UNITED STATES
Correspondent e-mail:	ekdkdocket@kcpatentlaw.com

Associated marks

Mark	Application Status	Serial Number	Registration Number

ILLUMINATE		Registered	77562892	3608560

Prosecution History

Entry Number	History Text	Date	Due Date
1	FILED AND FEE	Aug 01, 2012	
2	NOTICE AND TRIAL DATES SENT; ANSWER DUE:	Aug 01, 2012	Sep 10, 2012
3	PENDING, INSTITUTED	Aug 01, 2012	
4	NOTICE OF DEFAULT	Sep 25, 2012	
5	BOARD'S DECISION: SUSTAINED	Nov 16, 2012	
6	TERMINATED	Nov 16, 2012	

Int. Cl.: 9

Prior U.S. Cls.: 21, 23, 26, 36 and 38

United States Patent and Trademark Office

Reg. No. 3,608,560

Registered Apr. 21, 2009

TRADEMARK
PRINCIPAL REGISTER

ILLUMINATE

SOFTEK SOLUTIONS, INC. (KANSAS CORPORATION)
SUITE 100
4500 W. 89TH ST.
PRAIRIE VILLAGE, KS 66207

FOR: COMPUTER SOFTWARE FOR MANAGING PATIENT MEDICAL INFORMATION; COMPUTER SOFTWARE FOR INDEXING, SEARCHING, DISPLAYING, AND MANAGING ELECTRONIC HEALTH RECORDS AND ELECTRONIC MEDICAL RECORDS; COMPUTER SOFTWARE FOR INDEXING, SEARCHING, DISPLAYING, AND MANAGING RADIOLOGY IMAGES, RADIOLOGY EXAMINATIONS, RADIOLOGY REPORTS, RADIOLOGY DATA, AND PATIENT DATA, IN CLASS 9 (U.S. CLS. 21, 23, 26, 36 AND 38).

FIRST USE 4-1-2008; IN COMMERCE 4-1-2008.

THE MARK CONSISTS OF STANDARD CHARACTERS WITHOUT CLAIM TO ANY PARTICULAR FONT, STYLE, SIZE, OR COLOR.

SER. NO. 77-562,892, FILED 9-4-2008.

NELSON SNYDER, EXAMINING ATTORNEY

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Academic Director of Radiology »

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Mark: ILLUMINATE THE CHANGE

Illuminate the Change

US Serial Number: 79060967 **Application Filing Date:** Aug. 07, 2008

US Registration Number: 3734384 **Registration Date:** Jan. 05, 2010

Register: Principal

Mark Type: Trademark

Status: Registered. The registration date is used to determine when post-registration maintenance documents are due.

Status Date: Jan. 05, 2010

Publication Date: Jul. 14, 2009

Mark Information

Mark Literal Elements: ILLUMINATE THE CHANGE

Standard Character Claim: No

Mark Drawing Type: 5 - AN ILLUSTRATION DRAWING WITH WORD(S) /LETTER(S)/ NUMBER(S) INSTYLIZED FORM

Color(s) Claimed: Color is not claimed as a feature of the mark.

Related Properties Information

International Registration Number: 0982279

International Registration Date: Aug. 07, 2008

Goods and Services

Note: The following symbols indicate that the registrant/owner has amended the goods/services:

- Brackets [..] indicate deleted goods/services;
- Double parenthesis ((..)) identify any goods/services not claimed in a Section 15 affidavit of incontestability; and
- Asterisks *..* identify additional (new) wording in the goods/services.

For: Radiation detectors; gamma rays or neutron rays detectors; electric or magnetic meters and testers; radiation element disintegration speed detectors; radiation analyzers; radiation measuring devices; radioactivity measuring devices; luminescence measuring devices; other measuring apparatus and instruments, namely, densitometers for measuring bone mineral content and density; DNA amplifiers; DNA synthesizers; DNA sequencers; DNA analyzers; automatic pipettes for laboratory experiments; automatic biological tissue processing units for pathology research; immunity test and evaluation devices for laboratory experiments; fiber optic instruments for surgical and diagnostic use

International Class(es): 009 - Primary Class **U.S Class(es):** 021, 023, 026, 036, 038

Class Status: ACTIVE

Basis: 66(a)

For: Ultrasonic diagnostic apparatus; medical ultrasonic probes; medical ultrasonic bone density measuring devices; nuclear medicine diagnostic imaging apparatus; brain magnetic meters and testers; biogenic magnetic meters for medical use; ultrasonic surgical apparatus, namely, aspirator for disintegration and removal of tissues and devices for coagulation of tissue and blood vessels; laser surgical apparatus and instruments for medical use; surgical apparatus and instruments; medical radiation bone density measuring devices; medical radiation bone mineral density measuring devices; medical radioactivity measuring devices; medical radiation measuring devices; medical radiation apparatus for diagnostic use; medical radiation detectors; medical biogenic element analyzers; medical blood analyzers; automatic pipettes for blood examination; diagnostic apparatus for testing and evaluating immunity for medical use; medical automatic pipettes; clinico-pathological and clinical chemical test preprocessors consisting of centrifuges, racks, dispensers, liquid volume monitors and pressure-sensor detectors, and labeling equipment for medical diagnostic purposes in the nature of patient specimen analysis, specimen separation and specimen aliquotting; other medical apparatus and instruments, namely, CT and X-ray scanners

International Class(es): 010 - Primary Class **U.S Class(es):** 026, 039, 044

Class Status: ACTIVE

Basis: 66(a)

Basis Information (Case Level)

Filed Use:	No	**Currently Use:**	No	**Amended Use:**	No
Filed ITU:	No	**Currently ITU:**	No	**Amended ITU:**	No
Filed 44D:	No	**Currently 44D:**	No	**Amended 44D:**	No
Filed 44E:	No	**Currently 44E:**	No	**Amended 44E:**	No
Filed 66A:	Yes	**Currently 66A:**	Yes		

Filed No Basis: No **Currently No Basis:** No

Current Owner(s) Information

Owner Name: Hitachi Aloka Medical, Ltd.

Owner Address: 6-22-1, Mure,
Mitaka-shi Tokyo 181-8622
JAPAN

Legal Entity Type: CORPORATION **State or Country Where Organized:** JAPAN

Attorney/Correspondence Information

Attorney of Record

Attorney Name: Howard N. Aronson **Docket Number:** 14009

Attorney Primary Email Address: tmefs@LSLLP.com **Attorney Email Authorized:** No

Correspondent

Correspondent Name/Address: Howard N. Aronson
Lackenbach Siegel LLP
One Chase Road
Lackenbach Siegel Building
Scarsdale, NEW YORK 10583
UNITED STATES

Phone: 914-723-4300 **Fax:** 914-723-4301

Correspondent e-mail: tmefs@LSLLP.com **Correspondent e-mail Authorized:** No

Domestic Representative

Domestic Representative Name: Howard N. Aronson, Esq. **Phone:** 914-723-4300

Fax: 914-723-4301

Prosecution History

Date	Description	Proceeding Number
Dec. 18, 2014	NEW REPRESENTATIVE AT IB RECEIVED	
May 22, 2014	NEW REPRESENTATIVE AT IB RECEIVED	
Feb. 06, 2013	FINAL DECISION TRANSACTION PROCESSED BY IB	
Sep. 30, 2011	CHANGE OF NAME/ADDRESS REC'D FROM IB	
Aug. 12, 2011	NEW REPRESENTATIVE AT IB RECEIVED	
May 03, 2010	FINAL DISPOSITION NOTICE SENT TO IB	
May 03, 2010	FINAL DISPOSITION PROCESSED	68359
Apr. 05, 2010	FINAL DISPOSITION NOTICE CREATED, TO BE SENT TO IB	
Jan. 05, 2010	REGISTERED-PRINCIPAL REGISTER	
Nov. 27, 2009	EXTENSION OF TIME TO OPPOSE PROCESS - TERMINATED	
Jul. 27, 2009	EXTENSION OF TIME TO OPPOSE RECEIVED	
Jul. 14, 2009	PUBLISHED FOR OPPOSITION	
Jun. 24, 2009	NOTICE OF PUBLICATION	
Jun. 08, 2009	LAW OFFICE PUBLICATION REVIEW COMPLETED	73797
Jun. 08, 2009	ASSIGNED TO LIE	73797
Jun. 05, 2009	APPROVED FOR PUB - PRINCIPAL REGISTER	
Jun. 04, 2009	TEAS/EMAIL CORRESPONDENCE ENTERED	88889
Jun. 04, 2009	CORRESPONDENCE RECEIVED IN LAW OFFICE	88889
Jun. 04, 2009	TEAS RESPONSE TO OFFICE ACTION RECEIVED	
Apr. 29, 2009	ATTORNEY REVOKED AND/OR APPOINTED	
Apr. 29, 2009	TEAS REVOKE/APPOINT ATTORNEY RECEIVED	
Jan. 22, 2009	REFUSAL PROCESSED BY IB	
Dec. 09, 2008	NON-FINAL ACTION MAILED - REFUSAL SENT TO IB	

Dec. 09, 2008	REFUSAL PROCESSED BY MPU	67445
Dec. 08, 2008	NON-FINAL ACTION (IB REFUSAL) PREPARED FOR REVIEW	
Dec. 07, 2008	NON-FINAL ACTION WRITTEN	62178
Dec. 02, 2008	APPLICATION FILING RECEIPT MAILED	
Nov. 28, 2008	ASSIGNED TO EXAMINER	62178
Nov. 28, 2008	NEW APPLICATION ENTERED IN TRAM	
Nov. 27, 2008	SN ASSIGNED FOR SECT 66A APPL FROM IB	

International Registration Information (Section 66a)

International Registration Number: 0982279
International Registration Date: Aug. 07, 2008
Priority Claimed Flag: Yes
Date of Section 67 Priority Claim: Jul. 14, 2008
Intl. Registration Status: REQUEST FOR EXTENSION OF PROTECTION PROCESSED
Date of International Registration Status: Nov. 27, 2008
Notification of Designation Date: Nov. 27, 2008
Date of Automatic Protection: May 27, 2010
International Registration Renewal Date: Aug. 07, 2018
First Refusal Flag: Yes

TM Staff and Location Information

TM Staff Information - None

File Location

Current Location: PUBLICATION AND ISSUE SECTION
Date in Location: Jan. 05, 2010

Assignment Abstract Of Title Information

Summary

Total Assignments: 1
Registrant: Hitachi Aloka Medical, Ltd.

Assignment 1 of 1

Conveyance: CHANGE OF NAME
Reel/Frame: 4635/0765
Pages: 2
Date Recorded: Sep. 30, 2011
Supporting Documents: assignment-tm-4635-0765.pdf

Assignor

Name: ALOKA CO., LTD.
Execution Date: Jul. 11, 2011
Legal Entity Type: UNKNOWN
State or Country Where Organized: JAPAN

Assignee

Name: HITACHI ALOKA MEDICAL, LTD.
Legal Entity Type: UNKNOWN
State or Country Where Organized: No Place Where Organized Found
Address: 6-22-1, MURE,
MITAKA-SHI
TOKYO 181-8622, JAPAN

Correspondent

Correspondent Name: HITACHI ALOKA MEDICAL, LTD.
Correspondent Address: 6-22-1, MURE,
MITAKA-SHI
TOKYO 181-8622
JAPAN

Domestic Representative - Not Found

Proceedings

Summary

Number of Proceedings: 1

Type of Proceeding: Extension of Time

Proceeding Number: 79060967
Filing Date: Jul 27, 2009

Status: Terminated **Status Date:** Nov 27, 2009

Interlocutory Attorney:

Defendant

Name: ALOKA CO., LTD.

Correspondent Address: Howard N. Aronson
Lackenbach Siegel LLP
Lackenbach Siegel Building One Chase Road
Scarsdale NY , 10583
UNITED STATES

Associated marks

Mark	Application Status	Serial Number	Registration Number
ILLUMINATE THE CHANGE	Registered	79060967	3734384

Potential Opposer(s)

Name: Illumina, Inc.

Correspondent Address: Gabrielle A. Holley
Holley & Menker, P.A.
P.O. Box 96
Solana Beach CA , 92075
UNITED STATES

Correspondent e-mail: westdocket@holleymenker.com

Prosecution History

Entry Number	History Text	Date	Due Date
1	INCOMING - EXT TIME TO OPPOSE FILED	Jul 27, 2009	
2	EXTENSION OF TIME GRANTED	Jul 27, 2009	

United States of America

United States Patent and Trademark Office

Illuminate the Change

Reg. No. 3,734,384
Registered Jan. 5, 2010

Int. Cls.: 9 and 10

TRADEMARK
PRINCIPAL REGISTER

ALOKA CO., LTD. (JAPAN CORPORATION)
6-22-1, MURE
MITAKA-SHI; TOKYO 181-8622
JAPAN

FOR: RADIATION DETECTORS; GAMMA RAYS OR NEUTRON RAYS DETECTORS; ELECTRIC OR MAGNETIC METERS AND TESTERS; RADIATION ELEMENT DISINTEGRATION SPEED DETECTORS; RADIATION ANALYZERS; RADIATION MEASURING DEVICES; RADIOACTIVITY MEASURING DEVICES; LUMINESCENCE MEASURING DEVICES; OTHER MEASURING APPARATUS AND INSTRUMENTS, NAMELY, DENSITOMETERS FOR MEASURING BONE MINERAL CONTENT AND DENSITY; DNA AMPLIFIERS; DNA SYNTHESIZERS; DNA SEQUENCERS; DNA ANALYZERS; AUTOMATIC PIPETTES FOR LABORATORY EXPERIMENTS; AUTOMATIC BIOLOGICAL TISSUE PROCESSING UNITS FOR PATHOLOGY RESEARCH; IMMUNITY TEST AND EVALUATION DEVICES FOR LABORATORY EXPERIMENTS; FIBER OPTIC INSTRUMENTS FOR SURGICAL AND DIAGNOSTIC USE, IN CLASS 9 (U.S. CLS. 21, 23, 26, 36 AND 38).

FOR: ULTRASONIC DIAGNOSTIC APPARATUS; MEDICAL ULTRASONIC PROBES; MEDICAL ULTRASONIC BONE DENSITY MEASURING DEVICES; NUCLEAR MEDICINE DIAGNOSTIC IMAGING APPARATUS; BRAIN MAGNETIC METERS AND TESTERS; BIOGENIC MAGNETIC METERS FOR MEDICAL USE; ULTRASONIC SURGICAL APPARATUS, NAMELY, ASPIRATOR FOR DISINTEGRATION AND REMOVAL OF TISSUES AND DEVICES FOR COAGULATION OF TISSUE AND BLOOD VESSELS; LASER SURGICAL APPARATUS AND INSTRUMENTS FOR MEDICAL USE; SURGICAL APPARATUS AND INSTRUMENTS; MEDICAL RADIATION BONE DENSITY MEASURING DEVICES; MEDICAL RADIATION BONE MINERAL DENSITY MEASURING DEVICES; MEDICAL RADIOACTIVITY MEASURING DEVICES; MEDICAL RADIATION MEASURING DEVICES; MEDICAL RADIATION APPARATUS FOR DIAGNOSTIC USE; MEDICAL RADIATION DETECTORS; MEDICAL BIOGENIC ELEMENT ANALYZERS; MEDICAL BLOOD ANALYZERS; AUTOMATIC PIPETTES FOR BLOOD EXAMINATION; DIAGNOSTIC APPARATUS FOR TESTING AND EVALUATING IMMUNITY FOR MEDICAL USE; MEDICAL AUTOMATIC PIPETTES; CLINICO-PATHOLOGICAL AND CLINICAL CHEMICAL TEST PREPROCESSORS CONSISTING OF CENTRIFUGES, RACKS, DISPENSERS, LIQUID VOLUME MONITORS AND PRESSURE-SENSOR DETECTORS, AND LABELING EQUIPMENT FOR MEDICAL DIAGNOSTIC PURPOSES IN THE NATURE OF PATIENT SPECIMEN ANALYSIS, SPECIMEN SEPARATION AND SPECIMEN ALIQUOTTING; OTHER MEDICAL APPARATUS AND INSTRUMENTS, NAMELY, CT AND X-RAY SCANNERS, IN CLASS 10 (U.S. CLS. 26, 39 AND 44).

PRIORITY DATE OF 7-14-2008 IS CLAIMED.

OWNER OF INTERNATIONAL REGISTRATION 0982279 DATED 8-7-2008, EXPIRES 8-7-2018.

SER. NO. 79-060,967, FILED 8-7-2008.

DOMINICK J. SALEMI, EXAMINING ATTORNEY

David J. Kappos

Director of the United States Patent and Trademark Office

Hitachi Aloka Medical America, Inc.

illuminate the change

About 5 results (0.80 seconds) Sort by: Relevance

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Global Map | Hitachi Aloka Medical America, Inc.
www.hitachi-aloka.com/

Hitachi Aloka - Inspire the Next. **Illuminate the change**. Hitachi Aloka Global Map.
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ALOKA Ultrasound Announces U.S. Debut of ProSound Alpha 6 ...
www.hitachi-aloka.com/news-and-events/article/aloka.../13
May 12, 2010 ... With its commitment to "**Illuminate the Change**; See the unseen", ALOKA is dedicated to excellence providing the systems to advance prognosis ...

Aloka Announces New ProSound Alpha Series Ultrasound System ...
www.hitachi-aloka.com/news-and-events/article/aloka.../14
Aug 28, 2009 ... ... the Alpha Series now offers diagnostic ultrasound solutions to meet all users needs, bolstering Aloka's vision to "**Illuminate the change**" and ...

ALOKA Ultrasound's ProSound Alpha 6 Wins International Design ...
www.hitachi-aloka.com/news-and-events/article/aloka...6.../12
May 13, 2010 ... With its commitment to "**Illuminate the Change**; See the unseen", ALOKA is dedicated to excellence providing the systems to advance prognosis ...

Repair | Support | Hitachi Aloka Medical America, Inc.
www.hitachi-aloka.com/support/repair
Travel charges for return service calls to the customer's site to **replace** parts previously diagnosed as being defective or because of intermittent problems, are not ...

1

Contact Info

Main Number:
1-203-269-5088
1-800-872-5652

Fax:
1-203-269-6075

24-hour Service Hotline:
1-888-782-5652

Employment Inquiries:
jobs@hitachi-aloka.com

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Mark: ILLUMINATIONS

ILLUMINATIONS

US Serial Number: 86267889 **Application Filing Date:** Apr. 30, 2014

US Registration Number: 4655976 **Registration Date:** Dec. 16, 2014

Register: Principal

Mark Type: Service Mark

Status: Registered. The registration date is used to determine when post-registration maintenance documents are due.

Status Date: Dec. 16, 2014

Publication Date: Sep. 30, 2014

Mark Information

Mark Literal Elements: ILLUMINATIONS

Standard Character Claim: Yes. The mark consists of standard characters without claim to any particular font style, size, or color.

Mark Drawing Type: 4 - STANDARD CHARACTER MARK

Goods and Services

Note: The following symbols indicate that the registrant/owner has amended the goods/services:

- Brackets [..] indicate deleted goods/services;
- Double parenthesis ((..)) identify any goods/services not claimed in a Section 15 affidavit of incontestability; and
- Asterisks *..* identify additional (new) wording in the goods/services.

For: Health care services, namely, wellness programs in the field of memory care for individuals facing Alzheimer's disease and other forms of dementia

International Class(es): 044 - Primary Class **U.S Class(es):** 100, 101

Class Status: ACTIVE

Basis: 1(a)

First Use: Jul. 17, 2012 **Use in Commerce:** Jul. 17, 2012

Basis Information (Case Level)

Filed Use:	Yes	**Currently Use:**	Yes	**Amended Use:**	No
Filed ITU:	No	**Currently ITU:**	No	**Amended ITU:**	No
Filed 44D:	No	**Currently 44D:**	No	**Amended 44D:**	No
Filed 44E:	No	**Currently 44E:**	No	**Amended 44E:**	No
Filed 66A:	No	**Currently 66A:**	No		
Filed No Basis:	No	**Currently No Basis:**	No		

Current Owner(s) Information

Owner Name: FHC Property Management, LLC

DBA, AKA, Formerly: DBA Blue Harbor Senior Living

Owner Address: Suite 180
1800 SW First Avenue
Portland, OREGON 97201
UNITED STATES

Legal Entity Type: LIMITED LIABILITY COMPANY **State or Country Where Organized:** DELAWARE

Attorney/Correspondence Information

Attorney of Record

Attorney Name: Kenneth L. Wilton **Docket Number:** 78860-9

Attorney Primary Email Address: kwilton@seyfarth.com **Attorney Email Authorized:** Yes

Correspondent

Correspondent Name/Address: KENNETH L. WILTON
SEYFARTH SHAW LLP
2029 CENTURY PARK E STE 3500
LOS ANGELES, CALIFORNIA 90067-3021
UNITED STATES

Phone: 310.201.5271 **Fax:** 310.282.6971

Correspondent e-mail: kwilton@seyfarth.com kelko@seyfarth.com **Correspondent e-mail Authorized:** Yes

Domestic Representative - Not Found

Prosecution History

Date	Description	Proceeding Number
Dec. 16, 2014	REGISTERED-PRINCIPAL REGISTER	
Sep. 30, 2014	OFFICIAL GAZETTE PUBLICATION CONFIRMATION E-MAILED	
Sep. 30, 2014	PUBLISHED FOR OPPOSITION	
Sep. 10, 2014	NOTIFICATION OF NOTICE OF PUBLICATION E-MAILED	
Aug. 22, 2014	LAW OFFICE PUBLICATION REVIEW COMPLETED	70884
Aug. 22, 2014	ASSIGNED TO LIE	70884
Aug. 13, 2014	APPROVED FOR PUB - PRINCIPAL REGISTER	
Aug. 13, 2014	EXAMINER'S AMENDMENT ENTERED	88888
Aug. 13, 2014	NOTIFICATION OF EXAMINERS AMENDMENT E-MAILED	6328
Aug. 13, 2014	EXAMINERS AMENDMENT E-MAILED	6328
Aug. 13, 2014	EXAMINERS AMENDMENT -WRITTEN	78048
Aug. 13, 2014	NOTIFICATION OF NON-FINAL ACTION E-MAILED	6325
Aug. 13, 2014	NON-FINAL ACTION E-MAILED	6325
Aug. 13, 2014	NON-FINAL ACTION WRITTEN	78048
Aug. 13, 2014	ASSIGNED TO EXAMINER	78048
May 14, 2014	NEW APPLICATION OFFICE SUPPLIED DATA ENTERED IN TRAM	
May 03, 2014	NEW APPLICATION ENTERED IN TRAM	

TM Staff and Location Information

TM Staff Information - None

File Location

Current Location: PUBLICATION AND ISSUE SECTION **Date in Location:** Dec. 16, 2014

United States of America
United States Patent and Trademark Office

ILLUMINATIONS

Reg. No. 4,655,976

Registered Dec. 16, 2014

Int. Cl.: 44

SERVICE MARK

PRINCIPAL REGISTER

FHC PROPERTY MANAGEMENT, LLC (DELAWARE LIMITED LIABILITY COMPANY), DBA BLUE HARBOR SENIOR LIVING
SUITE 180
1800 SW FIRST AVENUE
PORTLAND, OR 97201

FOR: HEALTH CARE SERVICES, NAMELY, WELLNESS PROGRAMS IN THE FIELD OF MEMORY CARE FOR INDIVIDUALS FACING ALZHEIMER'S DISEASE AND OTHER FORMS OF DEMENTIA, IN CLASS 44 (U.S. CLS. 100 AND 101).

FIRST USE 7-17-2012; IN COMMERCE 7-17-2012.

THE MARK CONSISTS OF STANDARD CHARACTERS WITHOUT CLAIM TO ANY PARTICULAR FONT, STYLE, SIZE, OR COLOR.

SER. NO. 86-267,889, FILED 4-30-2014.

ANDREW RHIM, EXAMINING ATTORNEY

Michelle K. Lee

Deputy Director of the United States Patent and Trademark Office

REQUIREMENTS TO MAINTAIN YOUR FEDERAL TRADEMARK REGISTRATION

WARNING: YOUR REGISTRATION WILL BE CANCELLED IF YOU DO NOT FILE THE DOCUMENTS BELOW DURING THE SPECIFIED TIME PERIODS.

Requirements in the First Ten Years*
What and When to File:

First Filing Deadline: You must file a Declaration of Use (or Excusable Nonuse) between the 5th and 6th years after the registration date. *See* 15 U.S.C. §§1058, 1141k. If the declaration is accepted, the registration will continue in force for the remainder of the ten-year period, calculated from the registration date, unless cancelled by an order of the Commissioner for Trademarks or a federal court.

Second Filing Deadline: You must file a Declaration of Use (or Excusable Nonuse) **and** an Application for Renewal between the 9th and 10th years after the registration date.* *See* 15 U.S.C. §1059.

Requirements in Successive Ten-Year Periods*
What and When to File:

You must file a Declaration of Use (or Excusable Nonuse) **and** an Application for Renewal between every 9th and 10th-year period, calculated from the registration date.*

Grace Period Filings*

The above documents will be accepted as timely if filed within six months after the deadlines listed above with the payment of an additional fee.

The United States Patent and Trademark Office (USPTO) will NOT send you any future notice or reminder of these filing requirements.

***ATTENTION MADRID PROTOCOL REGISTRANTS:** The holder of an international registration with an extension of protection to the United States under the Madrid Protocol must timely file the Declarations of Use (or Excusable Nonuse) referenced above directly with the USPTO. The time periods for filing are based on the U.S. registration date (not the international registration date). The deadlines and grace periods for the Declarations of Use (or Excusable Nonuse) are identical to those for nationally issued registrations. *See* 15 U.S.C. §§1058, 1141k. However, owners of international registrations do not file renewal applications at the USPTO. Instead, the holder must file a renewal of the underlying international registration at the International Bureau of the World Intellectual Property Organization, under Article 7 of the Madrid Protocol, before the expiration of each ten-year term of protection, calculated from the date of the international registration. *See* 15 U.S.C. §1141j. For more information and renewal forms for the international registration, see http://www.wipo.int/madrid/en/.

NOTE: Fees and requirements for maintaining registrations are subject to change. Please check the USPTO website for further information. With the exception of renewal applications for registered extensions of protection, you can file the registration maintenance documents referenced above online at http://www.uspto.gov.

Firefox

Illuminations | Blue Harbor Senior Living

www.blueharborseniorliving.com/levels-of-care/illuminations/

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Blue Harbor
Senior Living
Compassionate People,Exceptional Service

ILLUMINATIONS™

The progressive loss of memory is a difficult and challenging setback for anyone, but there is still so much to experience every day. The smell of rosemary. The feel of yarn running through your fingers. The sound of a crowd's spontaneous laughter. Memory care is at its best when it encourages active daily experiences to energize the mind and lift the spirit.

Illuminations is a specialized memory care program that provides quality care to our residents who are facing Alzheimer's Disease or other related dementias. Our uniquely designed neighborhood and dedicated care staff ensure that each of our residents receive the highest quality of personal care. Our activity staff continually develops and promotes programs intended to stimulate the senses and remind each resident that they are part of a

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Mark: ILLUMINOSS

IlluminOss

US Serial Number: 77097737 **Application Filing Date:** Feb. 02, 2007

US Registration Number: 3951065 **Registration Date:** Apr. 26, 2011

Register: Principal

Mark Type: Trademark

Status: Registered. The registration date is used to determine when post-registration maintenance documents are due.

Status Date: Apr. 26, 2011

Publication Date: Nov. 20, 2007 **Notice of Allowance Date:** Feb. 12, 2008

Mark Information

Mark Literal Elements: ILLUMINOSS

Standard Character Claim: Yes. The mark consists of standard characters without claim to any particular font style, size, or color.

Mark Drawing Type: 4 - STANDARD CHARACTER MARK

Goods and Services

Note: The following symbols indicate that the registrant/owner has amended the goods/services:

- Brackets [..] indicate deleted goods/services;
- Double parenthesis ((..)) identify any goods/services not claimed in a Section 15 affidavit of incontestability; and
- Asterisks *..* identify additional (new) wording in the goods/services.

For: Medical devices and instruments, namely, medical devices and surgical instruments for use in orthopedic and trauma surgical procedures

International Class(es): 010 - Primary Class **U.S Class(es):** 026, 039, 044

Class Status: ACTIVE

Basis: 1(a)

First Use: Dec. 10, 2008 **Use in Commerce:** Feb. 10, 2011

Basis Information (Case Level)

Filed Use:	No	**Currently Use:**	Yes	**Amended Use:**	No
Filed ITU:	Yes	**Currently ITU:**	No	**Amended ITU:**	No
Filed 44D:	No	**Currently 44D:**	No	**Amended 44D:**	No
Filed 44E:	No	**Currently 44E:**	No	**Amended 44E:**	No
Filed 66A:	No	**Currently 66A:**	No		
Filed No Basis:	No	**Currently No Basis:**	No		

Current Owner(s) Information

Owner Name: IlluminOss Medical, Inc.

Owner Address: 993 Waterman Ave
East Providence, RHODE ISLAND 02914
UNITED STATES

Legal Entity Type: CORPORATION **State or Country Where Organized:** DELAWARE

Attorney/Correspondence Information

Attorney of Record

Attorney Name: David J. Dykeman **Docket Number:** 101667-01080

Attorney Primary Email Address: dykemand@gtlaw.com **Attorney Email Authorized:** No

Correspondent

Correspondent Name/Address: David J. Dykeman
GREENBERG TRAURIG LLP

1 INTERNATIONAL PL
BOSTON, MASSACHUSETTS 02110-2602
UNITED STATES

Phone: 617-310-6009 **Fax:** 617-897-0909

Correspondent e-mail: dykemand@gtlaw.com **Correspondent e-mail Authorized:** No

Domestic Representative - Not Found

Prosecution History

Date	Description	Proceeding Number
Apr. 26, 2011	REGISTERED-PRINCIPAL REGISTER	
Mar. 22, 2011	NOTICE OF ACCEPTANCE OF STATEMENT OF USE MAILED	
Mar. 21, 2011	LAW OFFICE REGISTRATION REVIEW COMPLETED	69712
Mar. 21, 2011	ASSIGNED TO LIE	69712
Mar. 16, 2011	ASSIGNED TO LIE	59554
Feb. 28, 2011	ALLOWED PRINCIPAL REGISTER - SOU ACCEPTED	
Feb. 15, 2011	STATEMENT OF USE PROCESSING COMPLETE	65362
Feb. 11, 2011	USE AMENDMENT FILED	65362
Feb. 11, 2011	TEAS STATEMENT OF USE RECEIVED	
Aug. 24, 2010	NOTICE OF APPROVAL OF EXTENSION REQUEST MAILED	
Aug. 23, 2010	EXTENSION 5 GRANTED	65362
Aug. 10, 2010	EXTENSION 5 FILED	65362
Aug. 10, 2010	TEAS EXTENSION RECEIVED	
Mar. 16, 2010	NOTICE OF APPROVAL OF EXTENSION REQUEST MAILED	
Mar. 15, 2010	EXTENSION 4 GRANTED	65362
Feb. 10, 2010	EXTENSION 4 FILED	65362
Mar. 15, 2010	CASE ASSIGNED TO INTENT TO USE PARALEGAL	65362
Feb. 10, 2010	TEAS EXTENSION RECEIVED	
Aug. 17, 2009	EXTENSION 3 GRANTED	76569
Aug. 11, 2009	EXTENSION 3 FILED	76569
Aug. 11, 2009	TEAS EXTENSION RECEIVED	
Feb. 04, 2009	EXTENSION 2 GRANTED	98765
Feb. 04, 2009	EXTENSION 2 FILED	98765
Feb. 04, 2009	TEAS EXTENSION RECEIVED	
Aug. 21, 2008	EXTENSION 1 GRANTED	76569
Aug. 12, 2008	EXTENSION 1 FILED	76569
Aug. 21, 2008	CASE ASSIGNED TO INTENT TO USE PARALEGAL	76569
Aug. 12, 2008	TEAS EXTENSION RECEIVED	
Feb. 12, 2008	NOA MAILED - SOU REQUIRED FROM APPLICANT	
Nov. 20, 2007	PUBLISHED FOR OPPOSITION	
Oct. 31, 2007	NOTICE OF PUBLICATION	
Oct. 15, 2007	LAW OFFICE PUBLICATION REVIEW COMPLETED	71373
Oct. 15, 2007	ASSIGNED TO LIE	71373
Sep. 14, 2007	APPROVED FOR PUB - PRINCIPAL REGISTER	
Sep. 13, 2007	TEAS/EMAIL CORRESPONDENCE ENTERED	88889
Sep. 12, 2007	CORRESPONDENCE RECEIVED IN LAW OFFICE	88889
Sep. 12, 2007	TEAS REQUEST FOR RECONSIDERATION RECEIVED	
Sep. 04, 2007	NOTIFICATION OF FINAL REFUSAL EMAILED	
Sep. 04, 2007	FINAL REFUSAL E-MAILED	
Sep. 04, 2007	FINAL REFUSAL WRITTEN	72414

Aug. 15, 2007	TEAS/EMAIL CORRESPONDENCE ENTERED	88889
Aug. 15, 2007	CORRESPONDENCE RECEIVED IN LAW OFFICE	88889
Aug. 15, 2007	TEAS RESPONSE TO OFFICE ACTION RECEIVED	
May 22, 2007	NON-FINAL ACTION E-MAILED	6325
May 22, 2007	NON-FINAL ACTION WRITTEN	72414
May 22, 2007	ASSIGNED TO EXAMINER	72414
Feb. 06, 2007	NEW APPLICATION ENTERED IN TRAM	

TM Staff and Location Information

TM Staff Information - None

File Location

Current Location: PUBLICATION AND ISSUE SECTION **Date in Location:** Mar. 21, 2011

United States of America
United States Patent and Trademark Office

IlluminOss

Reg. No. 3,951,065

Registered Apr. 26, 2011

Int. Cl.: 10

TRADEMARK

PRINCIPAL REGISTER

ILLUMINOSS MEDICAL, INC. (DELAWARE CORPORATION)
993 WATERMAN AVE
EAST PROVIDENCE, RI 02914

FOR: MEDICAL DEVICES AND INSTRUMENTS, NAMELY, MEDICAL DEVICES AND SURGICAL INSTRUMENTS FOR USE IN ORTHOPEDIC AND TRAUMA SURGICAL PROCEDURES, IN CLASS 10 (U.S. CLS. 26, 39 AND 44).

FIRST USE 12-10-2008; IN COMMERCE 2-10-2011.

THE MARK CONSISTS OF STANDARD CHARACTERS WITHOUT CLAIM TO ANY PARTICULAR FONT, STYLE, SIZE, OR COLOR.

SN 77-097,737, FILED 2-2-2007.

SUE LAWRENCE, EXAMINING ATTORNEY

David J. Kappos

Director of the United States Patent and Trademark Office

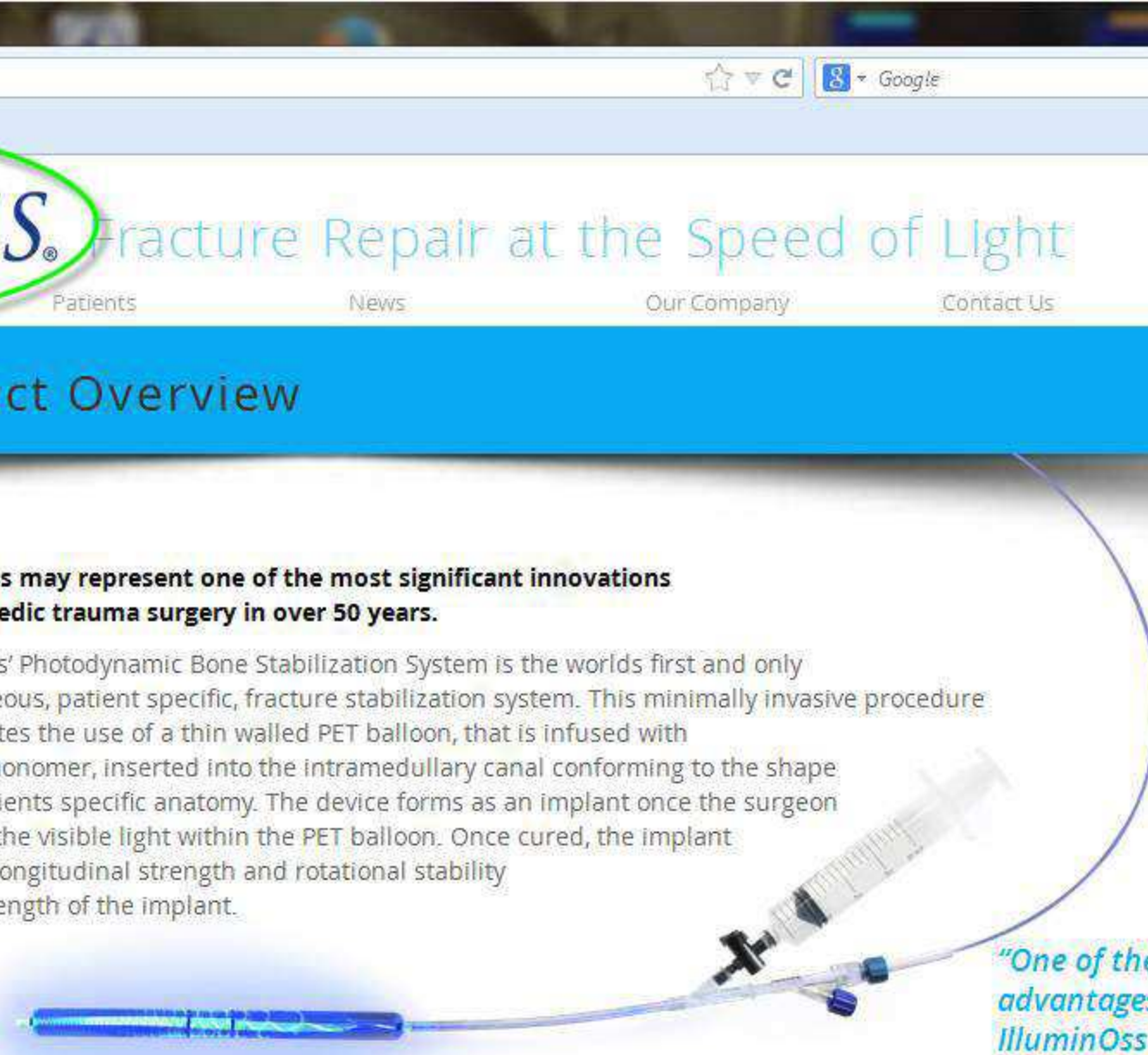
ILLUMINOSS® Fracture Repair at the Speed of Light

IlluminOss » Product Overview

Product Overview
Technology
IlluminOss System
Key Advantages
Indications

IlluminOss may represent one of the most significant innovations in orthopedic trauma surgery in over 50 years.

IlluminOss' Photodynamic Bone Stabilization System is the worlds first and only percutaneous, patient specific, fracture stabilization system. This minimally invasive procedure incorporates the use of a thin walled PET balloon, that is infused with a liquid monomer, inserted into the intramedullary canal conforming to the shape of the patients specific anatomy. The device forms as an implant once the surgeon activates the visible light within the PET balloon. Once cured, the implant provides longitudinal strength and rotational stability over the length of the implant.



Benefits Of IlluminOss:

- Percutaneous approach may decrease procedure, recovery, and healing time
- Implant conforms to the intramedullary canal providing rapid stability both rotationally & longitudinally
- The radiolucent implant allows for better imaging of the anatomy
- The small diameter of the flexible catheter allows the surgeon the freedom of surgical approach
- Polymer implant allows placement of locking screws anywhere along the length of the implant as well as the addition of traditional fixation devices

"One of the primary advantages of the IlluminOss system is that the patient can begin moving right away. Because of the very small incision, patients do not seem to have much pain post-operatively, which makes them want to move."

– Prof. Dr. Dietmar Pennig
Cologne, Germany

Corporate Office:
IlluminOss Medical, Inc.
993 Waterman Ave.
East Providence, RI 02914

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f +1 401 714 0009
General Inquiries:
info@illuminoss.com

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IlluminOss Medical GmbH
t +0800 0000972
f +49 2103 3999428

European Office:
IlluminOss Medical BV
t +31 13 547 9300
f +31 13 547 9301

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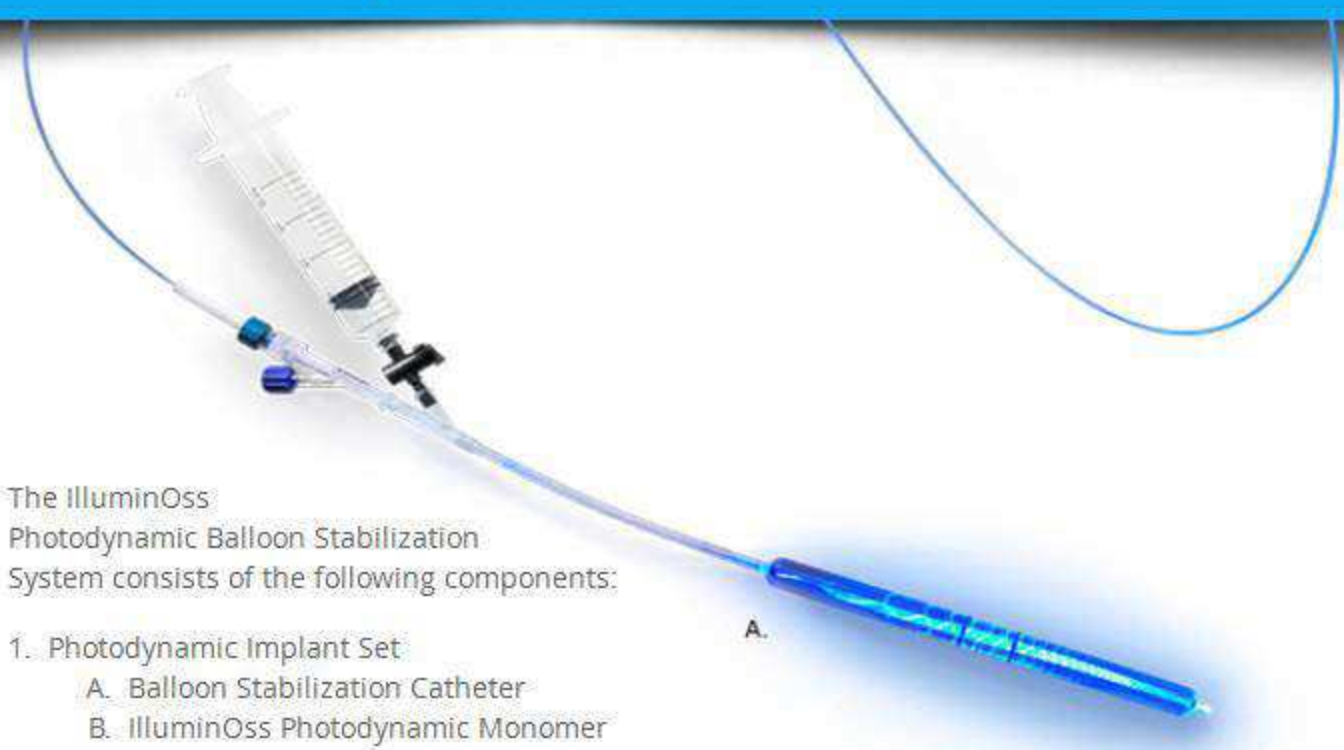
Terms of Use
Privacy Policy

IlluminOss® Fracture Repair at the Speed of Light

IlluminOss » IlluminOss System

Product Overview
Technology
IlluminOss System
Key Advantages
Indications



The IlluminOss Photodynamic Balloon Stabilization System consists of the following components:

1. Photodynamic Implant Set
   A. Balloon Stabilization Catheter
   B. IlluminOss Photodynamic Monomer

A.

B

2. Photodynamic Curing System

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Mark: ILLUMINOSS MEDICAL

IlluminOss Medical

US Serial Number: 77097756 **Application Filing Date:** Feb. 02, 2007

US Registration Number: 3955181 **Registration Date:** May 03, 2011

Register: Principal

Mark Type: Trademark

Status: Registered. The registration date is used to determine when post-registration maintenance documents are due.

Status Date: May 03, 2011

Publication Date: Jan. 22, 2008 **Notice of Allowance Date:** Apr. 15, 2008

Mark Information

Mark Literal Elements: ILLUMINOSS MEDICAL

Standard Character Claim: Yes. The mark consists of standard characters without claim to any particular font style, size, or color.

Mark Drawing Type: 4 - STANDARD CHARACTER MARK

Disclaimer: "MEDICAL"

Goods and Services

Note: The following symbols indicate that the registrant/owner has amended the goods/services:

- Brackets [..] indicate deleted goods/services;
- Double parenthesis ((..)) identify any goods/services not claimed in a Section 15 affidavit of incontestability; and
- Asterisks *..* identify additional (new) wording in the goods/services.

For: Medical devices and instruments, namely, medical devices and surgical instruments for use in orthopedic and trauma surgical procedures

International Class(es): 010 - Primary Class **U.S Class(es):** 026, 039, 044

Class Status: ACTIVE

Basis: 1(a)

First Use: Dec. 10, 2008 **Use in Commerce:** Feb. 10, 2011

Basis Information (Case Level)

Filed Use:	No	**Currently Use:**	Yes	**Amended Use:**	No
Filed ITU:	Yes	**Currently ITU:**	No	**Amended ITU:**	No
Filed 44D:	No	**Currently 44D:**	No	**Amended 44D:**	No
Filed 44E:	No	**Currently 44E:**	No	**Amended 44E:**	No
Filed 66A:	No	**Currently 66A:**	No		
Filed No Basis:	No	**Currently No Basis:**	No		

Current Owner(s) Information

Owner Name: IlluminOss Medical, Inc.

Owner Address: 993 Waterman Avenue
East Providence, RHODE ISLAND 02914
UNITED STATES

Legal Entity Type: CORPORATION **State or Country Where Organized:** DELAWARE

Attorney/Correspondence Information

Attorney of Record

Attorney Name: David J. Dykeman **Docket Number:** 101667-01090

Attorney Primary Email Address: dykemand@gtlaw.com **Attorney Email Authorized:** No

Correspondent

Correspondent DAVID J. DYKEMAN

Name/Address: GREENBERG TRAURIG, LLP
1 INTERNATIONAL PL
BOSTON, MASSACHUSETTS 02110-2602
UNITED STATES

Phone: 617-310-6009 **Fax:** 617-897-0909

Correspondent e-mail: dykemand@gtlaw.com **Correspondent e-mail Authorized:** No

Domestic Representative - Not Found

Prosecution History

Date	Description	Proceeding Number
May 03, 2011	REGISTERED-PRINCIPAL REGISTER	
Mar. 29, 2011	NOTICE OF ACCEPTANCE OF STATEMENT OF USE E-MAILED	
Mar. 28, 2011	LAW OFFICE REGISTRATION REVIEW COMPLETED	76568
Mar. 17, 2011	ALLOWED PRINCIPAL REGISTER - SOU ACCEPTED	
Feb. 22, 2011	STATEMENT OF USE PROCESSING COMPLETE	76874
Feb. 11, 2011	USE AMENDMENT FILED	76874
Feb. 11, 2011	TEAS STATEMENT OF USE RECEIVED	
Oct. 19, 2010	NOTICE OF APPROVAL OF EXTENSION REQUEST E-MAILED	
Oct. 18, 2010	EXTENSION 5 GRANTED	76874
Oct. 12, 2010	EXTENSION 5 FILED	76874
Oct. 12, 2010	TEAS EXTENSION RECEIVED	
Apr. 20, 2010	NOTICE OF APPROVAL OF EXTENSION REQUEST E-MAILED	
Apr. 19, 2010	EXTENSION 4 GRANTED	76874
Apr. 07, 2010	EXTENSION 4 FILED	76874
Apr. 07, 2010	TEAS EXTENSION RECEIVED	
Oct. 13, 2009	EXTENSION 3 GRANTED	76874
Oct. 08, 2009	EXTENSION 3 FILED	76874
Oct. 08, 2009	TEAS EXTENSION RECEIVED	
Apr. 17, 2009	EXTENSION 2 GRANTED	76874
Apr. 15, 2009	EXTENSION 2 FILED	76874
Apr. 15, 2009	TEAS EXTENSION RECEIVED	
Oct. 17, 2008	EXTENSION 1 GRANTED	76874
Oct. 15, 2008	EXTENSION 1 FILED	76874
Oct. 17, 2008	CASE ASSIGNED TO INTENT TO USE PARALEGAL	76874
Oct. 15, 2008	TEAS EXTENSION RECEIVED	
Apr. 15, 2008	NOA MAILED - SOU REQUIRED FROM APPLICANT	
Jan. 22, 2008	PUBLISHED FOR OPPOSITION	
Jan. 02, 2008	NOTICE OF PUBLICATION	
Dec. 19, 2007	LAW OFFICE PUBLICATION REVIEW COMPLETED	76568
Dec. 19, 2007	ASSIGNED TO LIE	76568
Nov. 09, 2007	APPROVED FOR PUB - PRINCIPAL REGISTER	
Nov. 08, 2007	TEAS/EMAIL CORRESPONDENCE ENTERED	88889
Nov. 08, 2007	CORRESPONDENCE RECEIVED IN LAW OFFICE	88889
Nov. 08, 2007	TEAS RESPONSE TO OFFICE ACTION RECEIVED	
May 22, 2007	NON-FINAL ACTION E-MAILED	6325
May 22, 2007	NON-FINAL ACTION WRITTEN	72414
May 22, 2007	ASSIGNED TO EXAMINER	72414
Feb. 06, 2007	NEW APPLICATION ENTERED IN TRAM	

TM Staff and Location Information

TM Staff Information - None

File Location

Current Location: PUBLICATION AND ISSUE SECTION **Date in Location:** Mar. 28, 2011

United States of America
United States Patent and Trademark Office

IlluminOss Medical

Reg. No. 3,955,181

Registered May 3, 2011

Int. Cl.: 10

TRADEMARK

PRINCIPAL REGISTER

ILLUMINOSS MEDICAL, INC. (DELAWARE CORPORATION)
993 WATERMAN AVENUE
EAST PROVIDENCE, RI 02914

FOR: MEDICAL DEVICES AND INSTRUMENTS, NAMELY, MEDICAL DEVICES AND SURGICAL INSTRUMENTS FOR USE IN ORTHOPEDIC AND TRAUMA SURGICAL PROCEDURES, IN CLASS 10 (U.S. CLS. 26, 39 AND 44).

FIRST USE 12-10-2008; IN COMMERCE 2-10-2011.

THE MARK CONSISTS OF STANDARD CHARACTERS WITHOUT CLAIM TO ANY PARTICULAR FONT, STYLE, SIZE, OR COLOR.

NO CLAIM IS MADE TO THE EXCLUSIVE RIGHT TO USE "MEDICAL", APART FROM THE MARK AS SHOWN.

SN 77-097,756, FILED 2-2-2007.

SUE LAWRENCE, EXAMINING ATTORNEY

David J. Kappos

Director of the United States Patent and Trademark Office

IlluminOss

Fracture Repair at the Speed of Light

Our Company » Company Overview

Company Overview
Managment Team
- Robert Rabiner
- Gene DiPoto
- Martin Aschenbrener
- Fred Tobia
- Beth Money

Board of Directors
Scientific Advisory Board
Investors

IlluminOss Medical is a privately-held, commercial stage medical device company focused on designing, developing and marketing orthopedic fracture repair products that leverage its proprietary bone stabilization technology, Photodynamic Bone Stabilization System (PBSS). This minimally invasive technology allows for fracture fixation through patient specific intramedullary implants.

The PBSS System utilizes a light-curable polymer, contained within an expandable balloon catheter, to achieve bone stabilization. The revolutionary procedure is made through a small percutaneous surgical approach providing patients and clinicians with a fast, patient-specific, method of orthopedic bone stabilization. The company currently markets its products in international countries under a CE Mark for approved clinical applications through both a direct sales force and distribution networks.

Founded in 2007, IlluminOss is headquartered in East Providence, RI, and funded by Foundation Medical Partners, New Leaf Venture Partners, Tekla Capital, Life Sciences Partners, SR One, Longwood Fund, Excel Venture Management, Pappas Ventures, Mieza Capital and Slater Technology.

Corporate Office:
IlluminOss Medical, Inc.
993 Waterman Ave.
East Providence, RI 02914

t +1 401 714 0008
f +1 401 714 0009
General Inquiries:
info@illuminoss.com

Germany Office:
IlluminOss Medical GmbH
t +0800 0000972
f +49 2103 3999428

European Office:
IlluminOss Medical BV
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f +31 13 547 9301

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Terms of Use
Privacy Policy

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Mark: ILLUMINOSTICS

Illuminostics

US Serial Number: 85637839 **Application Filing Date:** May 29, 2012

US Registration Number: 4419422 **Registration Date:** Oct. 15, 2013

Register: Principal

Mark Type: Service Mark

Status: Registered. The registration date is used to determine when post-registration maintenance documents are due.

Status Date: Oct. 15, 2013

Publication Date: Apr. 02, 2013 **Notice of Allowance Date:** May 28, 2013

Mark Information

Mark Literal Elements: ILLUMINOSTICS

Standard Character Claim: Yes. The mark consists of standard characters without claim to any particular font style, size, or color.

Mark Drawing Type: 4 - STANDARD CHARACTER MARK

Goods and Services

Note: The following symbols indicate that the registrant/owner has amended the goods/services:

- Brackets [..] indicate deleted goods/services;
- Double parenthesis ((..)) identify any goods/services not claimed in a Section 15 affidavit of incontestability; and
- Asterisks *..* identify additional (new) wording in the goods/services.

For: Providing internet based data capture services that enable quality assessment and control, processing, analysis, and review of medical and research data; Scientific services, namely, compiling data for research purposes in the field of medical science and medical research; Providing quality assessment and quality control services in the field of medical science and medical research; Quality control for others in the field of medical and research data; Scientific research consulting in the field of analysis and review of medical data and medical research data

International Class(es): 042 - Primary Class **U.S Class(es):** 100, 101

Class Status: ACTIVE

Basis: 1(a)

First Use: Dec. 01, 2012 **Use in Commerce:** Dec. 01, 2012

Basis Information (Case Level)

Filed Use:	No	**Currently Use:**	Yes	**Amended Use:**	No
Filed ITU:	Yes	**Currently ITU:**	No	**Amended ITU:**	No
Filed 44D:	No	**Currently 44D:**	No	**Amended 44D:**	No
Filed 44E:	No	**Currently 44E:**	No	**Amended 44E:**	No
Filed 66A:	No	**Currently 66A:**	No		
Filed No Basis:	No	**Currently No Basis:**	No		

Current Owner(s) Information

Owner Name: ERBERICH, STEPHAN

DBA, AKA, Formerly: DBA BIOMED INFORMATICS

Owner Address: 31790 OAK RANCH CT
WESTLAKE VILLAGE, CALIFORNIA 91361
UNITED STATES

Legal Entity Type: INDIVIDUAL **Citizenship:** UNITED STATES

Attorney/Correspondence Information

Attorney of Record - None

Correspondent

Correspondent Name/Address: Dr. Stephan Erberich
Illuminostics, LLC
3537 Old Conejo Road, Suite 115

NEWBURY PARK, CALIFORNIA 91320-6190
UNITED STATES

Phone: 805-214-3700

Correspondent e-mail: stephan.erberich@gmail.com **Correspondent e-mail Authorized:** Yes

Domestic Representative - Not Found

Prosecution History

Date	Description	Proceeding Number
Mar. 19, 2014	AUTOMATIC UPDATE OF ASSIGNMENT OF OWNERSHIP	
Oct. 15, 2013	REGISTERED-PRINCIPAL REGISTER	
Sep. 10, 2013	NOTICE OF ACCEPTANCE OF STATEMENT OF USE E-MAILED	
Sep. 09, 2013	LAW OFFICE REGISTRATION REVIEW COMPLETED	70468
Sep. 01, 2013	ALLOWED PRINCIPAL REGISTER - SOU ACCEPTED	
Aug. 30, 2013	STATEMENT OF USE PROCESSING COMPLETE	71034
Jul. 25, 2013	USE AMENDMENT FILED	71034
Aug. 28, 2013	CASE ASSIGNED TO INTENT TO USE PARALEGAL	71034
Jul. 25, 2013	TEAS STATEMENT OF USE RECEIVED	
May 28, 2013	NOA E-MAILED - SOU REQUIRED FROM APPLICANT	
Apr. 02, 2013	OFFICIAL GAZETTE PUBLICATION CONFIRMATION E-MAILED	
Apr. 02, 2013	PUBLISHED FOR OPPOSITION	
Mar. 13, 2013	NOTIFICATION OF NOTICE OF PUBLICATION E-MAILED	
Feb. 25, 2013	LAW OFFICE PUBLICATION REVIEW COMPLETED	70468
Feb. 16, 2013	APPROVED FOR PUB - PRINCIPAL REGISTER	
Feb. 15, 2013	TEAS/EMAIL CORRESPONDENCE ENTERED	88889
Feb. 14, 2013	CORRESPONDENCE RECEIVED IN LAW OFFICE	88889
Feb. 14, 2013	TEAS RESPONSE TO OFFICE ACTION RECEIVED	
Feb. 06, 2013	NOTIFICATION OF NON-FINAL ACTION E-MAILED	6325
Feb. 06, 2013	NON-FINAL ACTION E-MAILED	6325
Feb. 06, 2013	NON-FINAL ACTION WRITTEN	72505
Feb. 05, 2013	TEAS/EMAIL CORRESPONDENCE ENTERED	70468
Feb. 05, 2013	CORRESPONDENCE RECEIVED IN LAW OFFICE	70468
Jan. 30, 2013	AUTOMATIC UPDATE OF ASSIGNMENT OF OWNERSHIP	
Jan. 25, 2013	TEAS CHANGE OF CORRESPONDENCE RECEIVED	
Jan. 25, 2013	TEAS RESPONSE TO OFFICE ACTION RECEIVED	
Nov. 04, 2012	NOTIFICATION OF NON-FINAL ACTION E-MAILED	6325
Nov. 04, 2012	NON-FINAL ACTION E-MAILED	6325
Nov. 04, 2012	NON-FINAL ACTION WRITTEN	72505
Nov. 03, 2012	TEAS/EMAIL CORRESPONDENCE ENTERED	70468
Nov. 03, 2012	CORRESPONDENCE RECEIVED IN LAW OFFICE	70468
Oct. 31, 2012	ASSIGNED TO LIE	70468
Oct. 19, 2012	TEAS RESPONSE TO OFFICE ACTION RECEIVED	
Jul. 21, 2012	NOTIFICATION OF NON-FINAL ACTION E-MAILED	6325
Jul. 21, 2012	NON-FINAL ACTION E-MAILED	6325
Jul. 21, 2012	NON-FINAL ACTION WRITTEN	72505
Jul. 21, 2012	ASSIGNED TO EXAMINER	72505
Jun. 06, 2012	NEW APPLICATION OFFICE SUPPLIED DATA ENTERED IN TRAM	

TM Staff and Location Information

TM Staff Information - None

File Location

Current Location: PUBLICATION AND ISSUE SECTION **Date in Location:** Sep. 09, 2013

Assignment Abstract Of Title Information

Summary

Total Assignments: 2 **Registrant:** ILLUMINOSTICS, LLC

Assignment 1 of 2

Conveyance: CHANGE OF NAME

Reel/Frame: 4946/0687 **Pages:** 2

Date Recorded: Jan. 22, 2013

Supporting Documents: assignment-tm-4946-0687.pdf

Assignor

Name: ILLUMINOSTICS, LLC **Execution Date:** Jan. 22, 2013

Legal Entity Type: CORPORATION **State or Country Where Organized:** CALIFORNIA

DBA, AKA, TA, Formerly: FORMERLY RADNOSTIX, LLC

Assignee

Name: ILLUMINOSTICS, LLC

Legal Entity Type: CORPORATION **State or Country Where Organized:** CALIFORNIA

Address: 3537 OLD CONEJO RD., SUITE 115
NEWBURY PARK, CALIFORNIA 91320

Correspondent

Correspondent Name: AUSTIN AKER

Correspondent Address: 3537 OLD CONEJO ROAD, SUITE 115
NEWBURY PARK, CA 91320

Domestic Representative - Not Found

Assignment 2 of 2

Conveyance: ASSIGNS THE ENTIRE INTEREST

Reel/Frame: 5235/0469 **Pages:** 3

Date Recorded: Mar. 11, 2014

Supporting Documents: assignment-tm-5235-0469.pdf

Assignor

Name: ILLUMINOSTICS, LLC **Execution Date:** Dec. 31, 2013

Legal Entity Type: LIMITED LIABILITY COMPANY **State or Country Where Organized:** CALIFORNIA

Assignee

Name: ERBERICH, STEPHAN

Legal Entity Type: INDIVIDUAL **Citizenship:** UNITED STATES

Address: 31790 OAK RANCH CT
WESTLAKE VILLAGE, CALIFORNIA 91361

DBA, AKA, TA, Formerly: DBA BIOMED INFORMATICS

Correspondent

Correspondent Name: STEPHAN ERBERICH

Correspondent Address: 31790 OAK RANCH CT
WESTLAKE VILLAGE, CA 91361

Domestic Representative - Not Found

United States of America
United States Patent and Trademark Office

Illuminostics

Reg. No. 4,419,422

Registered Oct. 15, 2013

Int. Cl.: 42

SERVICE MARK

PRINCIPAL REGISTER

ILLUMINOSTICS, LLC (CALIFORNIA LIMITED LIABILITY COMPANY)
3537 OLD CONEJO RD., SUITE 115
NEWBURY PARK, CA 91320

FOR: PROVIDING INTERNET BASED DATA CAPTURE SERVICES THAT ENABLE QUALITY ASSESSMENT AND CONTROL, PROCESSING, ANALYSIS, AND REVIEW OF MEDICAL AND RESEARCH DATA; SCIENTIFIC SERVICES, NAMELY, COMPILING DATA FOR RESEARCH PURPOSES IN THE FIELD OF MEDICAL SCIENCE AND MEDICAL RESEARCH; PROVIDING QUALITY ASSESSMENT AND QUALITY CONTROL SERVICES IN THE FIELD OF MEDICAL SCIENCE AND MEDICAL RESEARCH; QUALITY CONTROL FOR OTHERS IN THE FIELD OF MEDICAL AND RESEARCH DATA; SCIENTIFIC RESEARCH CONSULTING IN THE FIELD OF ANALYSIS AND REVIEW OF MEDICAL DATA AND MEDICAL RESEARCH DATA, IN CLASS 42 (U.S. CLS. 100 AND 101).

FIRST USE 12-1-2012; IN COMMERCE 12-1-2012.

THE MARK CONSISTS OF STANDARD CHARACTERS WITHOUT CLAIM TO ANY PARTICULAR FONT, STYLE, SIZE, OR COLOR.

SN 85-637,839, FILED 5-29-2012.

KATHY DE JONGE, EXAMINING ATTORNEY

Deputy Director of the United States Patent and Trademark Office

REQUIREMENTS TO MAINTAIN YOUR FEDERAL TRADEMARK REGISTRATION

WARNING: YOUR REGISTRATION WILL BE CANCELLED IF YOU DO NOT FILE THE DOCUMENTS BELOW DURING THE SPECIFIED TIME PERIODS.

Requirements in the First Ten Years*
What and When to File:

First Filing Deadline: You must file a Declaration of Use (or Excusable Nonuse) between the 5th and 6th years after the registration date. *See* 15 U.S.C. §§1058, 1141k. If the declaration is accepted, the registration will continue in force for the remainder of the ten-year period, calculated from the registration date, unless cancelled by an order of the Commissioner for Trademarks or a federal court.

Second Filing Deadline: You must file a Declaration of Use (or Excusable Nonuse) **and** an Application for Renewal between the 9th and 10th years after the registration date.* *See* 15 U.S.C. §1059.

Requirements in Successive Ten-Year Periods*
What and When to File:

You must file a Declaration of Use (or Excusable Nonuse) **and** an Application for Renewal between every 9th and 10th-year period, calculated from the registration date.*

Grace Period Filings*

The above documents will be accepted as timely if filed within six months after the deadlines listed above with the payment of an additional fee.

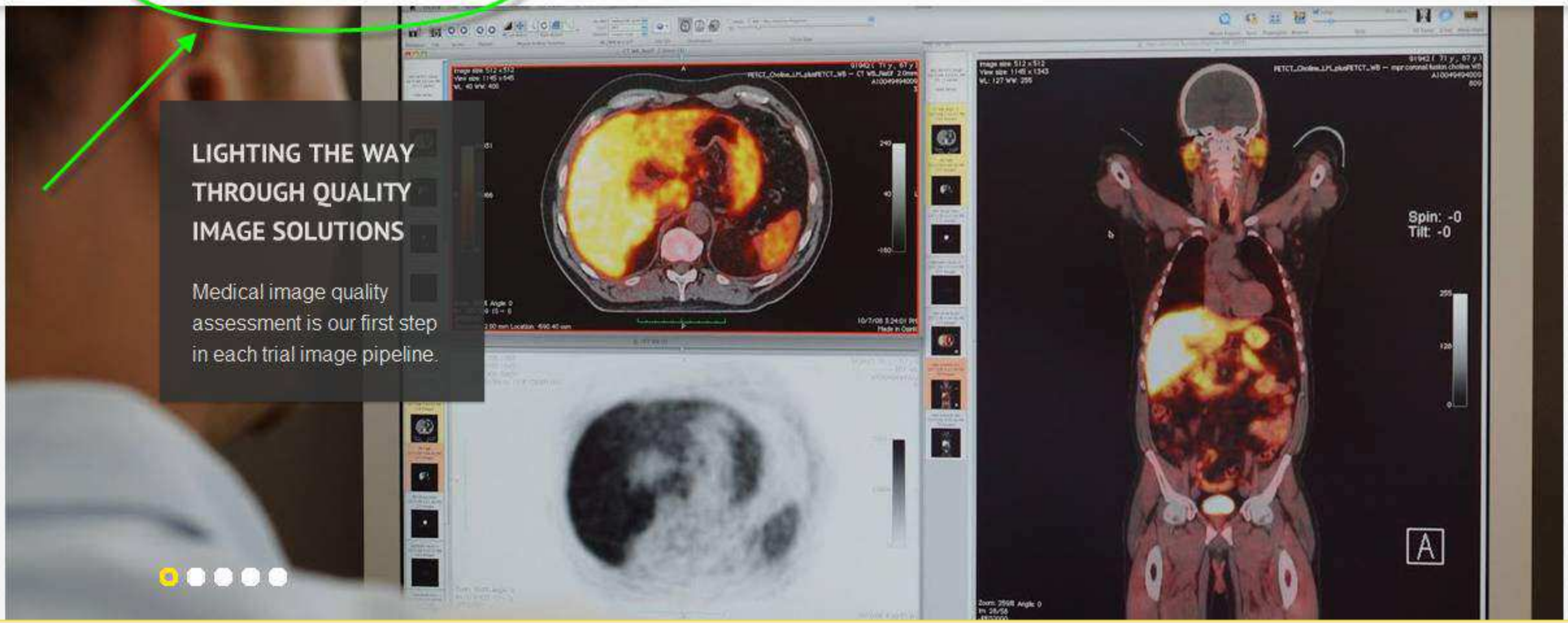
The United States Patent and Trademark Office (USPTO) will NOT send you any future notice or reminder of these filing requirements.

***ATTENTION MADRID PROTOCOL REGISTRANTS:** The holder of an international registration with an extension of protection to the United States under the Madrid Protocol must timely file the Declarations of Use (or Excusable Nonuse) referenced above directly with the USPTO. The time periods for filing are based on the U.S. registration date (not the international registration date). The deadlines and grace periods for the Declarations of Use (or Excusable Nonuse) are identical to those for nationally issued registrations. *See* 15 U.S.C. §§1058, 1141k. However, owners of international registrations do not file renewal applications at the USPTO. Instead, the holder must file a renewal of the underlying international registration at the International Bureau of the World Intellectual Property Organization, under Article 7 of the Madrid Protocol, before the expiration of each ten-year term of protection, calculated from the date of the international registration. *See* 15 U.S.C. §1141j. For more information and renewal forms for the international registration, see http://www.wipo.int/madrid/en/.

NOTE: Fees and requirements for maintaining registrations are subject to change. Please check the USPTO website for further information. With the exception of renewal applications for registered extensions of protection, you can file the registration maintenance documents referenced above online at http://www.uspto.gov.

illuminostics

COMPANY IMAGE SERVICES CONTACT



Welcome to illuminostics

Lighting the way through imaging diagnostics is our vision – navigating you confidently through all stages of research development and clinical practice. At illuminostics we provide imaging biomarker solutions to clients across all stages of biomedical development and advanced clinical practice. Utilizing award-winning software solutions and employing only the most qualified imaging experts, we provide the fastest, yet most cost-effective delivery of the highest-quality imaging services. With illuminostics, you are in the hands of proven experts comprising imaging science, regulatory and clinical domains.

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Mark: ILUMIEN

ILUMIEN

US Serial Number: 85318236 **Application Filing Date:** May 11, 2011

US Registration Number: 4258470 **Registration Date:** Dec. 11, 2012

Register: Principal

Mark Type: Trademark

Status: Registered. The registration date is used to determine when post-registration maintenance documents are due.

Status Date: Dec. 11, 2012

Publication Date: Aug. 30, 2011 **Notice of Allowance Date:** Oct. 25, 2011

Mark Information

Mark Literal Elements: ILUMIEN

Standard Character Claim: Yes. The mark consists of standard characters without claim to any particular font style, size, or color.

Mark Drawing Type: 4 - STANDARD CHARACTER MARK

Goods and Services

Note: The following symbols indicate that the registrant/owner has amended the goods/services:

- Brackets [..] indicate deleted goods/services;
- Double parenthesis ((..)) identify any goods/services not claimed in a Section 15 affidavit of incontestability; and
- Asterisks *..* identify additional (new) wording in the goods/services.

For: COMPUTER DISPLAYS AND COMPUTER MONITORS AND CONTROLLERS THEREFOR USED IN ASSOCIATION WITH MEDICAL IMAGING APPARATUS DURING MEDICAL IMAGING OF AN INDIVIDUAL

International Class(es): 009 - Primary Class **U.S Class(es):** 021, 023, 026, 036, 038

Class Status: ACTIVE

Basis: 1(a)

First Use: Oct. 23, 2011 **Use in Commerce:** Oct. 23, 2011

Basis Information (Case Level)

Filed Use:	No	**Currently Use:**	Yes	**Amended Use:**	No
Filed ITU:	Yes	**Currently ITU:**	No	**Amended ITU:**	No
Filed 44D:	No	**Currently 44D:**	No	**Amended 44D:**	No
Filed 44E:	No	**Currently 44E:**	No	**Amended 44E:**	No
Filed 66A:	No	**Currently 66A:**	No		
Filed No Basis:	No	**Currently No Basis:**	No		

Current Owner(s) Information

Owner Name: LightLab Imaging, Inc.

Owner Address: One Technology Park Drive
Westford, MASSACHUSETTS 01886
UNITED STATES

Legal Entity Type: CORPORATION **State or Country Where Organized:** DELAWARE

Attorney/Correspondence Information

Attorney of Record

Attorney Name: Robert B. Cohen **Docket Number:** STJUDE 10.0-

Attorney Primary Email Address: trademarkadmin@ldlkm.com **Attorney Email Authorized:** No

Correspondent

Correspondent Name/Address: ROBERT B. COHEN
LERNER, DAVID, LITTENBERG, KRUMHOLZ & MENTLIK, LLP
600 SOUTH AVE W STE 2
WESTFIELD, NEW JERSEY 07090-1497
UNITED STATES

Phone:	908-654-5000	**Fax:**	908-654-7866
Correspondent e-mail:	trademarkadmin@ldlkm.com	**Correspondent e-mail Authorized:**	Yes

Domestic Representative - Not Found

Prosecution History

Date	Description	Proceeding Number
Dec. 11, 2012	REGISTERED-PRINCIPAL REGISTER	
Nov. 07, 2012	NOTICE OF ACCEPTANCE OF STATEMENT OF USE E-MAILED	
Nov. 06, 2012	LAW OFFICE REGISTRATION REVIEW COMPLETED	74221
Nov. 05, 2012	ALLOWED PRINCIPAL REGISTER - SOU ACCEPTED	
Oct. 24, 2012	TEAS EXTENSION RECEIVED	
Oct. 26, 2012	STATEMENT OF USE PROCESSING COMPLETE	76538
Oct. 24, 2012	USE AMENDMENT FILED	76538
Oct. 25, 2012	CASE ASSIGNED TO INTENT TO USE PARALEGAL	76538
Oct. 24, 2012	TEAS STATEMENT OF USE RECEIVED	
Apr. 27, 2012	NOTICE OF APPROVAL OF EXTENSION REQUEST E-MAILED	
Apr. 25, 2012	EXTENSION 1 GRANTED	98765
Apr. 25, 2012	EXTENSION 1 FILED	98765
Apr. 25, 2012	TEAS EXTENSION RECEIVED	
Oct. 25, 2011	NOA E-MAILED - SOU REQUIRED FROM APPLICANT	
Aug. 30, 2011	OFFICIAL GAZETTE PUBLICATION CONFIRMATION E-MAILED	
Aug. 30, 2011	PUBLISHED FOR OPPOSITION	
Jul. 26, 2011	LAW OFFICE PUBLICATION REVIEW COMPLETED	74221
Jul. 22, 2011	ASSIGNED TO LIE	74221
Jun. 28, 2011	APPROVED FOR PUB - PRINCIPAL REGISTER	
Jun. 28, 2011	EXAMINER'S AMENDMENT ENTERED	88888
Jun. 28, 2011	NOTIFICATION OF EXAMINERS AMENDMENT E-MAILED	6328
Jun. 28, 2011	EXAMINERS AMENDMENT E-MAILED	6328
Jun. 28, 2011	EXAMINERS AMENDMENT -WRITTEN	73372
Jun. 23, 2011	ASSIGNED TO EXAMINER	73372
May 17, 2011	NEW APPLICATION OFFICE SUPPLIED DATA ENTERED IN TRAM	
May 14, 2011	NEW APPLICATION ENTERED IN TRAM	

TM Staff and Location Information

TM Staff Information - None

File Location

Current Location:	PUBLICATION AND ISSUE SECTION	**Date in Location:**	Nov. 06, 2012

United States of America
United States Patent and Trademark Office

ILUMIEN

Reg. No. 4,258,470

Registered Dec. 11, 2012

Int. Cl.: 9

TRADEMARK

PRINCIPAL REGISTER

LIGHTLAB IMAGING, INC. (DELAWARE CORPORATION)
ONE TECHNOLOGY PARK DRIVE
WESTFORD, MA 01886

FOR: COMPUTER DISPLAYS AND COMPUTER MONITORS AND CONTROLLERS THEREFOR USED IN ASSOCIATION WITH MEDICAL IMAGING APPARATUS DURING MEDICAL IMAGING OF AN INDIVIDUAL, IN CLASS 9 (U.S. CLS. 21, 23, 26, 36 AND 38).

FIRST USE 10-23-2011; IN COMMERCE 10-23-2011.

THE MARK CONSISTS OF STANDARD CHARACTERS WITHOUT CLAIM TO ANY PARTICULAR FONT, STYLE, SIZE, OR COLOR.

SN 85-318,236, FILED 5-11-2011.

KIMBERLY PERRY, EXAMINING ATTORNEY

David J. Kappos

Director of the United States Patent and Trademark Office

REQUIREMENTS TO MAINTAIN YOUR FEDERAL TRADEMARK REGISTRATION

WARNING: YOUR REGISTRATION WILL BE CANCELLED IF YOU DO NOT FILE THE DOCUMENTS BELOW DURING THE SPECIFIED TIME PERIODS.

Requirements in the First Ten Years*
What and When to File:

First Filing Deadline: You must file a Declaration of Use (or Excusable Nonuse) between the 5th and 6th years after the registration date. *See* 15 U.S.C. §§1058, 1141k. If the declaration is accepted, the registration will continue in force for the remainder of the ten-year period, calculated from the registration date, unless cancelled by an order of the Commissioner for Trademarks or a federal court.

Second Filing Deadline: You must file a Declaration of Use (or Excusable Nonuse) **and** an Application for Renewal between the 9th and 10th years after the registration date.* *See* 15 U.S.C. §1059.

Requirements in Successive Ten-Year Periods*
What and When to File:

You must file a Declaration of Use (or Excusable Nonuse) **and** an Application for Renewal between every 9th and 10th-year period, calculated from the registration date.*

Grace Period Filings*

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ILUMIEN™ PCI Optimization™ System

Illuminating the Future of PCI Optimization

The ILUMIEN PCI Optimization System provides the physician unprecedented physiological and anatomical insight to improve diagnostic therapy and optimize PCI.

Related Products | Reimbursement | Product Manuals

The first combined FFR and OCT system.

Overview | Tech Specs | Evidence | Indications, Safety & Warnings

With Knowledge Comes Clarity

Knowing which lesion to treat and how to treat it is key to optimizing interventional treatment strategies. The ILUMIEN system is the first to combine the functional modality of fractional flow reserve (FFR) and the anatomical modality of optical coherence tomography (OCT) to provide the physician insight to help diagnose and treat coronary artery disease — and optimize percutaneous coronary intervention (PCI).

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- Wireless FFR set-up in one or multiple labs
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- Quick and easy movement between multiple labs

FFR Physiological Assessment

Know What to Treat

FFR allows more accurate identification of hemodynamically significant stenoses, reducing rates of death, myocardial infarction and repeat revascularization[1].

- FFR-guided PCI significantly reduces mortality and results in reduced procedural and healthcare costs, without prolonging the cath lab procedure compared to angiography alone1
- Recognize lesions that can cause ischemia
- Determine if blood flow is sufficiently restored after balloon or stent deployment

In addition, Wi-Box™ provides a wireless connection to ILUMIEN PCI Optimization System, and is permanently installed between the AO-transducer and hemodynamic recording system. FFR is always available - all labs - anytime.

OCT Anatomical Assessment

Know How to Treat

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Mark: ILUMIEN

ILUMIEN

US Serial Number: 86060607 **Application Filing Date:** Sep. 10, 2013

US Registration Number: 4577532 **Registration Date:** Jul. 29, 2014

Register: Principal

Mark Type: Trademark

Status: Registered. The registration date is used to determine when post-registration maintenance documents are due.

Status Date: Jul. 29, 2014

Publication Date: Feb. 11, 2014 **Notice of Allowance Date:** Apr. 08, 2014

Mark Information

Mark Literal Elements: ILUMIEN

Standard Character Claim: Yes. The mark consists of standard characters without claim to any particular font style, size, or color.

Mark Drawing Type: 4 - STANDARD CHARACTER MARK

Related Properties Information

Claimed Ownership of US Registrations: 4258470

Goods and Services

Note: The following symbols indicate that the registrant/owner has amended the goods/services:

- Brackets [..] indicate deleted goods/services;
- Double parenthesis ((..)) identify any goods/services not claimed in a Section 15 affidavit of incontestability; and
- Asterisks *..* identify additional (new) wording in the goods/services.

For: Optical coherence tomography software for medical imaging; computer software for use in medical diagnosis, namely, for use in measurement and assessment of measured physiological variables

International Class(es): 009 - Primary Class **U.S Class(es):** 021, 023, 026, 036, 038

Class Status: ACTIVE

Basis: 1(a)

First Use: Oct. 23, 2011 **Use in Commerce:** Oct. 23, 2011

For: Optical coherence computed tomography apparatus for medical imaging incorporating computer displays and computer monitors and controllers therefor used during medical imaging of an individual; computer monitors used in direct association with medical diagnostic apparatus for use in medical diagnostics and associated software for analyzing medical diagnostic data, all sold as a unit

International Class(es): 010 - Primary Class **U.S Class(es):** 026, 039, 044

Class Status: ACTIVE

Basis: 1(a)

First Use: Oct. 23, 2011 **Use in Commerce:** Oct. 23, 2011

Basis Information (Case Level)

Filed Use:	No	**Currently Use:**	Yes	**Amended Use:**	No
Filed ITU:	Yes	**Currently ITU:**	No	**Amended ITU:**	No
Filed 44D:	No	**Currently 44D:**	No	**Amended 44D:**	No
Filed 44E:	No	**Currently 44E:**	No	**Amended 44E:**	No
Filed 66A:	No	**Currently 66A:**	No		
Filed No Basis:	No	**Currently No Basis:**	No		

Current Owner(s) Information

Owner Name: LightLab Imaging, Inc.

Owner Address: 4 Robbins Road
Westford, MASSACHUSETTS 01886

UNITED STATES

Legal Entity Type: CORPORATION

State or Country Where Organized: DELAWARE

Attorney/Correspondence Information

Attorney of Record

Attorney Name: Hallie A. Finucane

Docket Number: S16.22-0083

Attorney Primary Email Address: hfinucane@wck.com

Attorney Email Authorized: Yes

Correspondent

Correspondent Name/Address: Hallie A. Finucane
Westman, Champlin & Koehler, P.A.
900 Second Avenue South, Suite 1400
Minneapolis, MINNESOTA 55402
UNITED STATES

Phone: 6123343222

Fax: 6123343312

Correspondent e-mail: hfinucane@wck.com

Correspondent e-mail Authorized: Yes

Domestic Representative - Not Found

Prosecution History

Date	Description	Proceeding Number
Jul. 29, 2014	ATTORNEY REVOKED AND/OR APPOINTED	
Jul. 29, 2014	TEAS REVOKE/APPOINT ATTORNEY RECEIVED	
Jul. 29, 2014	REGISTERED-PRINCIPAL REGISTER	
Jun. 27, 2014	NOTICE OF ACCEPTANCE OF STATEMENT OF USE E-MAILED	
Jun. 23, 2014	ALLOWED PRINCIPAL REGISTER - SOU ACCEPTED	
Jun. 17, 2014	STATEMENT OF USE PROCESSING COMPLETE	61813
May 22, 2014	USE AMENDMENT FILED	61813
Jun. 16, 2014	CASE ASSIGNED TO INTENT TO USE PARALEGAL	61813
May 22, 2014	TEAS STATEMENT OF USE RECEIVED	
Apr. 08, 2014	NOA E-MAILED - SOU REQUIRED FROM APPLICANT	
Feb. 11, 2014	OFFICIAL GAZETTE PUBLICATION CONFIRMATION E-MAILED	
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Dec. 19, 2013	ASSIGNED TO EXAMINER	90337
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Sep. 18, 2013	NEW APPLICATION OFFICE SUPPLIED DATA ENTERED IN TRAM	
Sep. 13, 2013	NEW APPLICATION ENTERED IN TRAM	

TM Staff and Location Information

TM Staff Information - None

File Location

Current Location: PUBLICATION AND ISSUE SECTION

Date in Location: Jun. 26, 2014

United States of America
United States Patent and Trademark Office

ILUMIEN

Reg. No. 4,577,532

Registered July 29, 2014

Int. Cls.: 9 and 10

TRADEMARK

PRINCIPAL REGISTER

LIGHTLAB IMAGING, INC. (DELAWARE CORPORATION)
4 ROBBINS ROAD
WESTFORD, MA 01886

FOR: OPTICAL COHERENCE TOMOGRAPHY SOFTWARE FOR MEDICAL IMAGING; COMPUTER SOFTWARE FOR USE IN MEDICAL DIAGNOSIS, NAMELY, FOR USE IN MEASUREMENT AND ASSESSMENT OF MEASURED PHYSIOLOGICAL VARIABLES, IN CLASS 9 (U.S. CLS. 21, 23, 26, 36 AND 38).

FIRST USE 10-23-2011; IN COMMERCE 10-23-2011.

FOR: OPTICAL COHERENCE COMPUTED TOMOGRAPHY APPARATUS FOR MEDICAL IMAGING INCORPORATING COMPUTER DISPLAYS AND COMPUTER MONITORS AND CONTROLLERS THEREFOR USED DURING MEDICAL IMAGING OF AN INDIVIDUAL; COMPUTER MONITORS USED IN DIRECT ASSOCIATION WITH MEDICAL DIAGNOSTIC APPARATUS FOR USE IN MEDICAL DIAGNOSTICS AND ASSOCIATED SOFTWARE FOR ANALYZING MEDICAL DIAGNOSTIC DATA, ALL SOLD AS A UNIT, IN CLASS 10 (U.S. CLS. 26, 39 AND 44).

FIRST USE 10-23-2011; IN COMMERCE 10-23-2011.

THE MARK CONSISTS OF STANDARD CHARACTERS WITHOUT CLAIM TO ANY PARTICULAR FONT, STYLE, SIZE, OR COLOR.

OWNER OF U.S. REG. NO. 4,258,470.

SN 86-060,607, FILED 9-10-2013.

ELLEN BURNS, EXAMINING ATTORNEY

Michelle K. Lee

Deputy Director of the United States Patent and Trademark Office

REQUIREMENTS TO MAINTAIN YOUR FEDERAL TRADEMARK REGISTRATION

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Second Filing Deadline: You must file a Declaration of Use (or Excusable Nonuse) **and** an Application for Renewal between the 9th and 10th years after the registration date.* *See* 15 U.S.C. §1059.

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OCT Anatomical Assessment

Know How to Treat

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Mark: ILUMIEN OPTIS

ILUMIEN OPTIS

US Serial Number: 86060599 **Application Filing Date:** Sep. 10, 2013

US Registration Number: 4577531 **Registration Date:** Jul. 29, 2014

Register: Principal

Mark Type: Trademark

Status: Registered. The registration date is used to determine when post-registration maintenance documents are due.

Status Date: Jul. 29, 2014

Publication Date: Feb. 11, 2014 **Notice of Allowance Date:** Apr. 08, 2014

Mark Information

Mark Literal Elements: ILUMIEN OPTIS

Standard Character Claim: Yes. The mark consists of standard characters without claim to any particular font style, size, or color.

Mark Drawing Type: 4 - STANDARD CHARACTER MARK

Related Properties Information

Claimed Ownership of US Registrations: 4258470, 4389443

Goods and Services

Note: The following symbols indicate that the registrant/owner has amended the goods/services:

- Brackets [..] indicate deleted goods/services;
- Double parenthesis ((..)) identify any goods/services not claimed in a Section 15 affidavit of incontestability; and
- Asterisks *..* identify additional (new) wording in the goods/services.

For: Optical coherence tomography software for medical imaging; computer software for use in medical diagnosis, namely, for use in measurement and assessment of measured physiological variables

International Class(es): 009 - Primary Class **U.S Class(es):** 021, 023, 026, 036, 038

Class Status: ACTIVE

Basis: 1(a)

First Use: Oct. 2012 **Use in Commerce:** Oct. 2012

For: Computer monitors used in direct association with medical diagnostic apparatus for use in medical diagnostics and associated software for analyzing medical diagnostic data, all sold as a unit

International Class(es): 010 - Primary Class **U.S Class(es):** 026, 039, 044

Class Status: ACTIVE

Basis: 1(a)

First Use: Oct. 2012 **Use in Commerce:** Oct. 2012

Basis Information (Case Level)

Filed Use:	No	**Currently Use:**	Yes	**Amended Use:**	No
Filed ITU:	Yes	**Currently ITU:**	No	**Amended ITU:**	No
Filed 44D:	No	**Currently 44D:**	No	**Amended 44D:**	No
Filed 44E:	No	**Currently 44E:**	No	**Amended 44E:**	No
Filed 66A:	No	**Currently 66A:**	No		
Filed No Basis:	No	**Currently No Basis:**	No		

Current Owner(s) Information

Owner Name: LightLab Imaging, Inc.

Owner Address: 4 Robbins Road
Westford, MASSACHUSETTS 01886
UNITED STATES

Legal Entity Type:	CORPORATION	**State or Country Where Organized:**	DELAWARE

Attorney/Correspondence Information

Attorney of Record

Attorney Name:	Hallie A. Finucane	**Docket Number:**	S16.22-0085
Attorney Primary Email Address:	hfinucane@wck.com	**Attorney Email Authorized:**	Yes

Correspondent

Correspondent Name/Address:	Hallie A. Finucane Westman, Champlin & Koehler, P.A. 900 Second Avenue South, Suite 1400 Minneapolis, MINNESOTA 55402 UNITED STATES

Phone:	6123343222	**Fax:**	6123343312
Correspondent e-mail:	hfinucane@wck.com	**Correspondent e-mail Authorized:**	Yes

Domestic Representative - Not Found

Prosecution History

Date	Description	Proceeding Number
Jul. 29, 2014	ATTORNEY REVOKED AND/OR APPOINTED	
Jul. 29, 2014	TEAS REVOKE/APPOINT ATTORNEY RECEIVED	
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Sep. 13, 2013	NEW APPLICATION ENTERED IN TRAM	

TM Staff and Location Information

TM Staff Information - None

File Location

Current Location:	PUBLICATION AND ISSUE SECTION	**Date in Location:**	Jun. 26, 2014

United States of America
United States Patent and Trademark Office

ILUMIEN OPTIS

Reg. No. 4,577,531
Registered July 29, 2014
Int. Cls.: 9 and 10

TRADEMARK

PRINCIPAL REGISTER

LIGHTLAB IMAGING, INC. (DELAWARE CORPORATION)
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FIRST USE 10-0-2012; IN COMMERCE 10-0-2012.

FOR: COMPUTER MONITORS USED IN DIRECT ASSOCIATION WITH MEDICAL DIAGNOSTIC APPARATUS FOR USE IN MEDICAL DIAGNOSTICS AND ASSOCIATED SOFTWARE FOR ANALYZING MEDICAL DIAGNOSTIC DATA, ALL SOLD AS A UNIT, IN CLASS 10 (U.S. CLS. 26, 39 AND 44).

FIRST USE 10-0-2012; IN COMMERCE 10-0-2012.

THE MARK CONSISTS OF STANDARD CHARACTERS WITHOUT CLAIM TO ANY PARTICULAR FONT, STYLE, SIZE, OR COLOR.

OWNER OF U.S. REG. NOS. 4,258,470 AND 4,389,443.

SN 86-060,599, FILED 9-10-2013.

ELLEN BURNS, EXAMINING ATTORNEY

UNITED STATES PATENT AND TRADEMARK OFFICE · DEPARTMENT OF COMMERCE

Michelle K. Lee

Deputy Director of the United States Patent and Trademark Office

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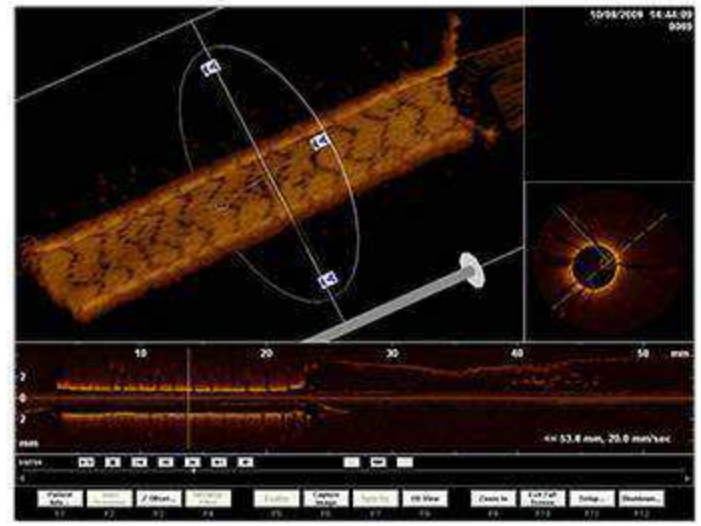
ILUMIEN™ OPTIS™ PCI Optimization™ System

Real-time data and views.
Optimal PCI.

The ILUMIEN OPTIS system combines proven FFR performance to identify culprit lesions for full functional revascularization and leading-edge intravascular OCT imaging technology to optimize stent implantation through superior visualization.[1]

1. Prati F, Regar E, Mintz GS, et al. Expert review document on methodology, terminology, and clinical applications of optical coherence tomography: Physical principles, methodology of image acquisition, and clinical application for assessment of coronary arteries and atherosclerosis. Eur Heart J. 2010;31(4):401-15.

Reimbursement | Product Manuals



5 frames/mm – Survey Mode

Overview | Evidence | Tech Specs | Indications, Safety & Warnings

Optimize your results

Wireless FFR

FFR-guided PCI using PressureWire guidewire is a cost-effective strategy that improves outcomes and quality of life compared to medical therapy alone.[2,3]

- 86% relative reduction in the risk for ACS requiring unplanned hospital readmission with urgent revascularization in patients with stable angina pectoris
- Greater relief of angina
- Cost-effectiveness – Incremental cost-effectiveness ratio of $32,000 per quality-adjusted life year (QALY)

5th Generation OCT

This state-of-the-art technology offers real-time 3D vessel reconstruction and stent planning tools for optimal PCI decision making.

- Real-time, comprehensive assessment with longer pullback to survey the vessel in 2 sec
- Lumen profile display with automated measurements for intuitive stent planning
- 3D and higher resolution for more precise complex lesion assessment
- Dragonfly Duo catheter with dual marker bands for fast, accurate alignment of the OCT pullback with the angiogram

Choice of two new pullback modes for comprehensive assessment