ILLUMINA INC
Form 10-Q
April 29, 2005

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

FORM 10-Q

þ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For Quarterly Period Ended **April 3, 2005**

o 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, CA	92121
(Address of principal executive offices)	(Zip Code)

(858) 202-4500

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

Indicate by check mark whether the registrant is an accelerated filer (as defined by Rule 12b-2 of the Exchange Act).

Yes þ No o

Indicate the number of shares outstanding of each of issuer s classes of common stock, as of the latest practicable date.

Class	Outstanding at April 3, 2005
Common Stock, $0.01 par value	38,593,874 Shares

ILLUMINA, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ILLUMINA, INC.

Condensed Consolidated Balance Sheets

	April 3, 2005 (unaudited)	January 2, 2005 (Note)
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 52,953	$ 54,789
Investments, available for sale	9,108	
Restricted cash and investments		12,205
Accounts receivable, net	11,755	11,891
Inventory, net	4,979	3,807
Prepaid expenses and other current assets	1,618	999
Total current assets	80,413	83,691
Property and equipment, net	10,831	8,574
Intangible and other assets, net	2,536	2,642
Total assets	$ 93,780	$ 94,907
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 15,585	$ 13,091
Litigation judgment		5,957
Total current liabilities	15,585	19,048
Deferred gain on sale of land and building	3,124	3,218
Other long-term liabilities	2,649	379
Commitments and contingencies		
Stockholders equity	72,422	72,262
Total liabilities and stockholders equity	$ 93,780	$ 94,907

Note: The Balance Sheet at January 2, 2005 has been derived from the audited financial statements as of that date.

See accompanying notes.

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ILLUMINA, INC.

Condensed Consolidated Statements of Operations
(Unaudited)

	Three months ended	
	April 3, 2005	March 28, 2004
	(In thousands, except per share amounts)	
Revenue		
Product revenue	$ 12,165	$ 8,939
Service revenue	2,691	1,150
Research revenue	292	714
Total revenue	15,148	10,803
Costs and expenses:		
Cost of product revenue	3,937	2,562
Cost of service revenue	662	240
Research and development	5,878	5,176
Selling, general and administrative	5,993	5,738
Amortization of deferred compensation and other stock-based compensation charges	57	318
Litigation judgment		189
Total costs and expenses	16,527	14,223
Loss from operations	(1,379)	(3,420)
Interest and other income (expense), net	144	(511)
Net loss	$ (1,235)	$ (3,931)
Net loss per share, basic and diluted	$ (0.03)	$ (0.12)
Shares used in calculating net loss per share, basic and diluted	38,347	32,549
The composition of stock-based compensation is as follows:		
Research and development	$ 15	$ 139
Selling, general and administrative	42	179
	$ 57	$ 318

See accompanying notes.

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ILLUMINA, INC.

Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Three months ended	
	April 3, 2005	March 28, 2004
	(In thousands)	
Operating activities:		
Net loss	$ (1,235)	$ (3,931)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	811	1,073
Loss on disposal of property and equipment	71	
Amortization of premium on investments	(14)	281
Amortization of deferred compensation and other stock-based compensation charges	57	318
Amortization of gain on sale of land and building	(94)	
Changes in operating assets and liabilities:		
Accounts receivable	(41)	(4,246)
Inventory	(1,172)	(129)
Prepaid expenses and other current assets	(623)	220
Other assets		(126)
Accounts payable and accrued liabilities	2,541	1,641
Accrued litigation judgment	(5,957)	189
Other long term liabilities	2,331	
Net cash used in operating activities	(3,325)	(4,710)
Investing activities:		
Purchases of available-for-sale securities		(6,310)
Sales and maturities of available for sale securities	3,133	7,568
Purchase of property and equipment	(3,060)	(727)
Net cash provided by investing activities	73	531
Financing activities:		
Payments on long-term debt		(105)
Payments on equipment financing		(78)
Proceeds from issuance of common stock	1,284	674
Net cash provided by financing activities	1,284	491
Effect of foreign currency translation on cash and cash equivalents	132	(37)
Net decrease in cash and cash equivalents	(1,836)	(3,725)
Cash and cash equivalents at beginning of period	54,789	12,465

Cash and cash equivalents at end of period	$ 52,953	$ 8,740

See accompanying notes.

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ILLUMINA, INC.

Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Summary of Significant Accounting Principles

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation. In management s opinion, the accompanying financial statements reflect all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation of the results for the interim periods presented.

Interim financial results are not necessarily indicative of results anticipated for the full year. These unaudited financial statements should be read in conjunction with the Company s 2004 audited financial statements and footnotes included in the Company s Annual Report on Form 10-K.

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.

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 quarters ended April 3, 2005 and March 28, 2004 are both 13 weeks.

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 was 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 was earned at the time the related costs were incurred while the remainder of the revenue was 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

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ILLUMINA, INC.
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revenues are recognized net of applicable allowances for returns or discounts.

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ILLUMINA, INC.
Notes to Condensed Consolidated Financial Statements (continued)
(Unaudited)

Cash, Cash Equivalents & Investments

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

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.

As of January 2, 2005, restricted cash and investments primarily consist of corporate debt securities that are used as collateral against a letter of credit (see Note 8).

Stock-Based Compensation

At April 3, 2005, the Company has three stock-based employee and non-employee director compensation plans, which are described more fully in the Company s 2004 Annual Report on Form 10-K. 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 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:

	Three Months Ended	
	April 3, 2005	March 28, 2004
Weighted average risk-free interest rate	3.88%	2.99%
Expected dividend yield	0%	0%
Weighted average volatility	91%	98%
Estimated life (in years)	5	5
Weighted average fair value of options granted	$ 6.29	$ 5.96

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):

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ILLUMINA, INC.
Notes to Condensed Consolidated Financial Statements (continued)
(Unaudited)

	Three Months Ended	
	April 3, 2005	March 28, 2004
Net loss as reported	$ (1,235)	$ (3,931)
Add: Stock-based compensation expense recorded	57	318
Less: Assumed stock compensation expense	(2,261)	(2,340)
Pro forma net loss	$ (3,439)	$ (5,953)
Basic and Diluted net loss per share:		
As reported	$ (0.03)	$ (0.12)
Pro forma	$ (0.09)	$ (0.18)

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 fiscal years beginning after June 15, 2005, and the Company expects to adopt SFAS 123R on January 2, 2006.

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 loss 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.

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 diluted net loss per share is computed

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(Unaudited)

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.

	Three months ended	
	April 3, 2005	March 28, 2004
	(In thousands)	
Weighted-average shares outstanding	38,418	33,059
Less: Weighted-average shares of common stock subject to repurchase	(71)	(510)
Weighted-average shares used in calculating net loss per share, basic and diluted	38,347	32,549

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 6,961,756 and 5,809,649 for the three months ended April 3, 2005 and March 28, 2004, respectively.

Comprehensive Income (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 components of other comprehensive income (loss) are as follows (in thousands):

	April 3, 2005	January 2, 2005
	(In thousands)	
Net loss	$ (1,235)	$ (3,931)
Foreign currency translation adjustments	31	44
Unrealized gain on available-for-sale securities	22	225
Other comprehensive loss	$ (1,182)	$ (3,662)

2. Segment Information

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.

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

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(Unaudited)

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 April 3, 2005 was $2.7 million. These contracts had a fair value of approximately $70,000. For the three months ended April 3, 2005, there were no amounts recognized in earnings due to hedge ineffectiveness and the Company settled foreign exchange contracts of $1.7 million. The Company did not hold any derivative financial instruments prior to July 2004.

4. 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. The components of net inventories are as follows:

	April 3, 2005	January 2, 2005
	(In thousands)	
Raw materials	$ 2,012	$ 1,487
Work in process	2,587	1,714
Finished goods	380	606
	$ 4,979	$ 3,807

5. 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 $0.8 million and the Company has amortized $0.6 million through April 3, 2005.

6. 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 warranty liability during the three months ended April 3, 2005 are as follows (in thousands):

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ILLUMINA, INC.
Notes to Condensed Consolidated Financial Statements (continued)
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Balance at January 2, 2005	$ 386
Additions charged to cost of revenue	96
Repairs and replacements	(235)
Balance at April 3, 2005	$ 247

7. Commitments and Long-Term Debt

Building Loan

In July 2000, the Company entered into a ten 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, ten 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 $0.5 million for the three months ended March 28, 2004.

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*.

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 records rent expense on a straight-line basis and the resulting deferred rent is included in other long-term liabilities in the accompanying condensed consolidated balance sheet. 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.

8. Legal Proceedings

The Company has incurred substantial costs in defending itself against legal claims made against it, 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 three months ended March 28, 2004, the Company recorded litigation expense of $189,000 for such interest charges. 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 in the fourth quarter of fiscal 2004.

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Notes to Condensed Consolidated Financial Statements (continued)
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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 $11.3 million. Under the terms of the bond, the Company was required to maintain a letter of credit for 90% of the bond amount to secure the bond. Further, the Company was required to deposit $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 of $5.9 million was made in January 2005 at which time the restricted funds, which were recorded as restricted investments, were released.

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.

9. Collaborative Agreements

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 received $9.1 million of funding for this project which covered basic research activities, the development of SNP assays and the genotyping performed on those assays. As of April 3, 2005, the Company received all funds related to this project.

Invitrogen Corporation

In December 2004, the Company entered into a strategic collaboration with Invitrogen Corporation. The collaboration is expected to expand the Company s OligatorÔ 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, of which $2.3 million has been paid and is included in other long-term liabilities in the accompanying condensed consolidated balance sheet as of April 3, 2005. The Company is using these funds 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.

10. Subsequent Events

On April 8, 2005, the Company completed the acquisition of CyVera Corporation (CyVera), a privately-held Connecticut-based company, pursuant to which CyVera became a wholly-owned subsidiary of the Company. The Company believes CyVera s technology is highly complementary to its portfolio of products and services and

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Notes to Condensed Consolidated Financial Statements (continued)
(Unaudited)

will become an integral part of the Company s technology. The aggregate consideration paid for the transaction was $17.5 million, consisting of approximately 1.6 million shares of the Company s common stock and the payment of $2.3 million of CyVera s liabilities at the closing. The Company expects the first products based on CyVera s technology to be available in the second half of 2006. The Company has not yet finalized the accounting for the acquisition, but it currently expects that a significant portion of the purchase price will be allocated to in-process research and development which will be charged against earnings in the second quarter of 2005.

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ILLUMINA, INC.
Management s Discussion and Analysis of Financial
Condition and Results of Operations

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

This discussion and analysis should be read in conjunction with our financial statements and accompanying notes included in this report and the financial statements and notes thereto for the year ended January 2, 2005 included in the Company s Annual Report on Form 10-K. Operating results are not necessarily indicative of results that may occur in future periods.

The following discussion and analysis may contain forward-looking statements that involve risk and uncertainties, such as statements of our plans, objectives, expectations and intentions. The cautionary statements made in this discussion and analysis should be read as applying to all related forward-looking statements wherever they appear in this Quarterly Report on Form 10-Q. 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 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 based on the system we developed that has been operational in our genotyping service product line since 2001. In addition to our SentrixÔ 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 GoldenGateÔ 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 April 3, 2005, we have installed and recorded revenue for ten 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 April 3, 2005, we have shipped 55 BeadStations.

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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 are expanding 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, DASLÔ, 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.

On April 8, 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 is highly complementary to our portfolio of products and services and 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 was $17.5 million, consisting of approximately 1.6 million shares of Illumina common stock and the payment of $2.3 million of CyVera s liabilities at the closing. We expect the first products based on CyVera s technology to be available in the second half of 2006. We have not yet finalized the accounting for the acquisition, but we currently expect that a significant portion of the purchase price will be allocated to in-process research and development which will be charged against earnings in the second quarter of 2005.

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.

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 ended January 2, 2005 and approximately 16% of our revenues for the quarter ended April 3, 2005 resulted from transactions that were funded under the International HapMap Project. We believe virtually all of the activities under this grant involving the Company and its customers were completed in early 2005. We expect that the planned commercial launch of our whole genome genotyping arrays and our recently launched whole genome 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

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.

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We have incurred substantial operating losses since our inception. As of April 3, 2005, our accumulated deficit was $124.9 million, and total stockholders equity was $72.4 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 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 profitability.

Results of Operations

To enhance comparability, the following table sets forth unaudited Condensed Consolidated Statements of Operations for the three months ended April 3, 2005 and March 28, 2004 stated as a percentage of total revenue.

	Three months ended	
	April 3, 2005	**March 28, 2004**
Revenue		
Product revenue	80%	83%
Service revenue	18	11
Research revenue	2	6
Total revenue	100	100
Costs and expenses:		
Cost of product revenue	26	24
Cost of service revenue	4	2
Research and development	39	48
Selling, general and administrative	40	53
Amortization of deferred compensation and other stock-based compensation charges		3
Litigation judgment		2
Total costs and expenses	109	132
Loss from operations	(9)	(32)
Interest income (expense), net	1	(4)
Net loss	(8)%	(36)%

Three Months Ended April 3, 2005 and March 28, 2004

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 quarters ended April 3, 2005 and March 28, 2004 are both 13 weeks.

Revenue

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	Three months ended		
	April 3, 2005	March 28, 2004	Change
	(in thousands)		
Product revenue	$ 12,165	$ 8,939	$ 3,226
Service revenue	2,691	1,150	1,541
Research revenue	292	714	(422)
Total revenue	$ 15,148	$ 10,803	$ 4,345

Revenue for the three months ended April 3, 2005 was $15.1 million, increasing $4.3 million from $10.8 million in the three month period ended March 28, 2004.

Product revenue increased to $12.2 million for the three months ended April 3, 2005 from $8.9 million for the three months ended March 28, 2004. The increase resulted primarily from sales of our BeadStation benchtop genotyping systems. In addition, sales of consumables used with our BeadStation and BeadLab systems, as well as sales of oligonucleotides each increased slightly in the three months ended April 3, 2005 as compared to the three months ended March 28, 2004.

Service revenue increased to $2.7 million for the three months ended April 3, 2005 from $1.2 million for the three months ended March 28, 2004, due primarily to a higher level of third party SNP genotyping service contracts completed during the 2005 period, as well as increased revenue related to the International HapMap Project. We completed all revenue generating genotyping services for the International HapMap Project in early 2005. We expect sales from third party SNP genotyping services contracts to fluctuate from quarter to quarter, depending on the mix and number of contracts that are completed during the quarter. The timing of completion of a SNP genotyping services contract is highly dependent on the customer s schedule for delivering the SNP s and samples to us.

Government grants and other research funding decreased to $0.3 million for the three months ended April 3, 2005 from $0.7 million for the three months ended March 28, 2004, due to a decrease in internal research spending for our grants from the National Institutes of Health. We expect government grants to remain a small percentage of total revenues in the future.

Cost of Product and Service Revenue

	Three months ended		
	April 3, 2005	March 28, 2004	Change
	(in thousands)		
Cost of product revenue	$ 3,937	$ 2,562	$ 1,375
Cost of service revenue	662	240	422

Total cost of product and service revenue	$ 4,599	$ 2,802	$ 1,797

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 $3.9 million for the three months ended April 3, 2005 from $2.6 million for the three months ended March 28, 2004 driven by higher sales. Gross margin on product revenue decreased to 68% for the three months ended April 3, 2005, from 71% for the three months ended March 28, 2004, due primarily to a higher mix of BeadStation sales and lower average pricing for oligos, as compared to the prior year.

Cost of service revenue increased to $0.6 million for the three months ended April 3, 2005 from $0.2 million for the three months ended March 28, 2004 due to higher service revenues. Gross margin on service revenues fell slightly to 75% for the three months ended April 3, 2005, from 79% for the three months ended March

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28, 2004 due to the mix of projects completed this quarter and higher extended service contract sales which have lower margins than our genotyping service projects.

We expect our market will become increasingly price competitive, and over the longer term, our margins will fluctuate between the high 60% and low 70% range.

Research and Development

	Three months ended		
	April 3, 2005	March 28, 2004	Change
	(in thousands)		
Research and development	$ 5,878	$ 5,176	$ 702

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 costs as they are incurred. Research and development expenses increased to $5.9 million from $5.2 million for the three months ended April 3, 2005 and March 28, 2004, respectively.

The cost of BeadArray research activities increased $1.0 million for the three months ended April 3, 2005 as compared to the three months ended March 28, 2004. The increase occurred primarily as a result of rent expense from the lease of our building allocated to research and development. In August of 2004 we sold our land and buildings and leased back such property for an initial term of ten years. Research to support our Oligator technology platform decreased $0.3 million for the three months ended April 3, 2005 as compared to the three months ended March 28, 2004 primarily due to a higher absorption of related overhead expenses to cost of revenue offset by an increase in rent expense. We expect that our research and development expenses will increase in the near term due to increased spending levels for new product development. In addition, we expect an increase in research and development expenses in connection with our acquisition of CyVera Corporation which closed in April 2005.

Stock based compensation related to research and development employees and consultants was approximately $15,000 for the three months ended April 3, 2005 as compared to approximately $139,000 for the three months ended March 28, 2004.

Selling, General and Administrative

	Three months ended		
	April 3, 2005	March 28, 2004	Change
	(in thousands)		
Selling, general and administrative	$ 5,993	$ 5,738	$ 255

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 $0.3 million to $6.0 million for the three months ended April 3, 2005 from $5.7 million for the three months ended March 28, 2004. Our sales and marketing expense increased $1.1 million, of which $0.7 million is attributable to personnel related expenses, and $0.2 million is attributable to an increase in facility related expenses. General and administrative expenses decreased by $0.8 million in the three months ended April 3, 2005 as compared to the three

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months ended March 28, 2004 due to a $1.2 million decrease in outside legal costs, which was partially offset by a $0.3 million increase in personnel related expenses.

We expect that our selling, general and administrative expenses will increase 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, as well as higher facility costs.

Stock based compensation related to selling, general and administrative employees, directors and consultants was approximately $42,000 for the three months ended April 3, 2005 as compared to approximately $179,000 for the three months ended March 28, 2004.

Amortization of Deferred Compensation and Other Stock-Based Compensation Charges

	Three months ended		
	April 3, 2005	March 28, 2004	Change
	(in thousands)		
Amortization of deferred compensation and other stock-based compensation charges	$ 57	$ 318	$ (261)

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 approximately $57,000 for the three months ended April 3, 2005 and approximately $318,000 for the three months ended March 28, 2004. We expect expenses related to stock based compensation to increase significantly beginning in 2006 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 Note 1 to our condensed consolidated financial statements.

Litigation Judgment

	Three months ended		
	April 3, 2005	March 28, 2004	Change
		(in thousands)	
Litigation judgment	$	$ 189	$ (189)

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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 three months ended March 28, 2004 we recorded $189,000 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.

Interest and Other Income (Expense), net

	Three months ended		
	April 3, 2005	March 28, 2004	Change
	(in thousands)		
Interest and other income (expense), net	$ 144	$ (511)	$ 655

Interest income on our cash and cash equivalents and investments was $0.3 million for the three months ended April 3, 2005 as compared to $35,000 for the three months ended March 28, 2004. The increase is due to higher effective interest rates.

Interest expense was approximately $2,000 for the three months ended April 3, 2005 as compared to $0.5 million for the three months ended March 28, 2004. Interest expense in the 2004 period 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 three months ended April 3, 2005, we recorded approximately $42,000 in losses due to foreign currency transactions as compared to approximately $31,000 in gains for the three months ended March 28, 2004. We also recorded approximately $71,000 in losses on disposals of equipment in the three months ended April 3, 2005; we had no losses on disposals of equipment in the three months ended March 28, 2004. Estimated foreign income taxes were approximately $51,000 and $34,000 for the three months ended April 3, 2005 and March 28, 2004, respectively.

Liquidity and Capital Resources

As of April 3, 2005, we had cash, cash equivalents and investments of $62.1 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 $3.3 million in the three months ended April 3, 2005, as compared to $4.7 million in the three months ended March 28, 2004. Net cash used in operating activities in the three months ended April 3, 2005 was primarily the result of a net loss from operations of $1.2 million, a $5.9 million payment for a litigation judgment and a $1.2 million increase in inventory, reduced by a $2.5 million increase in accounts payable, accrued liabilities and other liabilities, a $2.3 million increase in long term liabilities primarily related to payments received from Invitrogen Corporation recorded as deferred revenue and non-cash charges of $0.8 million for

depreciation and amortization. Net cash used in operating activities in the three months ended March 28, 2004 was primarily the result of a net loss from operations of $3.9 million and a $4.2 million increase in accounts receivable, reduced by a $1.6 million increase in accounts payable, accrued liabilities and other liabilities and non-cash charges of $1.1 million for depreciation and amortization.

Our investing activities provided cash of approximately $73,000 in the three months ended April 3, 2005 as compared to $0.5 million in the three months ended March 28, 2004. Cash provided in investing activities in the

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three months ended April 3, 2005 was due to $3.1 million from the sale or maturity of investment securities used to provide operating funds for our business, reduced by $3.1 million for the purchase of property and equipment. Cash provided in investing activities in the three months ended March 28, 2004 was due primarily to $1.2 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 $0.7 million for the purchase of property and equipment.

Our financing activities provided $1.3 million in the three months ended April 3, 2005 as compared to $0.5 million in the three months ended March 28, 2004. Cash provided in financing activities in the three months ended April 3, 2005 was due primarily to proceeds from the issuance of common stock. Cash provided in financing activities in the three months ended March 28, 2004 was primarily due to proceeds from the issuance of common stock reduced by payments on long-term debt and equipment financings.

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 acquisition of CyVera, 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 $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.

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 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.

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.

We believe the following critical accounting policies reflect our more significant estimates and assumptions used in the preparation of the consolidated financial statements.

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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 were 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 products under warranty 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.

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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.

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-Q, 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

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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.

We may encounter difficulties in integrating future acquisitions and that could adversely affect our business.

We have recently 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 controls, 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 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 through most of 2005. At April 3, 2005 our accumulated deficit was $124.9 million, and we incurred a net loss of $1.2 million for the three months ended April 3, 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

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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.

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

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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.

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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 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 April 3, 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, as we announced in October 2004, Timothy Kish, our chief financial

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officer, has resigned from Illumina, effective April 29, 2005. On April 27, 2005, we announced Christian Henry had accepted our employment offer for the chief financial officer position, and is expected to start in early June. 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 64% of our revenues for the three months ended April 3, 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

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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 and 16% of revenues for the first quarter of 2005 resulted from transactions that were funded under the International HapMap Project. We believe virtually all of the activities under this grant involving the Company and its customers were 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 arrays and our recently launched whole genome gene expression arrays, combined with the continued expansion of our existing product lines, any significant delays in the commercial launch 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 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 3. 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 April 3, 2005 was $2.7 million. These contracts had a fair value of approximately $70,000, representing an unrealized loss, and were included in other current liabilities at April 3, 2005. As of April 3, 2005, all contracts were set to expire at various times through July 2005 and are with reputable bank institutions. For the three months ended April 3, 2005, there were no amounts

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recognized in earnings due to hedge ineffectiveness and we settled foreign exchange contracts of $1.7 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 4. 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 April 3, 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 first quarter of 2005.

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PART II OTHER INFORMATION

Item 1. 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. In January 2005, we paid the $5.9 million and removed the liability from our balance sheet.

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 2. Unregistered Sales of Equity Securities and 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 April 3, 2005, we have used $22.5 million to purchase property, plant and equipment and $46.3 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 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits

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Exhibit Number	Description of Document
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.

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SIGNATURES

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

Illumina, Inc.

(Registrant)

Date: April 29, 2005

/s/ Timothy Kish

Timothy Kish
Vice President and Chief Financial Officer