FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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ILLUMINA INC

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

FORM 10-Q

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

For Quarterly Period Ended July 2, 2006

☐ **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 R No £

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

Large accelerated filer R Accelerated filer £ Non-accelerated filer £

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes £ No R

As of July 14, 2006, there were 45,952,517 shares of the Registrant' s Common Stock outstanding.

ILLUMINA, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Illumina, Inc.

Condensed Consolidated Balance Sheets
(In thousands)

	July 2, 2006 (unaudited)	January 1, 2006 (1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 152,250	$ 50,822
Short-term investments	4,511	–
Accounts receivable, net	23,100	17,620
Inventory, net	17,324	10,309
Prepaid expenses and other current assets	2,153	959
Total current assets	199,338	79,710
Property and equipment, net	22,728	16,131
Goodwill	2,125	2,125
Intangible and other assets, net	6,760	2,644
Total assets	$ 230,951	$ 100,610
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 34,757	$ 21,600
Current portion of long-term debt	114	118
Total current liabilities	34,871	21,718
Long-term debt, less current portion	–	54
Deferred gain on sale of land and building	2,656	2,843
Other long-term liabilities	6,756	3,498
Commitments and contingencies		
Stockholders' equity	186,668	72,497
Total liabilities and stockholders' equity	$ 230,951	$ 100,610

(1) The Condensed Consolidated Balance Sheet at January 1, 2006 has been derived from the audited financial statements as of that date.

See accompanying notes to the condensed consolidated financial statements.

Illumina, Inc.

Condensed Consolidated Statements of Operations
(Unaudited)
(In thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	July 2, 2006	July 3, 2005	July 2, 2006	July 3, 2005
Revenue:				
Product revenue	$ 36,403	$ 12,636	$ 59,664	$ 24,801
Service and other revenue	4,795	2,783	10,062	5,474
Research revenue	379	405	953	697
Total revenue	41,577	15,824	70,679	30,972
Costs and expenses:				
Cost of product revenue (including non-cash stock compensation expense of $300, $0, $498 and $0, respectively)	11,912	4,033	19,588	7,970
Cost of service and other revenue (including non-cash stock compensation expense of $50, $0, $102 and $0, respectively)	1,664	701	3,281	1,363
Research and development (including non-cash stock compensation expense of $878, $17, $1,836 and $32, respectively)	8,587	7,318	16,803	13,211
Selling, general and administrative (including non-cash stock compensation expense of $2,099, $24, $4,022 and $66, respectively)	12,891	6,518	25,025	12,553
Acquired in-process research and development	–	15,800	–	15,800
Total costs and expenses	35,054	34,370	64,697	50,897
Income (loss) from operations	6,523	(18,546)	5,982	(19,925)
Interest and other income, net	856	58	1,424	253
Income (loss) before income taxes	7,379	(18,488)	7,406	(19,672)
Provision for income taxes	611	51	742	102
Net income (loss)	$ 6,768	$ (18,539)	$ 6,664	$ (19,774)
Net income (loss) per basic share	$ 0.16	$ (0.46)	$ 0.16	$ (0.50)
Net income (loss) per diluted share	$ 0.14	$ (0.46)	$ 0.14	$ (0.50)
Shares used in calculating basic net income (loss) per share	43,528	40,187	42,502	39,267
Shares used in calculating diluted net income (loss) per share	47,330	40,187	46,252	39,267

See accompanying notes to the condensed consolidated financial statements.

Illumina, Inc.

Condensed Consolidated Statements of Cash Flows
(Unaudited)
(In thousands)

	Six Months Ended	
	July 2, 2006	July 3, 2005
Operating activities:		
Net income (loss)	$ 6,664	$ (19,774)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Acquired in-process research and development	–	15,800
Depreciation and amortization	2,559	1,669
Loss on disposal of property and equipment	20	71
Amortization of premium on investments	–	(14)
Stock-based compensation expense	6,458	98
Amortization of gain on sale of land and building	(187)	(187)
Changes in operating assets and liabilities:		
Accounts receivable	(5,031)	(742)
Inventory	(7,991)	(1,349)
Prepaid expenses and other current assets	(1,229)	231
Other assets	145	–
Accounts payable and accrued liabilities	12,645	524
Accrued litigation judgment	–	(5,957)
Other long-term liabilities	3,210	2,436
Net cash provided by (used in) operating activities	17,263	(7,194)
Investing activities:		
Cash paid for acquisition, net of cash acquired	–	(2,388)
Investment in secured convertible debentures	(3,036)	–
Purchases of available-for-sale securities	(4,529)	–
Sales and maturities of available-for-sale securities	–	12,248
Purchases of property and equipment	(9,149)	(6,232)
Cash paid for intangible assets	(15)	–
Net cash provided by (used in) investing activities	(16,729)	3,628
Financing activities:		
Payments on long-term debt	(58)	(27)
Proceeds from issuance of common stock	101,088	2,935
Net cash provided by financing activities	101,030	2,908
Effect of foreign currency translation on cash and cash equivalents	(136)	435
Net increase (decrease) in cash and cash equivalents	101,428	(223)
Cash and cash equivalents at beginning of period	50,822	54,789
Cash and cash equivalents at end of period	$ 152,250	$ 54,566

See accompanying notes to the condensed consolidated financial statements.

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 U.S. generally accepted accounting principles 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 U.S. 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 2005 audited financial statements and footnotes included in the Company' s Annual Report on Form 10-K for the year ended January 1, 2006, as filed with the Securities and Exchange Commission (SEC) on March 6, 2006.

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 consists of 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 and six months ended July 2, 2006 and July 3, 2005 were both 13 and 26 weeks, respectively.

Reclassifications

Certain prior period amounts have been reclassified to conform to current period presentation.

Revenue Recognition

The Company' s revenue is generated primarily from the sale of products and services. Product revenue consists of sales of arrays, reagents, instrumentation and oligos. Service and other revenue consists of revenue received for performing genotyping services, extended warranty sales and revenue earned from milestone payments.

The Company recognizes revenue in accordance with the guidelines established by SEC Staff Accounting Bulletin (SAB) No. 104. Under SAB No. 104, revenue cannot be recorded until all of the following criteria have been met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; the seller' s price to the buyer is fixed or determinable; and collectibility is reasonably assured. All revenue is recorded net of any applicable allowances for returns or discounts.

Revenue for product sales is recognized generally upon shipment and transfer of title to the customer, provided no significant obligations remain and collection of the receivables is reasonably assured. Revenue from the sale of instrumentation is recognized when earned, which is generally upon shipment. However, in the case of BeadLabs, revenue is recognized upon the completion of installation, training and customer acceptance. Revenue for genotyping services is recognized when earned, which is generally at the time the genotyping analysis data is delivered to the customer or as specific milestones are achieved.

In order to assess whether the price is fixed and determinable, the Company ensures there are no refund rights. If payment terms are based on future performance, the Company defers revenue recognition until the price becomes fixed and determinable. The Company assesses collectibility based on a number of factors, including past transaction history with the customer and the creditworthiness of the customer. If the Company determines that collection of a payment is not reasonably assured, revenue

recognition is deferred until the time collection becomes reasonably assured, which is generally upon receipt of payment. Changes in judgments and estimates regarding application of SAB No. 104 might result in a change in the timing or amount of revenue recognized.

Sales of instrumentation generally include a standard one-year warranty. The Company also sells separately priced maintenance (extended warranty) contracts, which are generally for one or two years, upon the expiration of the initial warranty. Revenue for extended warranty sales is recognized ratably over the term of the extended warranty period. Reserves are provided for estimated product warranty expenses at the time the associated revenue is recognized. If the Company were to experience an increase in warranty claims or if costs of servicing its products under warranty were greater than its estimates, gross margins could be adversely affected.

While the majority of its sales agreements contain standard terms and conditions, the Company does enter into agreements that contain multiple elements or non-standard terms and conditions. Emerging Issues Task Force (EITF) No. 00-21, *Revenue Arrangements with Multiple Deliverables,* provides guidance on accounting for arrangements that involve the delivery or performance of multiple products, services, or rights to use assets within contractually binding arrangements. Significant contract interpretation is sometimes required to determine the appropriate accounting, including whether the deliverables specified in a multiple element arrangement should be treated as separate units of accounting for revenue recognition purposes, and if so, how the price should be allocated among the deliverable elements, when to recognize revenue for each element, and the period over which revenue should be recognized. The Company recognizes revenue for delivered elements only when it determines that the fair values of undelivered elements are known and there are no uncertainties regarding customer acceptance.

Some of the Company' s agreements contain multiple elements that include milestone payments. Revenue from a milestone achievement is recognized when earned, as evidenced by acknowledgement from the Company' s collaborator, provided that (i) the milestone event is substantive and its achievability was not reasonably assured at the inception of the agreement, (ii) the milestone represents the culmination of an earnings process, (iii) the milestone payment is non-refundable and (iv) the performance obligations for both the Company and its collaborators after the milestone achievement will continue at a level comparable to the level before the milestone achievement. If all of these criteria are not met, the milestone achievement is recognized over the remaining minimum period of the Company' s performance obligations under the agreement. The Company defers non-refundable upfront fees received under its collaborations and recognizes them over the period the related services are provided or over the estimated collaboration term using various factors specific to the collaboration. Advance payments received in excess of amounts earned are classified as deferred revenue until earned.

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.

Cash and Cash Equivalents

Cash and cash equivalents are comprised of short-term, highly liquid investments primarily consisting of money market-type funds.

Investments

The Company applies Statement of Financial Accounting Standards (SFAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, to its investments. Under SFAS No. 115, the Company classifies its investments as "available-for-sale" and records such assets at estimated fair value in the balance sheet, with unrealized gains and losses, if any, reported in stockholders' equity. The Company invests 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.

Stock-Based Compensation

On January 2, 2006, the Company adopted SFAS No. 123 (revised 2004), *Share-Based Payment*, which addresses the accounting for stock-based payment transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise' s equity instruments or that may be settled by the issuance of such equity instruments. In January 2005, the SEC issued SAB No. 107, which provides supplemental implementation guidance for SFAS No. 123R. SFAS No. 123R eliminates the ability to account for stock-based compensation transactions using the intrinsic value

method under Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and instead generally requires that such transactions be accounted for using a fair-value-based method. The Company uses the Black-Scholes-Merton option-pricing model to determine the fair-value of stock-based awards under SFAS No. 123R, consistent with that used for pro forma disclosures under SFAS No. 123, *Accounting for Stock-Based Compensation*, in prior periods. The Company has elected to use the modified prospective transition method as permitted by SFAS No. 123R and, accordingly, prior periods have not been restated to reflect the impact of SFAS No. 123R. The modified prospective transition method requires that stock-based compensation expense be recorded for all new and unvested stock options, restricted stock and employee stock purchase plan (ESPP) shares that are ultimately expected to vest as the requisite service is rendered. Stock-based compensation expense for awards granted prior to January 2, 2006 is based on the grant date fair-value as determined under APB No. 25. For the three and six months ended July 2, 2006, the Company has recorded an incremental $3.3 million and $6.5 million, respectively, of stock-based compensation expense as a result of the adoption of SFAS No. 123R. Net income per diluted share was reduced by $0.07 and $0.14, respectively, for the three and six months ended July 2, 2006 as a result of the adoption of SFAS No. 123R. Stock-based compensation expense capitalized as part of inventory as of July 2, 2006 was approximately $0.1 million. As of July 2, 2006, approximately $32.3 million of total unrecognized compensation cost related to stock options, restricted stock and ESPP shares are expected to be recognized over a weighted-average period of approximately two years.

Prior to the adoption of SFAS No. 123R, the Company measured compensation expense for its employee stock-based compensation plans using the intrinsic value method prescribed by APB Opinion No. 25. The Company applied the disclosure provisions of SFAS No. 123, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation − Transition and Disclosure*, as if the fair-value-based method had been applied in measuring stock-based compensation expense. Under APB Opinion No. 25, when the exercise price of the Company' s employee stock options was not less than the market price of the underlying stock on the date of the grant, no compensation expense was recognized.

The following table illustrates the effect on net loss and basic and diluted net loss per share as if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based compensation during the specified reporting periods (in thousands, except per share amounts):

	Three Months Ended July 3, 2005	Six Months Ended July 3, 2005
Net loss as reported	$ (18,539)	$ (19,774)
Add: Stock-based compensation expense recorded	41	98
Less: Assumed stock-based compensation expense	(1,641)	(4,041)
Pro forma net loss	$ (20,139)	$ (23,717)
Basic and diluted net loss per share:		
As reported	$ (0.46)	$ (0.50)
Pro forma	$ (0.50)	$ (0.60)

SFAS No. 123R requires the use of a valuation model to calculate the fair-value of stock-based awards. The Company has elected to use the Black-Scholes-Merton option-pricing model, which incorporates various assumptions including volatility, expected life, and interest rates. The expected volatility is based on the historical volatility of the Company' s common stock over the most recent period generally commensurate with the estimated expected life of the Company' s stock options, adjusted for the impact of unusual fluctuations not reasonably expected to recur and other relevant factors. The expected life of an award is based on historical experience and on the terms and conditions of the stock awards granted to employees.

The assumptions used for the specified reporting periods and the resulting estimates of weighted-average fair value per share of options granted and for stock purchases under the ESPP during those periods are as follows:

	Three Months Ended		Six Months Ended	
	July 2, 2006	July 3, 2005	July 2, 2006	July 3, 2005
Interest rate - stock options	4.92 - 5.02%	3.87 %	4.36 - 5.02%	3.88 %
Interest rate - stock purchases	4.85 - 4.86%	4.08 %	4.85 - 4.86%	4.08 %
Volatility - stock options	75 %	90 %	75 - 77 %	90 %
Volatility - stock purchases	76 %	90 %	76 %	90 %
Expected life - stock options	6 years	5 years	6 years	5 years
Expected life - stock purchases	6 - 12 months	6 - 12 months	6 - 12 months	6 - 12 months
Expected dividend yield	0 %	0 %	0 %	0 %
Weighted average fair value per share of options granted	$ 18.33	$ 6.81	$ 16.03	$ 6.60
Weighted average fair value per share of employee stock purchases	$ 8.12	$ 3.64	$ 8.12	$ 3.64

Net Income (Loss) per Share

Basic and diluted net income (loss) per share is presented in conformity with SFAS No. 128, *Earnings per Share*, for all periods presented. In accordance with SFAS No. 128, basic and net income (loss) per share is computed using the weighted-average number of shares of common stock outstanding during the period, less shares subject to repurchase. Diluted net income (loss) per share is typically computed using the weighted average number of common and dilutive common equivalent shares from stock options using the treasury stock method. The following table presents the calculation of weighted-average shares used to calculate basic and diluted net income (loss) per share (in thousands):

	Three Months Ended		Six Months Ended	
	July 2, 2006	July 3, 2005	July 2, 2006	July 3, 2005
Weighted-average shares outstanding	43,567	40,232	42,541	39,325
Less: Weighted-average shares of common stock subject to repurchase	(39)	(45)	(39)	(58)
Weighted-average shares used in calculating basic net income (loss) per share	43,528	40,187	42,502	39,267
Plus: Effect of dilutive potential common shares	3,802	–	3,750	–
Weighted-average shares used in calculating diluted net income (loss) per share	47,330	40,187	46,252	39,267

The total number of shares excluded from the calculation of diluted net loss per share, prior to application of the treasury stock method, was 7,307,818 for the three and six months ended July 3, 2005.

Comprehensive Income (Loss)

Comprehensive income (loss) is comprised of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on the Company' s available-for-sale securities, changes in the fair value of derivatives designated as effective cash flow hedges, and foreign currency translation adjustments.

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

	Three Months Ended		Six Months Ended	
	July 2, 2006	July 3, 2005	July 2, 2006	July 3, 2005
Net income (loss)	$ 6,768	$ (18,539)	$ 6,664	$ (19,774)
Foreign currency translation adjustments	123	77	160	108
Unrealized gain on investments	123	7	81	29
Unrealized loss on cash flow hedges	–	–	(10)	–
Total other comprehensive income (loss)	$ 7,014	$ (18,455)	$ 6,895	$ (19,637)

Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109*, which clarifies the accounting for uncertainty in tax positions. FIN No. 48 requires that we recognize the impact of a tax position in our financial statements if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN No. 48 are effective as of the

beginning of the Company' s 2007 fiscal year, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. We do not expect the adoption of FIN No. 48 to have a material impact on our financial reporting, and we are currently evaluating the impact, if any, the adoption of FIN No. 48 will have on our disclosure requirements.

2. Acquisition of CyVera Corporation

On April 8, 2005, the Company completed its acquisition of 100% of the voting equity interests of CyVera Corporation (CyVera). Pursuant to an Agreement and Plan of Merger, dated as of February 22, 2005 (the Merger Agreement), by and among Illumina, Semaphore Acquisition Sub, Inc., a Delaware corporation and wholly-owned subsidiary of Illumina (Merger Sub), and CyVera, Merger Sub merged with and into CyVera, with CyVera surviving as a wholly-owned subsidiary of Illumina. The results of CyVera' s operations have been included in the Company' s consolidated financial statements since the acquisition date of April 8, 2005.

CyVera was created in October 2003 to commercialize its VeraCode technology and optical instrumentation/reader concepts. The Company believes that the CyVera technology will be highly complementary to the Company' s own portfolio of products and services; will enhance the Company' s capabilities to service its existing customers; and will accelerate the development of additional technologies, products and services. The Company believes that integrating CyVera' s capabilities with the Company' s technologies will better position the Company to address the emerging biomarker research and development and in-vitro and molecular diagnostic markets. The Company plans to launch its first products resulting from this acquisition by the end of 2006.

Pursuant to the Merger Agreement, the Company issued 1.6 million shares (the Shares) of common stock, paid $2.3 million in cash and assumed the net liabilities of CyVera. In addition, the Company assumed the outstanding stock options of CyVera. Approximately 250,000 of the Shares were deposited into an escrow account with a bank to satisfy any claims for indemnification made by the Company or CyVera pursuant to the Merger Agreement. No claims for indemnification were made and, as of July 2, 2006, the escrow agent has released the shares from escrow.

The results of CyVera' s operations have been included in the accompanying condensed consolidated financial statements from the date of the acquisition. The total cost of the acquisition is as follows (in thousands):

Fair market value of securities issued, net	$14,433
Cash paid	2,291
Transaction costs	681
Fair market value of options assumed	394
Total purchase price	$17,799

The fair value of the Shares was determined based on the average closing price of the Company' s common stock for five trading days preceding, and following, February 22, 2005 (the date the transaction was announced). The Company believes that this time period gives proper consideration to matters such as price fluctuations and quantities traded and represents a reasonable period before and after the date on which the terms of the acquisition were agreed. Based on these closing prices, the Company estimated the fair value of its common stock to be $9.167 per share, which equates to a total fair value of $14.4 million.

The final purchase price allocation is shown below (in thousands):

Cash	$4
Prepaid expenses	12
Fixed assets	349
Deferred compensation	196
Accounts payable and accrued liabilities	(432)
Debt assumed	(255)
Net book value of net liabilities acquired	(126)
In-process research and development	15,800
Goodwill	2,125
Net assets acquired	$17,799

In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, the goodwill is not amortized, but will be subject to a periodic assessment for impairment by applying a fair-value-based test. None of this goodwill is expected to be deductible for tax purposes. The Company performs its annual test for impairment of goodwill in May of each year. The Company is required to perform a periodic assessment between annual tests in certain circumstances. The Company has performed its annual test of goodwill and has determined there was no impairment of goodwill as of May 1, 2006 or July 2, 2006.

The Company allocated $15.8 million of the purchase price to in-process research and development projects. In-process research and development (IPR&D) represents the estimated fair value of acquired, to-be-completed research projects. At the acquisition date, CyVera' s ongoing research and development initiatives were primarily involved with the development of its VeraCode technology and optical instrumentation/reader concepts. These two projects were approximately 50% and 25%, respectively, complete at the date of acquisition.

The value assigned to purchased IPR&D was determined by estimating the costs to develop the acquired technology into commercially viable products, estimating the resulting net cash flows from the projects, and discounting the net cash flows to their present value. The revenue projections used to value the IPR&D were, in some cases, reduced based on the probability of developing a new technology, and considered the relevant market sizes and growth factors, expected trends in technology, and the nature and expected timing of new product introductions by the Company and its competitors. The resulting net cash flows from such projects are based on the Company' s estimates of cost of sales, operating expenses, and income taxes from such projects. The rates utilized to discount the net cash flows to their present value were based on estimated cost of capital calculations. Due to the nature of the forecast and the risks associated with the projected growth and profitability of the developmental projects, discount rates of 30% were considered appropriate for the IPR&D. The Company believes that these discount rates were commensurate with the projects' stage of development and the uncertainties in the economic estimates described above.

If these projects are not successfully developed, the sales and profitability of the combined company may be adversely affected in future periods. The Company believes that the foregoing assumptions used in the IPR&D analysis were reasonable at the time of the acquisition. No assurance can be given, however, that the underlying assumptions used to estimate expected project sales, development costs or profitability are accurate or the events associated with such projects will transpire as estimated. At the date of acquisition, the development of these projects had not yet reached technological feasibility, and the research and development in progress had no alternative future uses. Accordingly, the $15.8 million initially allocated to IPR&D was charged to expense in the second quarter of 2005.

The following unaudited pro forma information shows the results of the Company' s operations for the specified reporting periods as though the acquisition had occurred as of the beginning of those periods (in thousands, except per share data):

	Three Months Ended July 3, 2005	Six Months Ended July 3, 2005
Revenue	$ 15,824	$ 30,972
Net loss	$ (2,746)	$ (5,225)
Basic and diluted net loss per share	$ (0.07)	$ (0.13)

The pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the actual results of operations had the acquisition taken place as of the beginning of the period presented, or the results that may occur in the future. The pro forma results exclude the $15.8 million non-cash acquired IPR&D charge recorded upon the closing of the acquisition during the second quarter of 2005.

3. 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.

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 (in thousands):

	July 2, 2006	January 1, 2006
Raw materials	$ 7,206	$ 4,575
Work in process	7,987	4,546
Finished goods	2,131	1,188
	$ 17,324	$ 10,309

5. Intangible Assets

Intangible assets consist of license agreements and acquired technology. The cost of the Company' s license agreements was $859,450 and the Company has amortized $798,867 through July 2, 2006.

6. Warranties

The Company generally provides a one-year warranty on instrument 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 specified reporting period are as follows (in thousands):

Balance at January 1, 2006	$751
Additions charged to cost of revenue	663
Repairs and replacements	(391)
Balance at July 2, 2006	$1,023

7. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following (in thousands):

	July 2, 2006	January 1, 2006
Accounts payable	$ 12,195	$ 7,390
Compensation	6,172	4,922
Legal and other professional fees	1,937	2,311
Short-term deferred revenue	2,538	1,937
Customer deposits	7,466	1,361
Reserve for product warranties	1,023	751
Other	3,426	2,928
	$ 34,757	$ 21,600

8. Stockholder' s Equity

On May 24, 2006, the Company completed a public offering of 4,025,000 shares of its common stock at a public offering price of $25.50 per share. This transaction generated net proceeds of $96.5 million for the Company and was completed pursuant to a shelf registration statement initially filed with SEC in May 2006.

As of July 2, 2006, the Company had 45,952,517 shares of common stock outstanding, of which 4,813,742 shares were sold to employees and consultants subject to restricted stock agreements. The restricted common shares vest in accordance with the provisions of the agreements, generally over five years. All unvested shares are subject to repurchase by the Company at the original purchase price. As of July 2, 2006, 39,000 shares of common stock were subject to repurchase. In addition, the Company also issued 12,000 shares for a restricted stock award to an employee under the Company' s 2005 Stock and Incentive Plan based on service performance. These shares vest monthly over a three-year period.

2005 Stock and Incentive Plan

In June 2005, the stockholders of the Company approved the 2005 Stock and Incentive Plan (the 2005 Stock Plan). Upon adoption of the 2005 Stock Plan, issuance of options under the Company' s existing 2000 Stock Plan ceased. The 2005 Stock Plan provides that an aggregate of up to 11,542,358 shares of the Company' s common stock be reserved and available to be issued. In addition, the 2005 Stock Plan provides for an automatic annual increase in the shares reserved for issuance by the lesser of 5% of outstanding shares of the Company' s common stock on the last day of the immediately preceding fiscal year, 1,200,000 shares or such lesser amount as determined by the Company' s board of directors. As of July 2, 2006, options to purchase 3,511,195 shares remained available for future grant under the 2005 Stock Plan.

The Company' s stock option activity under all stock option plans during the specified reporting period is as follows:

	Options	Weighted-Average Exercise Price
Outstanding at January 1, 2006	7,325,431	$ 7.96
Granted	1,775,650	$ 23.07
Exercised	(517,776)	$ 6.80
Cancelled	(215,471)	$ 10.46
Outstanding at July 2, 2006	8,367,834	$ 11.17

Following is a further breakdown of the options outstanding as of July 2, 2006:

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price of Options Exercisable
$0.03 - 5.15	1,422,177	6.40	$ 3.45	905,442	$ 3.37
$5.25 - 7.90	1,732,781	6.84	$ 6.67	693,250	$ 6.81
$7.94 - 8.76	1,493,495	7.84	$ 8.53	505,238	$ 8.51
$8.89 - 13.69	1,667,011	7.95	$ 11.12	637,422	$ 10.32
$13.74 - 23.38	1,463,170	9.00	$ 20.30	224,842	$ 18.59
$24.00 - 45.00	589,200	9.73	$ 27.22	13,333	$ 33.32
$0.03 - 45.00	8,367,834	7.75	$ 11.17	2,979,527	$ 7.81

Aggregate intrinsic value of options outstanding and options exercisable as of July 2, 2006 was $154.8 million and $65.2 million, respectively. Aggregate intrinsic value represents the difference between the Company' s closing stock price on the last trading day of the fiscal period, which was $29.66 as of June 30, 2006, and the exercise price multiplied by the number of options outstanding. Total intrinsic value of options exercised was $9.7 million for the six months ended July 2, 2006.

2000 Employee Stock Purchase Plan

In February 2000, the board of directors and stockholders adopted the 2000 Employee Stock Purchase Plan (the Purchase Plan). A total of 4,827,988 shares of the Company' s common stock have been reserved for issuance under the Purchase Plan. The Purchase Plan permits eligible employees to purchase common stock at a discount, but only through payroll deductions, during defined offering periods.

The price at which stock is purchased under the Purchase Plan is equal to 85% of the fair market value of the common stock on the first or last day of the offering period, whichever is lower. The initial offering period commenced in July 2000. In addition, the Purchase Plan provides for annual increases of shares available for issuance under the Purchase Plan beginning with fiscal 2001. 118,740 shares were issued under the Purchase Plan during the six months ended July 2, 2006. As of July 2, 2006, there were 2,910,590 shares available for issuance under the Purchase Plan.

9. Commitments and Long-Term Debt

Deferred Gain / 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 $26.0 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.

In June 2004, the Company entered into a conditional agreement to sell its land and buildings for $42.0 million and to lease back such property for an initial term of ten years. The sale was completed in August 2004 at which time the lease was signed. After the repayment of the remaining $25.2 million debt and other related transaction expenses, the Company received $15.5 million in net cash proceeds. The Company removed the land and net book value of the buildings of $36.9 million from its balance sheet, deferred the resulting $3.7 million gain on the sale of the property, and is amortizing the deferred gain over the ten-year lease term in accordance with SFAS No. 13, *Accounting for Leases*.

Operating Leases

In August 2004, the Company entered into a ten-year lease for its San Diego facility after the land and building were sold (as discussed above). Under the terms of the lease, the Company paid a $1.9 million security deposit and is currently paying monthly rent of $328,202 with an annual increase of 3% in each subsequent year through August 2014. The lease contains an option to renew for three additional periods of five years each. In accordance with SFAS No. 13, the Company records rent expense on a straight-line basis and the resulting deferred rent is included in other long-term liabilities in the accompanying condensed consolidated balance sheets. The Company also leases office space for a facility in Connecticut, an additional distribution and storage facility in San Diego and for four foreign facilities located in Japan, Singapore, China and the Netherlands under non-cancelable operating leases that expire at various times through June 2011. These leases contain renewal options ranging from one to five years.

10. Legal Proceedings

The Company has incurred substantial costs in defending itself against patent infringement claims, and expects to devote substantial financial and managerial resources to protect its intellectual property and to defend against the claims described below as well as any future claims asserted against it.

Affymetrix Litigation

On July 26, 2004, Affymetrix, Inc. (Affymetrix) filed a complaint in the U.S. District Court for the District of Delaware alleging that the use, manufacture and sale of the Company' s BeadArray products and services, including the Company' s Array Matrix and BeadChip products, infringe six Affymetrix patents. Affymetrix seeks an injunction against the sale of products, if any, that are determined to be infringing these patents, unspecified monetary damages, interest and attorneys' fees. On September 15, 2004, the Company filed its answer to Affymetrix' complaint, seeking declaratory judgments from the court that it does not infringe the Affymetrix patents and that such patents are invalid, and the Company filed counterclaims against Affymetrix for unfair competition and interference with actual and prospective economic advantage.

On February 15, 2006, the court allowed the Company to file its first amended answer and counterclaims, adding allegations of inequitable conduct with respect to all six asserted Affymetrix patents, violation of Section 2 of the Sherman Act, and unclean hands. In March 2006, Affymetrix notified the Company of its decision to drop one of the six patents from the suit, and of its intention to assert infringement of certain additional claims of the remaining five patents. The Company has filed a motion to preclude Affymetrix from asserting infringement of those additional claims. On April 20, 2006, the court held a claims construction hearing. Rulings on the Company' s motion and on claims construction could be issued at any time. On June 30, 2006, the court dismissed the patent Affymetrix had sought to withdraw from the suit. Affymetrix and the Company filed summary judgment motions by the July 14, 2006 court-established deadline. Trial is scheduled for October 16, 2006. The Company believes it has meritorious defenses against each of the infringement claims alleged by Affymetrix and intends to defend vigorously against this suit. However, the Company cannot be sure that it will prevail in this matter. Any unfavorable determination, and in particular, any significant cash amounts

required to be paid by the Company or prohibition of the sale of its products and services, could result in a material adverse effect on its business, financial condition and results of operations.

Dr. Anthony W. Czarnik v. Illumina, Inc.

On June 15, 2005, Dr. Anthony Czarnik, a former employee, filed suit against the Company in the U.S. District Court for the District of Delaware seeking correction of inventorship of certain of the Company' s patents and patent applications, and alleging that the Company committed inequitable conduct and fraud in not naming him as an inventor. Dr. Czarnik seeks an order requiring the Company and the U.S. Patent and Trademark Office to correct the inventorship of certain of the Company' s patents and patent applications by adding Dr. Czarnik as an inventor, a judgment declaring certain of the Company' s patents and patent applications unenforceable, unspecified monetary damages and attorney' s fees. On August 4, 2005, the Company filed a motion to dismiss the complaint for lack of standing and failure to state a claim. While this motion was pending, Dr. Czarnik filed an amended complaint on September 23, 2005. On October 7, 2005, the Company filed a motion to dismiss the amended complaint for lack of standing and failure to state a claim. On July 13, 2006, the court granted the Company' s motion to dismiss the counts of Dr. Czarnik' s complaint dealing with correction of inventorship in pending applications and inequitable conduct. The Company has responded to the two remaining counts of the complaint (correction of inventorship in issued patents, and fraud). There has been no trial date set for this case. The Company believes it has meritorious defenses against these claims.

11. Collaboration Agreements

Invitrogen Corporation

In December 2004, the Company entered into a strategic collaboration with Invitrogen Corporation (Invitrogen). The goal of the collaboration is to combine the Company' s expertise in oligonucleotide manufacturing with the sales, marketing and distribution capabilities of Invitrogen. In connection with the collaboration, the Company has developed the next generation Oligator® DNA synthesis technology. This technology includes both plate- and tube-based capabilities. Under the terms of the agreement, Invitrogen paid the Company an upfront non-refundable collaboration payment of $2.3 million during the first quarter of 2005. Additionally, Invitrogen made a milestone payment of $1.1 million to the Company in November 2005 upon achievement of a milestone event under the terms of the collaboration.

The Company began manufacturing and shipping the plate-based and certain tube-based oligo products under the collaboration in the third quarter of 2005 and, therefore, has begun to amortize the upfront collaboration payment of $2.3 million as product revenue over the life of the agreement on a straight-line basis. The unamortized portion of the collaboration payment has been recorded as short- and long-term deferred revenue. The Company recorded the $1.1 million milestone payment in service and other revenue upon achievement of the milestone during the fourth quarter of 2005. The Company recorded revenue related to this milestone payment upon its achievement, as evidenced by acknowledgment from Invitrogen and due to the fact that (i) the milestone event is substantive and its achievability was not reasonably assured at the inception of the agreement, (ii) the milestone represents the culmination of an earnings process, (iii) the milestone payment is non-refundable and (iv) the performance obligations for both the Company and Invitrogen after the milestone achievement will continue at a level comparable to the level before the milestone achievement. In addition, the agreement provides for the transfer of the Company' s Oligator technology into two Invitrogen facilities outside North America. The Company recognizes product revenue upon shipment of collaboration products based on the Company' s actual manufacturing cost. Collaboration profit, as defined in the collaboration agreement, from the sale of collaboration products is divided equally between the two companies and is recorded as product revenue.

deCODE genetics

In May 2006, the Company and deCODE genetics, ehf. (deCODE) executed a Joint Development and Licensing Agreement (the Development Agreement). Pursuant to the Development Agreement, the parties agreed to collaborate exclusively to develop, validate and commercialize specific diagnostic tests for variants in genes involved in three disease-related pathways: the gene-encoding leukotriene A4 hydrolase, linked to heart attack; the gene-encoding transcription factor 7-like 2 (TCF7L2), linked to type 2 diabetes; and the gene-encoding BARD1, linked to breast cancer. The Company and deCODE intend to develop these diagnostic tests for use on the Company' s BeadXpress system.

Under the agreement, the Company will be responsible for the manufacturing, marketing and selling of the diagnostic products. The companies will share the development costs of these products and split the profits from sales of the diagnostics tests. The Development Agreement may be terminated as to a particular product under development if one party decides to discontinue funding

the development of that product, and may be terminated in whole by either party if the other party commits an uncured material breach, files for bankruptcy or becomes insolvent. Under a separate supply agreement, the Company will install instrumentation at deCODE that will enable deCODE to perform whole genome association studies on up to 100,000 samples using the Company' s HumanHap300 BeadChips and associated reagents.

12. Investment in Genizon BioSciences Inc.

In January 2006, Genizon BioSciences Inc. (Genizon), a Canadian company focused on gene discovery, purchased from the Company approximately $1.9 million in equipment and committed to purchase an additional $4.3 million in consumables. Genizon is using Illumina' s Sentrix® HumanHap300 BeadChip along with the Infinium™ assay to perform whole-genome association studies involving thousands of members of the Quebec Founder Population. The goal of the studies is to provide understanding of the genetic origins and mechanisms of common diseases which may then lead to possible drug targets.

In March 2006, the Company entered into a Subscription Agreement for Secured Convertible Debentures with Genizon. Pursuant to the agreement, the Company purchased a secured convertible debenture (the debenture) of Genizon and certain warrants for CDN$3.5 million (approximately U.S. $3.0 million).

The debenture is convertible, automatically upon the occurrence of a "liquidity event," as defined in the debenture, into Class H Preferred Shares of Genizon. Upon the occurrence of certain events, Illumina may be entitled to receive additional shares of Genizon' s Class H Preferred Shares. The debenture matures two years from issuance and bears interest, payable semiannually, at a rate of 5% per annum for the first year and 12.5% per annum for the second year. Unless the debenture is converted before maturity, 112.5% of the principal amount of the debenture is due upon maturity. Illumina also received warrants to purchase 226,721 shares of Genizon Class H Preferred Shares at an exercise price of $1.5437 per share.

As of July 2, 2006, the debenture was recorded at face value, which is the fair value, and is classified in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, as an available-for-sale security.

The Company has concluded that the purchase of the debenture and the concurrent purchase by Genizon of Illumina' s products are "linked" transactions under guidance contained in EITF No. 00-21, *Revenue Arrangements with Multiple Deliverables*. Since the transactions are considered "linked," the Company has deferred approximately $3.0 million of revenue (the face value of the Debentures) as of July 2, 2006, related to the Genizon product shipments. The deferred revenue is classified as a long-term liability as of July 2, 2006. This amount is expected to remain in deferred revenue until Genizon settles the Debenture in cash or when a liquidity event occurs that generates cash or a security that is readily convertible into cash. The Company has also deferred approximately $1.1 million of costs related to product shipments to Genizon as a long-term asset as of July 2, 2006. All Genizon shipments that generate revenue over the face value of the debenture will be evaluated under the Company' s revenue recognition policy, which is outlined in Note 1.

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 Quarterly Report on Form 10-Q and the financial statements and notes thereto for the year ended January 1, 2006 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 discussion and analysis in this Quarterly Report on Form 10-Q contain forward-looking statements that involve risk and uncertainties, such as statements of our plans, objectives, expectations and intentions. Words such as "anticipate," "believe," "continue," "estimate," "expect," intend," "may," "plan," "potential," "predict," "project," or similar words or phrases, or the negatives of these words, may identify forward-looking statements, but the absence of these words does not necessarily mean that a statement is not forward-looking. Examples of forward-looking statements include, among others, statements regarding the integration of CyVera' s technology with our existing technology, the commercial launch of new products, including products based on CyVera' s technology, and the duration which our existing cash and other resources is expected to fund our operating activities.

Forward-looking statements are subject to known and unknown risks and uncertainties and are based on potentially inaccurate assumptions that could cause actual results to differ materially from those expected or implied by the forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those discussed in the subsection entitled "Item 1A. Risk Factors." below as well as those discussed elsewhere. Accordingly, you should not unduly rely on these forward-looking statements, which speak only as of the date of this Quarterly Report. We undertake no obligation to publicly revise these

forward-looking statements to reflect circumstances or events after the date of this Quarterly Report or to reflect the occurrence of unanticipated events. You should, however, review the factors and risks we describe in the reports we file from time to time with the Securities and Exchange Commission (SEC).

Overview

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

In 2001, we began commercial sale of short pieces of DNA called oligonucleotides, which we refer to as oligos, manufactured using our proprietary Oligator technology. We believe our Oligator technology is more cost effective than competing technologies, and this advantage enabled us to market our oligos under a price leadership strategy while still achieving attractive gross margins.

In 2001, we commercialized the first implementation of our BeadArray technology, the Sentrix Array Matrix. This is a disposable matrix of 96 fiber optic bundles arranged in a pattern that matches the standard 96-well microtiter plate. Each fiber optic bundle may perform more than 1,500 unique assays, which enables researchers to perform focused genotyping experiments in a high-throughput format. This format was also used to initiate our single nucleotide polymorphism (SNP) genotyping services product line. As a result of the increasing market acceptance of our high throughput, low cost BeadArray technology, we have entered into genotyping service contracts with many leading genotyping centers.

Our production-scale BeadLab is a turn-key platform that includes all hardware and software necessary to enable researchers to perform genetic analysis research on what we believe is an unprecedented scale. This system is being marketed to a small number of high throughput genotyping users. As of July 2, 2006, we have installed and recorded revenue for 13 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 and analysis software 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 July 2, 2006, we have shipped 165 BeadStations.

In late 2004, we announced a strategic collaboration with Invitrogen Corporation (Invitrogen) to synthesize and distribute oligos. In the third quarter of 2005, we began shipping oligo products in connection with this agreement. As part of the agreement, we have developed the next generation of our Oligator DNA synthesis technology, which we have designed to support both plate- and the larger tube-based oligo markets. Invitrogen is responsible for sales, marketing and technical support and we are responsible for manufacturing. Profits from sales of collaboration products are divided equally between the two companies.

In 2005, we began shipments of Sentrix BeadChips for whole-genome gene expression and whole-genome genotyping. The whole-genome gene expression BeadChips are designed to enable high-performance, cost-effective, whole-genome expression profiling of multiple samples on a single chip, resulting in a dramatic reduction in cost of whole-genome expression analysis. Our whole-genome expression product line includes multi-sample products for both the Human and Mouse Genomes. The whole-genome genotyping BeadChip is designed to scale to high levels of multiplexing without compromising data quality and to provide scientists the ability to query hundreds of thousands of SNPs in parallel. In the second quarter of 2005, we commenced shipment of our first whole-genome genotyping BeadChip, the HumanHap-1, which interrogates more than 100,000 SNPs in parallel.

In the second quarter of 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

technology, renamed the VeraCode™ technology, is highly complementary to our portfolio of products and services. The acquisition is expected to provide us with a comprehensive approach to bead-based assays for biomarker research and development and in-vitro and molecular diagnostic opportunities, including those that require low-complexity as well as high-complexity testing. We expect the first products based on the VeraCode technology to be available by the end of fiscal 2006. The purchase price associated with this transaction was approximately $17.8 million. We allocated $15.8 million of this purchase price to acquired in-process research and development and charged such amount against earnings in the second quarter of 2005.

In the fourth quarter of 2005, we began shipping the new Sentrix HumanHap300 Genotyping BeadChip to customers around the world. Using the Infinium assay, which enables us to select virtually any SNP in the genome, the HumanHap300 BeadChip allows analysis of more than 317,000 SNPs. We selected the SNPs for inclusion on the chip in collaboration with a consortium of scientists that are leaders in the genotyping field. We believe this product has quality and performance features that support our expectation that it will become an important discovery tool for researchers seeking to understand the genetic basis of common, yet complex diseases.

In the first quarter of 2006, we introduced the Sentrix HumanHap240S BeadChip for genome-wide disease association studies. This product is a companion to our Sentrix HumanHap300 BeadChip and enables researchers to interrogate an additional 240,000 SNPs utilizing our Infinium assay. We also introduced the Sentrix HumanHap550 BeadChip in the first quarter of 2006. The Sentrix HumanHap550 BeadChip contains over 550,000 SNPs on a single microarray. The HumanHap550 BeadChip is currently shipping commercially.

In the first quarter of 2006, we announced the availability of the Illumina AutoLoader. The AutoLoader automates BeadChip loading and scanning, which increases lab throughput. The AutoLoader is designed to support up to two BeadArray Readers simultaneously for unattended operation. We began shipment of AutoLoaders in the second quarter of 2006.

In the second quarter of 2006, we introduced the Sentrix HumanHap650Y BeadChip. The Sentrix HumanHap650Y BeadChip contains over 650,000 SNP markers on a single microarray, which we believe provides the most comprehensive genomic coverage and highest data quality of any whole-genome genotyping product currently available.

In the third quarter of 2006, we introduced the Sentrix HumanHap550+ BeadChip and iSelect™ Infinium genotyping products. The Sentrix HumanHap550+ BeadChip allows customers to add up to 120,000 custom SNP markers to supplement the standard content provided on the existing Sentrix HumanHap550 BeadChip, yielding up to 670,000 markers for association studies. For focused-content applications, the new iSelect Infinium product allows customers to create a custom array of up to 60,000 SNP markers per sample with 12 samples per chip.

Our revenue is subject to fluctuations due to the timing of sales of high-value products and service projects, the impact of seasonal spending patterns, the timing and size of research projects our customers perform, changes in overall spending levels in the life science industry, the timing and amount of government grant funding programs and other unpredictable factors that may affect our customer ordering patterns. Any significant delays in the commercial launch or any lack or delay of commercial acceptance of new products, unfavorable sales trends in our existing product lines, or impacts from the other factors mentioned above, could adversely affect our revenue growth in 2006 or cause a sequential decline in quarterly revenues. Due to the possibility of fluctuations in our revenue and net income or loss, we believe quarterly comparisons of our operating results are not a good indication of our future performance.

Prior to 2006, we incurred substantial operating losses. As of July 2, 2006, our accumulated deficit was $137.9 million and total stockholders' equity was $186.7 million. These losses have principally occurred as a result of the substantial resources required for the research, development and manufacturing scale up effort required to commercialize our products and services, an acquired in-process research and development charge of $15.8 million related to our acquisition of CyVera and a charge of $5.9 million related to a termination-of-employment lawsuit. We expect to continue to incur substantial costs for research, development and manufacturing scale up activities over the next several years. We will also need to 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 to achieve and sustain annual profitability.

Critical Accounting Policies and Estimates

General

Our discussion and analysis of our financial condition and results of operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of financial statements requires that management make estimates, assumptions and judgments with respect to the application of accounting policies that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosures of contingent assets and liabilities. Actual results could differ from those estimates. Our significant accounting policies are described in Note 1 to our condensed consolidated financial statements. Certain accounting policies are deemed critical if 1) they require an accounting estimate to be made based on assumptions that were highly uncertain at the time the estimate was made, and 2) changes in the estimate that are reasonably likely to occur, or different estimates that we reasonably could have used would have a material effect on our condensed consolidated financial statements.

Management has discussed the development and selection of these critical accounting policies with the Audit Committee of our Board of Directors, and the Audit Committee has reviewed the disclosure. In addition, there are other items within our financial statements that require estimation, but are not deemed critical as defined above. We believe the following critical accounting policies reflect our more significant estimates and assumptions used in the preparation of the consolidated financial statements.

Revenue Recognition

Our revenue is generated primarily from the sale of products and services. Product revenue consists of sales of arrays, reagents, instrumentation and oligos. Service and other revenue consists of revenue received for performing genotyping services, extended warranty sales and revenue earned from milestone payments.

We recognize revenue in accordance with the guidelines established by SEC Staff Accounting Bulletin (SAB) No. 104. Under SAB No. 104, revenue cannot be recorded until all of the following criteria have been met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; the seller' s price to the buyer is fixed or determinable; and collectibility is reasonably assured. All revenue is recorded net of any applicable allowances for returns or discounts.

Revenue for product sales is recognized generally upon shipment and transfer of title to the customer, provided no significant obligations remain and collection of the receivables is reasonably assured. Revenue from the sale of instrumentation is recognized when earned, which is generally upon shipment. However, in the case of BeadLabs, revenue is recognized upon the completion of installation, training and customer acceptance. Revenue for genotyping services is recognized when earned, which is generally at the time the genotyping analysis data is delivered to the customer or as specific milestones are achieved.

In order to assess whether the price is fixed and determinable, we ensure there are no refund rights. If payment terms are based on future performance, we defer revenue recognition until the price becomes fixed and determinable. We assess collectibility based on a number of factors, including past transaction history with the customer and the creditworthiness of the customer. If we determine that collection of a payment is not reasonably assured, revenue recognition is deferred until the time collection becomes reasonably assured, which is generally upon receipt of payment. Changes in judgments and estimates regarding application of SAB No. 104 might result in a change in the timing or amount of revenue recognized.

Sales of instrumentation generally include a standard one-year warranty. We also sell separately priced maintenance (extended warranty) contracts, which are generally for one or two years, upon the expiration of the initial warranty. Revenue for extended warranty sales is recognized ratably over the term of the extended warranty period. Reserves are provided for estimated product warranty expenses at the time the associated revenue is recognized. If we were to experience an increase in warranty claims or if costs of servicing our warrantied products were greater than our estimates, gross margins could be adversely affected.

While the majority of our sales agreements contain standard terms and conditions, we do enter into agreements that contain multiple elements or non-standard terms and conditions. Emerging Issues Task Force (EITF) No. 00-21, *Revenue Arrangements with Multiple Deliverables,* provides guidance on accounting for arrangements that involve the delivery or performance of multiple products, services, or rights to use assets within contractually binding arrangements. Significant contract interpretation is sometimes required to determine the appropriate accounting, including whether the deliverables specified in a multiple element arrangement should be treated as separate units of accounting for revenue recognition purposes, and if so, how the price should be allocated among

the deliverable elements, when to recognize revenue for each element, and the period over which revenue should be recognized. We recognize revenue for delivered elements only when we determine that the fair values of undelivered elements are known and there are no uncertainties regarding customer acceptance.

Some of our agreements contain multiple elements that include milestone payments. Revenue from a milestone achievement is recognized when earned, as evidenced by acknowledgement from our collaborator, provided that (i) the milestone event is substantive and its achievability was not reasonably assured at the inception of the agreement, (ii) the milestone represents the culmination of an earnings process, (iii) the milestone payment is non-refundable and (iv) the performance obligations for both us and our collaborators after the milestone achievement will continue at a level comparable to the level before the milestone achievement. If all of these criteria are not met, the milestone achievement is recognized over the remaining minimum period of our performance obligations under the agreement. We defer non-refundable upfront fees received under our collaborations and recognize them over the period the related services are provided or over the estimated collaboration term using various factors specific to the collaboration. Advance payments received in excess of amounts earned are classified as deferred revenue until earned.

Research revenue consists of amounts earned under research agreements with government grants, which is recognized in the period during which the related costs are incurred.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We evaluate the collectibility of our accounts receivable based on a combination of factors. We regularly analyze customer accounts, review the length of time receivables are outstanding and review historical loss rates. If the financial condition of our customers were to deteriorate, additional allowances could be required.

Inventory Valuation

We record adjustments to inventory for potentially excess, obsolete or impaired goods in order to state inventory at net realizable value. We must make assumptions about future demand, market conditions and the release of new products that will supercede old ones. We regularly review inventory for excess and obsolete products and components, taking into account product life cycle and development plans, product expiration and quality issues, historical experience and our current inventory levels. If actual market conditions are less favorable than anticipated, additional inventory adjustments could be required.

Contingencies

We are subject to legal proceedings primarily related to intellectual property matters. Based on the information available at the balance sheet dates and through consultation with our legal counsel, we assess the likelihood of any adverse judgments or outcomes of these matters, as well as the potential ranges of probable losses. If losses are probable and reasonably estimable, we will record a liability in accordance with Statement of Financial Accounting Standards (SFAS) No. 5, *Accounting for Contingencies*. Currently we have no such liabilities recorded. This may change in the future depending upon new developments in each matter.

Goodwill and Intangible Asset Valuation

The purchase method of accounting for acquisitions requires extensive use of accounting estimates and judgments to allocate the purchase price to the fair value of the net tangible and intangible assets acquired, including in-process research and development (IPR&D). Goodwill and intangible assets deemed to have indefinite lives are not amortized, but are subject to annual impairment tests. The amounts and useful lives assigned to other acquired intangible assets impact future amortization, and the amount assigned to IPR&D is expensed immediately. Determining the fair values and useful lives of intangible assets especially requires the exercise of judgment. While there are a number of different acceptable generally accepted valuation methods to estimate the value of intangible assets acquired, we primarily use the discounted cash flow method. This method requires significant management judgment to forecast the future operating results used in the analysis. In addition, other significant estimates are required such as residual growth rates and discount factors. The estimates we use to value and amortize intangible assets are consistent with the plans and estimates that we use to manage our business and are based on available historical information and industry estimates and averages. These judgments can significantly affect our net operating results.

During fiscal 2001, we adopted SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 142 requires that goodwill and certain intangible assets be assessed for impairment using fair value measurement techniques. If the carrying amount of a reporting

unit exceeds its fair value, then a goodwill impairment test is performed to measure the amount of the impairment loss, if any. The goodwill impairment test compares the implied fair value of the reporting unit' s goodwill with the carrying amount of that goodwill. The implied fair value of goodwill is determined in the same manner as in a business combination. Determining the fair value of the implied goodwill is judgmental in nature and often involves the use of significant estimates and assumptions. These estimates and assumptions could have a significant impact on whether or not an impairment charge is recognized and also the magnitude of any such charge. Estimates of fair value are primarily determined using discounted cash flows and market comparisons. These approaches use significant estimates and assumptions, including projection and timing of future cash flows, discount rates reflecting the risk inherent in future cash flows, perpetual growth rates, determination of appropriate market comparables, and determination of whether a premium or discount should be applied to comparables. It is reasonably possible that the plans and estimates used to value these assets may be incorrect. If our actual results, or the plans and estimates used in future impairment analyses, are lower than the original estimates used to assess the recoverability of these assets, we could incur additional impairment charges. As of July 2, 2006, we had $2.1 million of goodwill. This goodwill is reported as a separate line item in the balance sheet. We have performed our annual test of goodwill and have determined there was no impairment of goodwill as of May 1, 2006 or July 2, 2006.

Stock-Based Compensation

We account for stock-based compensation in accordance with SFAS No. 123R, *Share-Based Payment*. Under the provisions of SFAS No. 123R, stock-based compensation cost is estimated at the grant date based on the award' s fair-value as calculated by the Black-Scholes-Merton (BSM) option-pricing model and is recognized as expense over the requisite service period. The BSM model requires various highly judgmental assumptions including volatility, forfeiture rates, and expected option life. If any of these assumptions used in the BSM model change significantly, stock-based compensation expense may differ materially in the future from that recorded in the current period.

Income Taxes

We record a tax provision for the anticipated tax consequences of the reported results of operations. In accordance with SFAS No. 109, *Accounting for Income Taxes*, the provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for operating losses and tax credit carryforwards. Deferred tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable income in effect for the years in which those tax assets are expected to be realized or settled. As of July 2, 2006, we have recorded a valuation allowance for the full amount of the resulting net deferred tax asset, as the future realization of the tax benefit is uncertain.

Results of Operations

To enhance comparability, the following table sets forth our unaudited condensed consolidated statements of operations for the specified reporting periods stated as a percentage of total revenue.

	Three Months Ended		Six Months Ended	
	July 2, 2006	July 3, 2005	July 2, 2006	July 3, 2005
Revenue:				
Product revenue	88 %	80 %	85 %	80 %
Service and other revenue	11	18	14	18
Research revenue	1	2	1	2
Total revenue	100	100	100	100
Costs and expenses:				
Cost of product revenue	28	26	28	26
Cost of service and other revenue	4	4	5	4
Research and development	21	46	24	43
Selling, general and administrative	31	41	35	40
Acquired in-process research and development	–	100	–	51
Total costs and expenses	84	217	92	164
Income (loss) from operations	16	(117)	8	(64)
Interest and other income, net	2	–	2	–
Income (loss) before income taxes	18	(117)	10	(64)
Provision for income taxes	2	–	1	–
Net income (loss)	16 %	(117)%	9 %	(64)%

Three and Six Months Ended July 2, 2006 and July 3, 2005

Our fiscal year consists of 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 and six months ended July 2, 2006 and July 3, 2005 were both 13 and 26 weeks, respectively.

Revenue

	Three Months Ended		Percentage Change	Six Months Ended		Percentage Change
	July 2, 2006	July 3, 2005		July 2, 2006	July 3, 2005	
	(in thousands)			(in thousands)		
Product revenue	$36,403	$12,636	188 %	$59,664	$24,801	141 %
Service and other revenue	4,795	2,783	72 %	10,062	5,474	84 %
Research revenue	379	405	(6)%	953	697	37 %
Total revenue	$41,577	$15,824	163 %	$70,679	$30,972	128 %

Total revenue for the three and six months ended July 2, 2006 and July 3, 2005 was $41.6 million and $70.7 million, and $15.8 million and $31.0 million, respectively. This represents an increase of $25.8 million, or 163%, and $39.7 million, or 128%, as compared to the three and six months ended July 3, 2005.

Product revenue increased to $36.4 million and $59.7 million, respectively, for the three and six month periods ended July 2, 2006, from $12.6 million and $24.8 million, respectively, for the three and six months ended July 3, 2005. The increase in both the three and six months ended July 2, 2006 resulted primarily from higher consumable and BeadStation sales. In addition, in the three months ended July 2, 2006, we had higher BeadLab sales. Growth in consumable sales was primarily attributable to the shipment of our whole genome genotyping products, the HumanHap300 Bead Chip in the first quarter of 2006 and the HumanHap550 Bead Chip in the second quarter of 2006. In addition, growth in consumable revenue can be attributed to the growth in our installed base of BeadStations. Consumable products constituted 57% and 60% of product revenue in the three and six months ended July 2, 2006, as compared to 51% and 46% in the three and six months ended July 3, 2005. As of July 2, 2006, we have shipped a total of 165 BeadStations and 13 BeadLabs. We expect to see continued growth in product revenue, which can be partially attributed to the launch of several new products, as well as the growth of our installed base of BeadStations and BeadLabs.

Service and other revenue increased to $4.8 million and $10.0 million, respectively, for the three and six months ended July 2, 2006, from $2.8 million and $5.5 million for the three and six months ended July 3, 2005, due primarily to higher demand for both our Infinium and GoldenGate SNP genotyping service contracts. We expect sales from SNP genotyping services contracts to fluctuate on a quarterly basis, depending on the mix and number of contracts that are completed. The timing of completion of a SNP genotyping services contract is highly dependent on the customer' s schedule for selecting the SNPs and delivering their samples to us.

Government grants and other research funding remained flat at $0.4 million in the three months ended July 2, 2006, compared to the three months ended July 3, 2005. For the six months ended July 2, 2006, government grants and research funding increased to $1.0 million from $0.7 million for the six months ended July 3, 2005, due primarily to an increase in internal research spending for our grants from the National Institutes of Health. We expect government grants to remain a small percentage of total revenue in the future as our focus shifts to commercial operations.

Cost of Product and Service and Other Revenue

	Three Months Ended			Six Months Ended		
	July 2, 2006	July 3, 2005	Percentage Change	July 2, 2006	July 3, 2005	Percentage Change
	(in thousands)					
Cost of product revenue	$11,912	$4,033	195 %	$19,588	$7,970	146 %
Cost of service and other revenue	1,664	701	137 %	3,281	1,363	141 %
Total cost of product and service and other revenue	$13,576	$4,734	187 %	$22,869	$9,333	145 %

Cost of product and service and other revenue represents manufacturing costs incurred in the production process, including component materials, assembly labor and overhead, installation, warranty, packaging and delivery costs, as well as costs associated with performing genotyping services on behalf of our customers. Costs related to research revenue are included in research and development expense. Cost of product revenue increased to $11.9 million and $19.6 million for the three and six months ended July 2, 2006, from $4.0 million and $8.0 million for the three and six months ended July 3, 2005, primarily driven by higher consumable and instrument sales. Gross margin on product revenue decreased to 67% for both the three and six months ended July 2, 2006, from 68% for both the three and six months ended July 3, 2005, due primarily to a shift in consumable product mix as well as lower margins associated with oligo products sold as a part of the Invitrogen collaboration. The change in oligo gross margin is due to the fact that, under the Invitrogen collaboration, we no longer sell oligos directly. As a result, the gross margin related to this product line decreased; however, the net margin has increased due to the fact that most of the sales and marketing expenses surrounding the oligo business have shifted to Invitrogen. In addition, gross margin on product revenue was unfavorably impacted by a $0.3 and $0.5 million increase in stock-based compensation expense recognized as cost of product revenue resulting from the adoption of SFAS No. 123R for the three and six month periods ended July 2, 2006, respectively.

Cost of service and other revenue increased to $1.7 million and $3.3 million for the three and six months ended July 2, 2006, from $0.7 million and $1.4 million for the three and six months ended July 3, 2005, primarily due to higher service revenue. Gross margin on service and other revenue decreased to 65% and 67% for the three and six months ended July 2, 2006, as compared to 75% for both the three and six months ended July 3, 2005, primarily due to a change in the mix of projects. In addition, gross margin on service and other revenue was unfavorably impacted by a $50,000 and $0.1 million increase in stock-based compensation expense recognized as cost of service and other revenue resulting from the adoption of SFAS No. 123R for the three and six month periods ended July 2, 2006, respectively.

We expect product mix to continue to affect our future gross margins. However, we expect our market to become increasingly price competitive and our margins may fluctuate.

Research and Development Expenses

	Three Months Ended			Six Months Ended		
	July 2, 2006	July 3, 2005	Percentage Change	July 2, 2006	July 3, 2005	Percentage Change
	(in thousands)			(in thousands)		
Research and development	$ 8,587	$ 7,318	17%	$ 16,803	$ 13,211	27%

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 $8.6 million and $16.8 million for the three and months ended July 2, 2006, from $7.3 million and $13.2 million for the three and six months ended July 3, 2005. Research and development expenses for the three and six months ended July 2, 2006 included stock-based compensation expenses resulting from the adoption of SFAS No. 123R totaling $0.9 million and $1.8 million, respectively. Exclusive of these stock-based compensation charges, the increase in research and development expenses for both the three and six month periods ending July 2, 2006 is primarily due to the development of our recently-acquired VeraCode technology purchased in conjunction with our acquisition of CyVera in April 2005. The VeraCode technology is being developed to produce our BeadXpress system which is scheduled for commercial product launch by the end of fiscal 2006. Research and development expenses related to the VeraCode technology increased $0.7 million and $2.2 million for the three and six months ended July 2, 2006 as compared to the three and six months ended July 3, 2005. In addition, costs to support our Oligator technology platform and BeadArray research activities decreased $0.3 million and $0.4 million, respectively, for the three and six months ended July 2, 2006 as compared to the three and six months ended July 3, 2005.

We believe a substantial investment in research and development is essential to remaining competitive and expanding into additional markets. Accordingly, we expect our research and development expenses to increase in absolute dollars as we expand our product base.

Selling, General and Administrative Expenses

	Three Months Ended			Six Months Ended		
	July 2, 2006	July 3, 2005	Percentage Change	July 2, 2006	July 3, 2005	Percentage Change
	(in thousands)			(in thousands)		
Selling, general and administrative	$ 12,891	$ 6,518	98%	$ 25,025	$ 12,553	99%

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 to $12.9 million and $25.0 million for the three and six months ended July 2, 2006, from $6.5 million and $12.6 million for the three and six months ended July 3, 2005. Selling, general and administrative expenses for the three and six months ended July 2, 2006 included stock-based compensation expenses resulting from the adoption of SFAS No. 123R totaling $2.1 million and $4.0 million. Exclusive of these stock-based compensation charges, our sales and marketing expenses increased $1.7 million during the three months ended July 2, 2006, as compared to the three months ended July 3, 2005, of which $1.5 million is attributable to personnel-related expenses for the build-out of our sales force and customer support staff and $0.2 million is attributable to other non-personnel-related costs, mainly sales and marketing activities for our existing and new products. General and administrative expenses, exclusive of stock-based compensation expense, increased $2.5 million in the three months ended July 2, 2006, as compared to the three and six months ended July 3, 2005, of which $1.4 million is attributable to outside legal costs related to the Affymetrix patent infringement litigation, $0.6 million is attributable to higher personnel-related costs associated with the growth of our business and $0.5 million is attributable to higher outside consulting costs.

Exclusive of stock-based compensation charges, sales and marketing expenses increased $3.0 million during the six months ended July 2, 2006 as compared to the six months ended July 3, 2005. The increase is primarily due to increases of $2.6 million attributable to personnel-related expenses and $0.4 million attributable to other non-personnel-related costs, mainly sales and marketing activities for our existing and new products. Exclusive of stock-based compensation charges, general and administrative expenses increased $5.5 million during the six months ended July 2, 2006 as compared to the six months ended July 3, 2005, due to an increase of $3.2

million in outside legal costs related to the Affymetrix patent infringement litigation, an increase of $1.4 million in personnel-related expenses and an increase of $0.9 million in outside consulting costs.

We expect our selling, general and administrative expenses to accelerate in absolute dollars as we expand our staff, add sales and marketing infrastructure, and incur increased litigation costs and additional costs to support the commercialization and support of an increasing number of products.

Interest and Other Income, Net

	Three Months Ended			Six Months Ended		
	July 2, 2006	July 3, 2005	Percentage Change	July 2, 2006	July 3, 2005	Percentage Change
	(in thousands)			(in thousands)		
Interest and other income, net	$ 856	$ 58	1,376%	$ 1,424	$ 253	463%

Interest income on our cash and cash equivalents and investments was $0.9 million and $1.4 million, respectively, for the three and six months ended July 2, 2006 as compared to $0.3 million and $0.7 million for the three and six months ended July 3, 2005. The increase is primarily due to higher cash balances from operating cash flow and proceeds from our May 2006 stock offering and higher effective interest rates on our cash equivalents and short-term investments.

During the three months ended July 2, 2006, we recorded an immaterial amount of foreign currency transaction losses as compared to approximately $0.3 million of foreign currency transaction losses during the three months ended July 2, 2005. During the six months ended July 2, 2006, we recorded approximately $0.1 million in gains due to foreign currency transactions, as compared to approximately $0.3 million in losses during the six months ended July 3, 2005. We experienced more favorable foreign currency transaction gains in 2006 due primarily to the strengthening of the Euro and the British Pound over the U.S. Dollar.

Provision for Income Taxes

	Three Months Ended			Six Months Ended		
	July 2, 2006	July 3, 2005	Percentage Change	July 2, 2006	July 3, 2005	Percentage Change
	(in thousands)			(in thousands)		
Provision for income taxes	$ 611	$ 51	1,098%	$ 742	$ 102	627%

Our provision for income taxes consists of estimated foreign income tax expense, totaling approximately $0.1 million and $0.2 million for the three and six months ended July 2, 2006 as compared to $51,000 and $0.1 million for the three and six months ended July 3, 2005. In addition, we have estimated U.S. federal and state income taxes of $0.5 million for both the three and six months ended July 2, 2006. Although profitable for the three and six months ended July 2, 2006, we have utilized our net operating loss carryforwards and as such, our federal and state income taxes are minimal. As of January 1, 2006, we had net operating loss carryforwards for federal and California tax purposes of approximately $103.7 million and $40.1 million, respectively. In the first quarter of 2006, we completed a formal Section 382 and 383 analysis, which resulted in approximately $0.2 million of our total net operating loss carryforwards being limited.

Liquidity and Capital Resources

Cashflow (in thousands)

	Six Months Ended	
	July 2, 2006	July 3, 2005
Net cash provided by (used in) operating activities	$ 17,263	$ (7,194)
Net cash provided by (used in) investing activities	(16,729)	3,628
Net cash provided by financing activities	101,030	2,908
Effect of foreign currency translation on cash and cash equivalents	(136)	435
Increase (decrease) in cash and cash equivalents	$ 101,428	$ (223)

As of July 2, 2006, we had cash, cash equivalents and short-term investments of $156.8 million. We currently invest our funds in U.S. dollar-based, short-term money market mutual funds, corporate bonds and treasury notes.

Our operating activities generated cash of $17.3 million in the six months ended July 2, 2006, as compared to using cash of $7.2 million in the six months ended July 3, 2005. Net cash provided by operating activities in the six months ended July 2, 2006 was primarily the result of a $12.6 million increase in accounts payable and accrued liabilities, net income of $6.7 million, $6.5 million related to non-cash stock compensation expense resulting from the adoption of SFAS No. 123R, a $3.2 million increase in long-term liabilities primarily related to payments received from Genizon BioSciences Inc. recorded as deferred revenue and non-cash charges of $2.6 million for depreciation and amortization. These sources were partially offset by a $8.0 million increase in inventory, a $5.0 million increase in accounts receivable and a $1.2 million increase in prepaids and other current assets. The accounts receivable and inventory increases are primarily due to our significant sales growth of 128% in the six months ended July 2, 2006, as compared to the six months ended July 3, 2005, which resulted from increased customer demand and our introduction of new products and services into the market. The increase in prepaid expenses and other current assets can be primarily associated with prepaid software licenses and prepaid rent. The increase in accounts payable and accrued liability balances was primarily driven by increases in general business activity associated with such sales growth, as well as expenses associated with the expansion of our corporate infrastructure to accommodate this growth. Net cash used in operating activities in the six months ended July 3, 2005 was primarily the result of a net loss of $19.8 million, a $5.9 million payment for a litigation judgment, a $1.3 million increase in inventory and a $0.7 million increase in accounts receivable. These usages were reduced, in part, by a $0.5 million increase in accounts payable and accrued liabilities, a $2.4 million increase in long-term liabilities primarily related to payments received from Invitrogen Corporation recorded as deferred revenue, non-cash charges of $1.7 million for depreciation and amortization and a non-cash IPR&D charge of $15.8 million related to the CyVera acquisition.

Our investing activities used cash of $16.7 million in the six months ended July 2, 2006, as compared to cash provided by investing activities of $3.6 million in the six months ended July 3, 2005. Cash used in investing activities in the six months ended July 2, 2006 was due in part to the payment of $9.1 million for the purchase of property and equipment primarily related to the expansion of our manufacturing capacity. Our manufacturing capacity for BeadChips has increased approximately tenfold over the level at the end of July 3, 2005. In addition, we used cash of $4.5 million to purchase available-for-sale securities, as well as $3.0 million to purchase a secured convertible debenture in Genizon BioSciences Inc. Cash provided by investing activities in the six months ended July 3, 2005 was due to $12.2 million from the sale or maturity of available-for-sale securities used to provide operating funds for our business, reduced by $6.2 million for the purchase of property and equipment and $2.4 million paid for the acquisition of CyVera.

Our financing activities provided $101.0 million in the six months ended July 2, 2006, as compared to $2.9 million in the six months ended July 3, 2005. Cash provided by financing activities in the six months ended July 2, 2006 was primarily due to proceeds from a public stock offering completed in May 2006, as well as proceeds from the issuance of common stock from option exercises totaling $4.6 million. On May 24, 2006, we raised approximately $96.5 million, net of offering expenses, through the sale of our common stock under a shelf registration statement. Cash provided during the six months ended July 3, 2005 was due primarily to proceeds from the issuance of common stock from option exercises.

We anticipate that our current cash and cash equivalents and income from operations will be sufficient to fund our anticipated operating needs for the foreseeable future. Operating needs include the planned costs to operate our business, including amounts required to fund working capital and capital expenditures. At the present time, we have no material commitments for capital expenditures. However, our future capital requirements and the adequacy of our available funds will depend on many factors, including our ability to successfully commercialize our SNP genotyping and gene expression systems and extensions to those products and to expand our oligos and SNP genotyping services product lines, scientific progress in our research and development programs, the magnitude of those programs, competing technological and market developments, the successful resolution of our legal proceedings with Affymetrix, the success of our collaboration with Invitrogen and the need to enter into collaborations with other companies or acquire other companies or technologies to enhance or complement our product and service offerings. Therefore, we may require additional funding in the future.

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 attempt to ensure the safety and preservation of our invested principal funds by limiting default risk, market risk and reinvestment risk. We mitigate default risk by investing in investment grade securities. We have historically maintained a relatively short average maturity for our investment portfolio, and we believe a hypothetical 100 basis point adverse move in interest rates along the entire interest rate yield curve would not materially affect the fair value of our interest sensitive financial instruments.

Foreign Currency Exchange Risk

Although most of our revenue is denominated 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. Periodically, we hedge significant foreign currency firm sales commitments and accounts receivable with forward contracts. We only use derivative financial instruments to reduce foreign currency exchange rate risks; we do not hold any derivative financial instruments for trading or speculative purposes. Our forward exchange contracts have been designated as cash flow hedges and 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. There were no forward foreign currency forward contracts outstanding at July 2, 2006. The notional settlement amount of the foreign currency forward contracts outstanding at January 1, 2006 was $0.1 million. As of January 1, 2006, we had one foreign currency forward contract outstanding. This contract had a fair value of $882, representing an unrealized gain, and was included in other current assets at January 1, 2006. For the six months ended July 2, 2006 and July 3, 2005, there were no amounts recognized in earnings due to hedge ineffectiveness and we settled foreign exchange contracts of $0.1 million and $0.3 million, respectively.

Item 4. Controls and Procedures.

We design our internal controls to provide reasonable assurance that (1) our transactions are properly authorized; (2) our assets are safeguarded against unauthorized or improper use; and (3) our transactions are properly recorded and reported in conformity with U.S. generally accepted accounting principles. We also maintain internal controls and procedures to ensure that we comply with applicable laws and our established financial policies.

We have carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Securities

Exchange Act), as of July 2, 2006. Based upon that evaluation, our principal executive officer and principal financial officer concluded that, as of July 2, 2006, our disclosure controls and procedures are effective in providing reasonable assurance that (a) the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC' s rules and forms, and (b) such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management have concluded that the disclosure controls and procedures are effective at the reasonable assurance level.

An evaluation was also performed under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of any change in our internal control over financial reporting that occurred during the second quarter of 2006 and that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. That evaluation did not identify any such change.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

We have incurred substantial costs in defending ourselves against patent infringement claims and expect to devote substantial financial and managerial resources to protect our intellectual property and to defend against the claims described below as well as any future claims asserted against us.

Affymetrix Litigation

On July 26, 2004, Affymetrix, Inc. (Affymetrix) filed a complaint in the U.S. District Court for the District of Delaware alleging that the use, manufacture and sale of our BeadArray products and services, including our Array Matrix and BeadChip products, infringe six Affymetrix patents. Affymetrix seeks an injunction against the sale of products, if any, that are determined to be infringing these patents, unspecified monetary damages, interest and attorneys' fees. On September 15, 2004, we filed our answer to Affymetrix' complaint, seeking declaratory judgments from the court that we do not infringe the Affymetrix patents and that such patents are invalid, and we filed counterclaims against Affymetrix for unfair competition and interference with actual and prospective economic advantage.

On February 15, 2006, the court allowed us to file our first amended answer and counterclaims, adding allegations of inequitable conduct with respect to all six asserted Affymetrix patents, violation of Section 2 of the Sherman Act, and unclean hands. In March 2006, Affymetrix notified us of its decision to drop one of the six patents from the suit and of its intention to assert infringement of certain additional claims of the remaining five patents. We have filed a motion to preclude Affymetrix from asserting infringement of those additional claims. On April 20, 2006, the court held a claims construction hearing. Rulings on our motion and on claims construction issues could be issued at any time. On June 30, 2006, the court dismissed the patent Affymetrix had sought to withdraw from the suit. Both parties filed summary judgment motions by the July 14, 2006 deadline established by the court. Trial is scheduled for October 16, 2006. We believe we have meritorious defenses against each of the infringement claims alleged by Affymetrix and intend to defend vigorously against this suit. However, we cannot be sure that we will prevail in this matter. Any unfavorable determination, and in particular, any significant cash amounts required to be paid by us or prohibition of the sale of our products and services, could result in a material adverse effect on our business, financial condition and results of operations.

Dr. Anthony W. Czarnik v. Illumina, Inc.

On June 15, 2005, Dr. Anthony Czarnik, a former employee, filed suit against us in the U.S. District Court for the District of Delaware seeking correction of inventorship of certain of our patents and patent applications and alleging that we committed inequitable conduct and fraud in not naming him as an inventor. Dr. Czarnik seeks an order requiring us and the U.S. Patent and Trademark Office to correct the inventorship of certain of our patents and patent applications by adding Dr. Czarnik as an inventor, a judgment declaring certain of our patents and patent applications unenforceable, unspecified monetary damages and attorney' s fees. On August 4, 2005, we filed a motion to dismiss the complaint for lack of standing and failure to state a claim. While this motion was pending, Dr. Czarnik filed an amended complaint on September 23, 2005. On October 7, 2005, we filed a motion to dismiss the amended complaint for lack of standing and failure to state a claim. On July 13, 2006, the court granted our motion to dismiss the counts of Dr. Czarnik' s complaint dealing with correction of inventorship in pending applications and inequitable conduct. We have responded to the two remaining counts of the complaint (correction of inventorship in issued patents, and fraud). There has been no trial date set for this case. We believe we have meritorious defenses against this claim.

ITEM 1A. Risk Factors.

There have been no material changes to the risk factors previously disclosed in Item 1A of our Annual Report on Form 10-K for the fiscal year ended January 1, 2006. 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 or impact our stock price.

Our commercial success depends in part on our non-infringement of the patents or proprietary rights of third parties and on our ability to protect our own intellectual property. As described above under "Item 1. Legal Proceedings," Affymetrix, Inc. filed a complaint against us in July 2004, alleging infringement of six of its patents.

On April 20, 2006, a claims construction hearing was held as part of this proceeding. We expect a ruling related to the claims construction at any time. At issue is the meaning of 15 claim terms. Depending on the court' s ruling on each of the 15 terms or on a mix of rulings across all the terms, an advantage (or at least the perception of an advantage) may be obtained by one party or the other as to one or more issues. We are not able to predict the timing or the substance of the court' s rulings. Any adverse ruling or perception of an adverse ruling may have an adverse impact on our stock price, and such impact may be disproportionate to the actual import of the ruling itself.

Third parties, including Affymetrix, have asserted or may assert that we are employing their proprietary technology without authorization. As we enter new markets, we expect that competitors will likely assert that our products infringe their intellectual property rights as part of a business strategy to impede our successful entry into those markets. In addition, third parties may have obtained and may in the future obtain patents allowing them to claim that the use of our technologies infringes these patents. We could incur substantial costs and divert the attention of our management and technical personnel in defending ourselves against any of these claims. Furthermore, parties making claims against us may be able to obtain injunctive or other relief, which effectively could block our ability to further develop, commercialize and sell products, and could result in the award of substantial damages against us. In the event of a successful claim of infringement against us, we may be required to pay damages and obtain one or more licenses from third parties, or be prohibited from selling certain products. We may not be able to obtain these licenses at a reasonable cost, if at all. We could therefore incur substantial costs related to royalty payments for licenses obtained from third parties, which could negatively affect our gross margins. In that event, we could encounter delays in product introductions while we attempt to develop alternative methods or products. Defense of any lawsuit or failure to obtain any of these licenses on favorable terms could prevent us from commercializing products, and the prohibition of sale of any of our products could materially affect our ability to grow and maintain profitability.

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

We compete with life sciences companies that design, manufacture and market instruments for analysis of genetic variation and biological function and other applications using technologies such as two-dimensional electrophoresis, capillary electrophoresis, mass spectrometry, flow cytometry, microfluidics, next-generation DNA sequencing and mechanically deposited, inkjet and photolithographic arrays. We anticipate that we will face increased competition in the future as existing companies develop new or improved products and as new companies enter the market with new technologies. The markets for our products are characterized by rapidly changing technology, evolving industry standards, changes in customer needs, emerging competition, new product introductions and strong price competition. For example, prices per data point for genotyping have fallen significantly over the last two years and we anticipate that prices will continue to fall. One or more of our competitors may render our technology obsolete or uneconomical. Some of our competitors have greater financial and personnel resources, broader product lines, a more established customer base and more experience in research and development than we do. Furthermore, 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.

Our manufacturing capacity may limit our ability to sell our products.

We are currently ramping up our capacity to meet our anticipated demand for our products. Although we have significantly increased our manufacturing capacity and we believe that we have sufficient plans in place to ensure we have adequate capacity to meet our business plan in 2006, there are uncertainties inherent in expanding our manufacturing capabilities and we may not be able to increase our capacity in a timely manner. For example, manufacturing and product quality issues may arise as we increase production rates at our manufacturing facility and launch new products. As a result, we may experience difficulties in meeting customer, collaborator and internal demand, in which case we could lose customers or be required to delay new product introductions, and demand for our products could decline. Additionally, in the past, we have experienced variations in manufacturing conditions that have temporarily reduced production yields. Due to the intricate nature of manufacturing products that contain DNA, we may encounter similar or previously unknown manufacturing difficulties in the future that could significantly reduce production yields, impact our ability to launch or sell these products, or to produce them economically, prevent us from achieving expected performance levels or cause us to set prices that hinder wide adoption by customers.

We have not yet achieved annual operating profitability and may not be able to do so.

We have incurred net losses each year since our inception. As of July 2, 2006, our accumulated deficit was $137.9 million. Although we were profitable for the three and six months ended July 2, 2006, we may not be profitable for the year ended December 31, 2006, due in part to the impact of SFAS No. 123R, which is expected to add additional expense of $13.0 million to $15.0 million in 2006. Our ability to achieve and sustain annual profitability will depend, in part, on the rate of growth, if any, of our revenue and on the level of our expenses. We expect to continue incurring significant expenses related to research and development, sales and marketing efforts to commercialize our products and the continued development of our manufacturing capabilities. In addition, we expect that our selling and marketing expenses will increase at a higher rate in the future as a result of the launch of new products. As a result, we expect that our operating expenses will increase significantly as we grow and, consequently, we will need to generate significant additional revenue to achieve and sustain profitability. Even if we maintain profitability, we may not be able to increase profitability on a quarterly basis.

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

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

The patent positions of companies developing tools for the life sciences and pharmaceutical industries, including our patent position, generally are uncertain and involve complex legal and factual questions. We will be able to protect our proprietary rights from unauthorized use by third parties only to the extent that our proprietary technologies are covered by valid and enforceable patents or are effectively maintained as trade secrets. We intend to apply for patents covering our technologies and products, as we deem appropriate. However, our patent applications may be challenged and may not result in issued patents or may be invalidated or narrowed in scope after they are issued. Questions as to inventorship may also arise. For example, a former employee recently filed a complaint against us, claiming he is entitled to be named as joint inventor of certain of our U.S. patents and pending U.S. and foreign patent applications, and seeking a judgment that the related patents and applications are unenforceable. Any finding that our patents and applications are unenforceable could harm our ability to prevent others from practicing the related technology, and a finding that others have inventorship rights to our patents and applications could require us to obtain certain rights to practice related technologies, which may not be available on favorable terms, if at all.

In addition, our existing patents and any future patents we obtain may not be sufficiently broad to prevent others from practicing our technologies or from developing competing products. There also is risk that others may independently develop similar or alternative technologies or design around our patented technologies. Also, our patents may fail to provide us with any competitive advantage. We may need to initiate additional lawsuits to protect or enforce our patents, or litigate against third party claims, which would be expensive and, if we lose, may cause us to lose some of our intellectual property rights and reduce our ability to compete in the marketplace. Furthermore, these lawsuits may divert the attention of our management and technical personnel.

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

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

The nature of our products requires customized components that currently are available from a limited number of sources. For example, we currently obtain the fiber optic bundles and BeadChip slides included in our products from single vendors. If we are unable to secure a sufficient supply of those or other product components, we will be unable to meet demand for our products. We

may need to enter into contractual relationships with manufacturers for commercial-scale production of some of our products, or develop these capabilities internally, and we cannot assure you that we will be able to do this on a timely basis, for sufficient quantities or on commercially reasonable terms. Accordingly, we may not be able to establish or maintain reliable, high-volume manufacturing at commercially reasonable costs.

We have a limited history of commercial sales of systems and consumable products, and our success depends on our ability to develop commercially successful products and on market acceptance of our new and relatively unproven technologies.

We may not possess all of the resources, capability and intellectual property necessary to develop and commercialize all the products or services that may result from our technologies. Sales of our genotyping and gene expression systems only began in 2003, and some of our other technologies are in the early stages of commercialization or are still in development. You should evaluate us in light of the uncertainties and complexities affecting similarly situated companies developing tools for the life sciences and pharmaceutical industries. We must conduct a substantial amount of additional research and development before some of our products will be ready for sale, and we currently have fewer resources available for research and development activities than many of our competitors. We may not be able to develop or launch new products in a timely manner, or at all, or they may not meet customer requirements or be of sufficient quality or at a price that enables us to compete effectively in the marketplace. Problems frequently encountered in connection with the development or early commercialization of products and services using new and relatively unproven technologies might limit our ability to develop and successfully commercialize these products and services. In addition, we may need to enter into agreements to obtain intellectual property necessary to commercialize some of our products or services, which may not be available on favorable terms, or at all.

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

Market acceptance will depend on many factors, including:

- our ability to demonstrate to potential customers the benefits and cost effectiveness of our products and services relative to others available in the market;
- the extent and effectiveness of our efforts to market, sell and distribute our products;
- our ability to manufacture products in sufficient quantities with acceptable quality and reliability and at an acceptable cost;
- the willingness and ability of customers to adopt new technologies requiring capital investments; and
- the extended time lag and sales expenses involved between the time a potential customer is contacted on a possible sale of our products and services and the time the sale is consummated or rejected by the customer.

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

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

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

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

automated and are controlled by our custom-designed Laboratory Information Management System (LIMS). Additionally, as part of the decoding step in our array manufacturing process, we record several images of each array to identify what bead is in each location on the array and to validate each bead in the array. This requires significant network and storage infrastructure. If either our LIMS system or our networks or storage infrastructure were to fail for an extended period of time, it would adversely impact our ability to manufacture our products on a timely basis and may prevent us from achieving our expected shipments in any given period.

The growth and profitability of our oligo business depends on a third party.

In December 2004, we entered into a collaboration agreement with Invitrogen to sell and market our oligos worldwide. Under the terms of the collaboration, Invitrogen is responsible for sales, marketing and technical support, while we are responsible for the manufacture of the collaboration products. As Invitrogen is solely responsible for the sales and marketing support of the collaboration, our continued growth and profitability related to these products depends on the extent to which Invitrogen is successful in penetrating the oligo market and selling the collaboration products. If Invitrogen is not successful in selling the collaboration products, our business, financial condition and results of operations may suffer.

We may encounter difficulties in integrating recently completed or future acquisitions that could adversely affect our business.

In April 2005, we acquired CyVera Corporation and may in the future acquire technology, products or businesses related to our current or future business. We have limited experience in acquisition activities and may have to devote substantial time and resources in order to complete acquisitions. Further, these potential acquisitions entail risks, uncertainties and potential disruptions to our business. For example, we may not be able to successfully integrate a company' s operations, technologies, products and services, information systems and personnel into our business. An acquisition may further strain our existing financial and managerial resources, and divert management' s attention away from our other business concerns. In connection with the CyVera acquisition, we assumed certain liabilities and hired certain employees of CyVera, which is expected to continue to result in an increase in our research and development expenses and capital expenditures. There may also be unanticipated costs and liabilities associated with an acquisition that could adversely affect our operating results. To finance any acquisitions, we may choose to issue shares of our common stock as consideration, which would result in dilution to our stockholders. Additionally, an acquisition may have a substantial negative impact on near-term expected financial results.

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 development and enforcement of our patent portfolio, the outcome of our legal proceedings with Affymetrix, the defense of any future litigation involving us and the need to enter into collaborations with other companies or acquire other companies or technologies to enhance or complement our product and service offerings. We anticipate that our current cash and cash equivalents, revenue from sales and funding from grants will be sufficient to fund our anticipated operating needs, barring unforeseen developments. However, this expectation is based upon our current operating plan, which may change as a result of many factors. Consequently, we may need additional funding in the future. Our inability to raise capital would seriously harm our business and product development efforts. In addition, we may choose to raise additional capital due to market conditions or strategic considerations, such as an acquisition, even if we believe we have sufficient funds for our current or future operating plans. To the extent that additional capital is raised through the sale of equity, the issuance of these securities could result in dilution to our stockholders.

We have no credit facility or committed sources of capital available as of July 2, 2006. To the extent operating and capital resources are insufficient to meet future requirements, we will have to raise additional funds to continue the development and commercialization of our technologies. These funds may not be available on favorable terms, or at all. If adequate funds are not available on attractive terms, we may be required to curtail operations significantly or to obtain funds by entering into financing, supply or collaboration agreements on unattractive terms.

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

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

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

A significant portion of our sales are to international customers.

Approximately 43% and 40% of our revenue for the three months ended July 2, 2006 and July 3, 2005, respectively, was derived from customers outside the United States. Approximately 44% and 41% of our revenue for the six months ended July 2, 2006 and July 3, 2005, respectively, was derived from customers outside the United States. We intend to continue to expand our international presence and export sales to international customers and we expect the total amount of non-U.S. sales to continue to grow. Export sales entail a variety of risks, including:

currency exchange fluctuations;

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

difficulties in obtaining export licenses or in overcoming other trade barriers and restrictions resulting in delivery delays; and

significant taxes or other burdens of complying with a variety of foreign laws.

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

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

We design our products primarily for applications in the life sciences and pharmaceutical industries. The usefulness of our technology depends in part upon the availability of genetic data and its usefulness in identifying or treating disease. We are initially focusing on markets for analysis of genetic variation and biological function, namely SNP genotyping and gene expression profiling. Both of these markets are new and emerging, and they may not develop as quickly as we anticipate, or reach their full potential. Other methods of analysis of genetic variation and biological function may emerge and displace the methods we are developing. Also, researchers may not seek or be able to convert raw genetic data into medically valuable information through the analysis of genetic variation and biological function. In addition, factors affecting research and development spending generally, such as changes in the regulatory environment affecting life sciences and pharmaceutical companies, and changes in government programs that provide

funding to companies and research institutions, could harm our business. If useful genetic data is not available or if our target markets do not develop in a timely manner, demand for our products may grow at a slower rate than we expect, and we may not be able to achieve or sustain annual profitability.

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

Our revenue is subject to fluctuations due to the timing of sales of high-value products and services projects, the impact of seasonal spending patterns, the timing and size of research projects our customers perform, changes in overall spending levels in the life sciences industry, the timing and amount of government grant funding programs and other unpredictable factors that may affect customer ordering patterns. Given the difficulty in predicting the timing and magnitude of sales for our products and services, we may experience quarter-to-quarter fluctuations in revenue resulting in the potential for a sequential decline in quarterly revenue. A large portion of our expenses are relatively fixed, including expenses for facilities, equipment and personnel. In addition, we expect operating expenses to continue to increase significantly. Accordingly, if revenue does not grow as anticipated, we may not be able to achieve and maintain annual profitability. Any significant delays in the commercial launch of our products, unfavorable sales trends in our existing product lines, or impacts from the other factors mentioned above, could adversely affect our revenue growth in 2006 or cause a sequential decline in quarterly revenues. Due to the possibility of fluctuations in our revenue and expenses, we believe that quarterly comparisons of our operating results are not a good indication of our future performance. If our operating results fluctuate or do not meet the expectations of stock market analysts and investors, our stock price probably would decline.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

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

The registrant' s 2006 Annual Meeting of Stockholders was held on June 8, 2006. Directors Karin Eastham, Jay T. Flatley and William H. Rastetter, Ph.D. will continue to serve as directors with terms expiring at the 2009 Annual Meeting of Stockholders. The Registrant' s stockholders ratified the appointment of Ernst & Young LLP as the Company' s independent auditors for the year 2006.

The following numbers of votes were cast "for" and to "withhold authority to vote for" the election of Karin Eastham, elected director at the meeting:

For:	36,582,315	Withhold Authority:	2,345,768

The following numbers of votes were cast "for" and to "withhold authority to vote for" the election of Jay T. Flatley, elected director at the meeting:

For:	37,631,400	Withhold Authority:	1,296,683

The following numbers of votes were cast "for" and to "withhold authority to vote for" the election of William H. Rastetter, Ph.D., elected director at the meeting:

For:	36,951,828	Withhold Authority:	1,976,255

The vote on ratification of the appointment of Ernst & Young LLP as the Company' s independent auditors for the year 2006:

For:	38,801,994	Against:	117,237	Abstain:	8,852	Non Votes:	0

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Number	Description of Document
3.2	Bylaws.
10.32	Joint Development and Licensing Agreement dated May 15, 2006 between deCODE genetics, ehf. and Registrant (confidential treatment has been requested with respect to certain portions of this exhibit).
31.1	Certification of Jay T. Flatley pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Christian O. Henry pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Jay T. Flatley pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Christian O. Henry pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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: August 2, 2006

/s/ CHRISTIAN O. HENRY
Christian O. Henry
Vice President and Chief Financial Officer

Exhibit 3.2

BYLAWS

OF

ILLUMINA, INC.

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BYLAWS

OF

ILLUMINA, INC.

ARTICLE I

CORPORATE OFFICES

1.1 REGISTERED OFFICE

The registered office of the corporation shall be 1209 Orange Street, in the City of Wilmington, County of New Castle, State of Delaware. The name of the registered agent of the corporation at such location is Corporation Trust Company.

1.2 OTHER OFFICES

The board of directors may at any time establish other offices at any place or places where the corporation is qualified to do business.

ARTICLE II

MEETINGS OF STOCKHOLDERS

2.1 PLACE OF MEETINGS

Meetings of stockholders shall be held at any place, within or outside the State of Delaware, designated by the board of directors. In the absence of any such designation, stockholders' meetings shall be held at the registered office of the corporation.

2.2 ANNUAL MEETING

The annual meeting of stockholders shall be held each year on a date and at a time designated by the board of directors. In the absence of such designation, the annual meeting of stockholders shall be held on the Second Tuesday of May in each year at 10:00 a.m. However, if such day falls on a legal holiday, then the meeting shall be held at the same time and place on the next succeeding full business day. At the meeting, directors shall be elected and any other proper business may be transacted.

2.3 SPECIAL MEETING

A special meeting of the stockholders may be called, at any time for any purpose or purposes, by the board of directors.

2.4 NOTICE OF STOCKHOLDERS' MEETINGS

All notices of meetings with stockholders shall be in writing and shall be sent or otherwise given in accordance with Section 2.5 of these bylaws not less than ten (10) nor more than sixty (60) days before the date of the meeting to each stockholder entitled to vote at such meeting. The notice shall specify the place, date, and hour of the meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called.

2.5 MANNER OF GIVING NOTICE; AFFIDAVIT OF NOTICE

Written notice of any meeting of stockholders, if mailed, is given when deposited in the United States mail, postage prepaid, directed to the stockholder at his address as it appears on the records of the corporation. An affidavit of the secretary or an assistant secretary or of the transfer agent of the corporation that the notice has been given shall, in the absence of fraud, be prima facie evidence of the facts stated therein.

2.6 QUORUM

The holders of a majority of the stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business except as otherwise provided by statute or by the certificate of incorporation. If, however, such quorum is not present or represented at any meeting of the stockholders, then the stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present or represented. At such adjourned meeting at which a quorum is present or represented, any business may be transacted that might have been transacted at the meeting as originally noticed.

2.7 ADJOURNED MEETING; NOTICE

When a meeting is adjourned to another time or place, unless these bylaws otherwise require, notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting the corporation may transact any business that might have been transacted at the original meeting. If the adjournment is for more than thirty (30) days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

2.8 VOTING

The stockholders entitled to vote at any meeting of stockholders shall be determined in accordance with the provisions of Section 2.11 of these bylaws, subject to the provisions of Sections 217 and 218 of the General Corporation Law of Delaware (relating to voting rights of fiduciaries, pledgors and joint owners of stock and to voting trusts and other voting agreements).

Except as may be otherwise provided in the certificate of incorporation, each stockholder shall be entitled to one vote for each share of capital stock held by such stockholder.

2.9 WAIVER OF NOTICE

Whenever notice is required to be given under any provision of the General Corporation Law of Delaware or of the certificate of incorporation or these bylaws, a written waiver thereof, signed by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders need be specified in any written waiver of notice unless so required by the certificate of incorporation or these bylaws.

2.10 RECORD DATE FOR STOCKHOLDER NOTICE; VOTING; GIVING CONSENTS

In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the board of directors may fix, in advance, a record date, which shall not be more than sixty (60) nor less than ten (10) days before the date of such meeting, nor more than sixty (60) days prior to any other action.

If the board of directors does not so fix a record date:

(a) The record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held.

(b) The record date for determining stockholders entitled to express consent to corporate action in writing without a meeting, when no prior action by the board of directors is necessary, shall be the day on which the first written consent is expressed.

(c) The record date for determining stockholders for any other purpose shall be at the close of business on the day on which the board of directors adopts the resolution relating thereto.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the board of directors may fix a new record date for the adjourned meeting.

2.11 PROXIES

Each stockholder entitled to vote at a meeting of stockholders or to express consent or dissent to corporate action may authorize another person or persons to act for him by a written proxy, signed by the stockholder and filed with the secretary of the corporation, but no such proxy shall be voted or acted upon after three (3) years from its date, unless the proxy provides for a longer period. A proxy shall be deemed signed if the stockholder' s name is placed on the proxy (whether by manual signature, typewriting, telegraphic transmission or otherwise) by the stockholder or the stockholder' s attorney-in-fact. The revocability of a proxy that states on its face that it is irrevocable shall be governed by the provisions of Section 212(c) of the General Corporation Law of Delaware.

2.12 LIST OF STOCKHOLDERS ENTITLED TO VOTE

The officer who has charge of the stock ledger of a corporation shall prepare and make, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten (10) days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

ARTICLE III

DIRECTORS

3.1 POWERS

Subject to the provisions of the General Corporation Law of Delaware and any limitations in the certificate of incorporation or these bylaws relating to action required to be approved by the stockholders or by the outstanding shares, the business and affairs of the corporation shall be managed and all corporate powers shall be exercised by or under the direction of the board of directors.

3.2 NUMBER OF DIRECTORS

The board of directors shall consist of eight (8) members. The number of directors may be changed by an amendment to this bylaw, duly adopted by the board of directors or by the stockholders, or by a duly adopted amendment to the certificate of incorporation. Upon the closing of the first sale of the corporation' s common stock pursuant to a firmly underwritten registered public offering (the "IPO"), the directors shall be divided into three classes, with the term of office of the first class, which class shall initially consist of two (2) directors, to expire at the first annual meeting of stockholders held after the IPO; the term of office of the second class, which shall initially consist of two (2) directors, to expire at the second annual meeting of stockholders held after the IPO; the term of office of the third class, which class shall initially consist of three (3) directors, to expire at the third annual meeting of stockholders held after the IPO; and thereafter for each such term to expire at each third succeeding annual meeting of stockholders held after such election.

No reduction of the authorized number of directors shall have the effect of removing any director before that director' s term of office expires.

3.3 ELECTION, QUALIFICATION AND TERM OF OFFICE OF DIRECTORS

Except as provided in Section 3.4 of these bylaws, directors shall be elected at each annual meeting of stockholders to hold office until the next annual meeting. Directors need not be stockholders unless so required by the certificate of incorporation or these bylaws, wherein other qualifications for directors may be prescribed. Each director, including a director elected to fill a vacancy, shall hold office until his successor is elected and qualified or until his earlier resignation or removal.

Elections of directors need not be by written ballot.

3.4 RESIGNATION AND VACANCIES

Any director may resign at any time upon written notice to the corporation. When one or more directors so resigns and the resignation is effective at a future date, a majority of the directors then in office, including those who have so resigned, shall have power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective, and each director so chosen shall hold office as provided in this section in the filling of other vacancies.

Unless otherwise provided in the certificate of incorporation or these bylaws:

(a) Vacancies and newly created directorships resulting from any increase in the authorized number of directors elected by all of the stockholders having the right to vote as a single class may be filled by a majority of the directors then in office, although less than a quorum, or by a sole remaining director.

(b) Whenever the holders of any class or classes of stock or series thereof are entitled to elect one or more directors by the provisions of the certificate of incorporation, vacancies and newly created directorships of such class or classes or series may be filled by a majority of the directors elected by such class or classes or series thereof then in office, or by a sole remaining director so elected.

If at any time, by reason of death or resignation or other cause, the corporation should have no directors in office, then any officer or any stockholder or an executor, administrator, trustee or guardian of a stockholder, or other fiduciary entrusted with like responsibility for the person or estate of a stockholder, may call a special meeting of stockholders in accordance with the provisions of the certificate of incorporation or these bylaws, or may apply to the Court of Chancery for a decree summarily ordering an election as provided in Section 211 of the General Corporation Law of Delaware.

If, at the time of filling any vacancy or any newly created directorship, the directors then in office constitute less than a majority of the whole board (as constituted immediately prior to any such increase), then the Court of Chancery may, upon application of any stockholder or stockholders holding at least ten (10) percent of the total number of the shares at the time outstanding having the right to vote for such directors, summarily order an election to be held to fill any such vacancies or newly created directorships, or to replace the directors chosen by the directors then in office as aforesaid, which election shall be governed by the provisions of Section 211 of the General Corporation Law of Delaware as far as applicable.

3.5 PLACE OF MEETINGS; MEETINGS BY TELEPHONE

The board of directors of the corporation may hold meetings, both regular and special, either within or outside the State of Delaware.

Unless otherwise restricted by the certificate of incorporation or these bylaws, members of the board of directors, or any committee designated by the board of directors, may participate in a meeting of the board of directors, or any committee, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

3.6 FIRST MEETINGS

The first meeting of each newly elected board of directors shall be held at such time and place as shall be fixed by the vote of the stockholders at the annual meeting and no notice of such meeting shall be necessary to the newly elected directors in order legally to constitute the meeting, provided a quorum shall be present. In the event of the failure of the stockholders to fix the time or place of such first meeting of the newly elected board of directors, or in the event such meeting is not held at the time and

place so fixed by the stockholders, the meeting may be held at such time and place as shall be specified in a notice given as hereinafter provided for special meetings of the board of directors, or as shall be specified in a written waiver signed by all of the directors.

3.7 REGULAR MEETINGS

Regular meetings of the board of directors may be held without notice at such time and at such place as shall from time to time be determined by the board.

3.8 SPECIAL MEETINGS; NOTICE

Special meetings of the board may be called by the president on three (3) days' notice to each director, either personally or by mail, telegram, telex, or telephone; special meetings shall be called by the president or secretary in like manner and on like notice on the written request of two (2) directors unless the board consists of only one (1) director, in which case special meetings shall be called by the president or secretary in like manner and on like notice on the written request of the sole director.

3.9 QUORUM

At all meetings of the board of directors, a majority of the authorized number of directors shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the board of directors, except as may be otherwise specifically provided by statute or by the certificate of incorporation. If a quorum is not present at any meeting of the board of directors, then the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present.

3.10 WAIVER OF NOTICE

Whenever notice is required to be given under any provision of the General Corporation Law of Delaware or of the certificate of incorporation or these bylaws, a written waiver thereof, signed by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the directors, or members of a committee of directors, need be specified in any written waiver of notice unless so required by the certificate of incorporation or these bylaws.

3.11 ADJOURNED MEETING; NOTICE

If a quorum is not present at any meeting of the board of directors, then the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present.

3.12 BOARD ACTION BY WRITTEN CONSENT WITHOUT A MEETING

Unless otherwise restricted by the certificate of incorporation or these bylaws, any action required or permitted to be taken at any meeting of the board of directors, or of any committee thereof, may be taken without a meeting if all members of the board or committee, as the case may be, consent thereto in writing and the writing or writings are filed with the minutes of proceedings of the board or committee.

3.13 FEES AND COMPENSATION OF DIRECTORS

Unless otherwise restricted by the certificate of incorporation or these bylaws, the board of directors shall have the authority to fix the compensation of directors.

3.14 APPROVAL OF LOANS TO OFFICERS

The corporation may lend money to, or guarantee any obligation of, or otherwise assist any officer or other employee of the corporation or of its subsidiary, including any officer or employee who is a director of the corporation or its subsidiary, whenever, in the judgment of the directors, such loan, guaranty or assistance may reasonably be expected to benefit the corporation. The loan, guaranty or other assistance may be with or without interest and may be unsecured, or secured in such manner as the board of directors shall approve, including, without limitation, a pledge of shares of stock of the corporation. Nothing contained in this section shall be deemed to deny, limit or restrict the powers of guaranty or warranty of the corporation at common law or under any statute.

3.15 REMOVAL OF DIRECTORS

Unless otherwise restricted by statute, by the certificate of incorporation or by these bylaws, any director or the entire board of directors may be removed, with or without cause, by the holders of a majority of the shares then entitled to vote at an election of directors.

No reduction of the authorized number of directors shall have the effect of removing any director prior to the expiration of such director' s term of office.

ARTICLE IV

COMMITTEES

4.1 COMMITTEES OF DIRECTORS

The board of directors may, by resolution passed by a majority of the whole board, designate one or more committees, with each committee to consist of one or more of the directors of the corporation. The board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members thereof present at any

meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the board of directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the board of directors or in the bylaws of the corporation, shall have and may exercise all the powers and authority of the board of directors in the management of the business and affairs of the corporation, and may authorize the seal of the corporation to be affixed to all papers that may require it; but no such committee shall have the power or authority to (i) amend the certificate of incorporation (except that a committee may, to the extent authorized in the resolution or resolutions providing for the issuance of shares of stock adopted by the board of directors as provided in Section 151(a) of the General Corporation Law of Delaware, fix any of the preferences or rights of such shares relating to dividends, redemption, dissolution, any distribution of assets of the corporation or the conversion into, or the exchange of such shares for, shares of any other class or classes or any other series of the same or any other class or classes of stock of the corporation), (ii) adopt an agreement of merger or consolidation under Sections 251 or 252 of the General Corporation Law of Delaware, (iii) recommend to the stockholders the sale, lease or exchange of all or substantially all of the corporation' s property and assets, (iv) recommend to the stockholders a dissolution of the corporation or a revocation of a dissolution, or (v) amend the bylaws of the corporation; and, unless the board resolution establishing the committee, the bylaws or the certificate of incorporation expressly so provide, no such committee shall have the power or authority to declare a dividend, to authorize the issuance of stock, or to adopt a certificate of ownership and merger pursuant to Section 253 of the General Corporation Law of Delaware.

4.2 COMMITTEE MINUTES

Each committee shall keep regular minutes of its meetings and report the same to the board of directors when required.

4.3 MEETINGS AND ACTION OF COMMITTEES

Meetings and actions of committees shall be governed by, and held and taken in accordance with, the provisions of Article III of these bylaws, Section 3.5 (place of meetings and meetings by telephone), Section 3.7 (regular meetings), Section 3.8 (special meetings and notice), Section 3.9 (quorum), Section 3.10 (waiver of notice), Section 3.11 (adjournment and notice of adjournment), and Section 3.12 (action without a meeting), with such changes in the context of those bylaws as are necessary to substitute the committee and its members for the board of directors and its members; provided, however, that the time of regular meetings of committees may also be called by resolution of the board of directors and that notice of special meetings of committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee. The board of directors may adopt rules for the government of any committee not inconsistent with the provisions of these bylaws.

ARTICLE V

OFFICERS

5.1 OFFICERS

The officers of the corporation shall be a president, one or more vice presidents, a secretary, and a treasurer. The corporation may also have, at the discretion of the board of directors, a chairman of the board, one or more assistant vice presidents, assistant secretaries, assistant treasurers, and any such other officers as may be appointed in accordance with the provisions of Section 5.3 of these bylaws. Any number of offices may be held by the same person.

5.2 ELECTION OF OFFICERS

The officers of the corporation, except such officers as may be appointed in accordance with the provisions of Sections 5.3 or 5.5 of these bylaws, shall be chosen by the board of directors, subject to the rights, if any, of an officer under any contract of employment.

5.3 SUBORDINATE OFFICERS

The board of directors may appoint, or empower the president to appoint, such other officers and agents as the business of the corporation may require, each of whom shall hold office for such period, have such authority, and perform such duties as are provided in these bylaws or as the board of directors may from time to time determine.

5.4 REMOVAL AND RESIGNATION OF OFFICERS

Subject to the rights, if any, of an officer under any contract of employment, any officer may be removed, either with or without cause, by an affirmative vote of the majority of the board of directors at any regular or special meeting of the board or, except in the case of an officer chosen by the board of directors, by any officer upon whom such power of removal may be conferred by the board of directors.

Any officer may resign at any time by giving written notice to the corporation. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice; and, unless otherwise specified in that notice, the acceptance of the resignation shall not be necessary to make it effective. Any resignation is without prejudice to the rights, if any, of the corporation under any contract to which the officer is a party.

5.5 VACANCIES IN OFFICES

Any vacancy occurring in any office of the corporation shall be filled by the board of directors.

5.6 CHAIRMAN OF THE BOARD

The chairman of the board, if such an officer be elected, shall, if present, preside at meetings of the board of directors and exercise and perform such other powers and duties as may from time to time be assigned to him by the board of directors or as may be prescribed by these bylaws. If there is no president, then the chairman of the board shall also be the chief executive officer of the corporation and shall have the powers and duties prescribed in Section 5.7 of these bylaws.

5.7 PRESIDENT

Subject to such supervisory powers, if any, as may be given by the board of directors to the chairman of the board, if there be such an officer, the president shall be the chief executive officer of the corporation and shall, subject to the control of the board of directors, have general supervision, direction, and control of the business and the officers of the corporation. He shall preside at all meetings of the stockholders and, in the absence or nonexistence of a chairman of the board, at all meetings of the board of directors. He shall have the general powers and duties of management usually vested in the office of president of a corporation and shall have such other powers and duties as may be prescribed by the board of directors or these bylaws.

5.8 VICE PRESIDENT

In the absence or disability of the president, the vice presidents, if any, in order of their rank as fixed by the board of directors or, if not ranked, a vice president designated by the board of directors, shall perform all the duties of the president and when so acting shall have all the powers of, and be subject to all the restrictions upon, the president. The vice presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them respectively by the board of directors, these bylaws, the president or the chairman of the board.

5.9 SECRETARY

The secretary shall keep or cause to be kept, at the principal executive office of the corporation or such other place as the board of directors may direct, a book of minutes of all meetings and actions of directors, committees of directors, and stockholders. The minutes shall show the time and place of each meeting, whether regular or special (and, if special, how authorized and the notice given), the names of those present at directors' meetings or committee meetings, the number of shares present or represented at stockholders' meetings, and the proceedings thereof.

The secretary shall keep, or cause to be kept, at the principal executive office of the corporation or at the office of the corporation' s transfer agent or registrar, as determined by resolution of the board of directors, a share register, or a duplicate share register, showing the names of all stockholders and their addresses, the number and classes of shares held by each, the number and date of certificates evidencing such shares, and the number and date of cancellation of every certificate surrendered for cancellation.

The secretary shall give, or cause to be given, notice of all meetings of the stockholders and of the board of directors required to be given by law or by these bylaws. He shall keep the seal of the corporation, if one be adopted, in safe custody and shall have such other powers and perform such other duties as may be prescribed by the board of directors or by these bylaws.

5.10 TREASURER

The treasurer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, retained earnings, and shares. The books of account shall at all reasonable times be open to inspection by any director.

The treasurer shall deposit all money and other valuables in the name and to the credit of the corporation with such depositaries as may be designated by the board of directors. He shall disburse the funds of the corporation as may be ordered by the board of directors, shall render to the president and directors, whenever they request it, an account of all of his transactions as treasurer and of the financial condition of the corporation, and shall have such other powers and perform such other duties as may be prescribed by the board of directors or these bylaws.

5.11 ASSISTANT SECRETARY

The assistant secretary, or, if there is more than one, the assistant secretaries in the order determined by the stockholders or board of directors (or if there be no such determination, then in the order of their election) shall, in the absence of the secretary or in the event of his or her inability or refusal to act, perform the duties and exercise the powers of the secretary and shall perform such other duties and have such other powers as the board of directors or the stockholders may from time to time prescribe.

5.12 ASSISTANT TREASURER

The assistant treasurer, or, if there is more than one, the assistant treasurers, in the order determined by the stockholders or board of directors (or if there be no such determination, then in the order of their election), shall, in the absence of the treasurer or in the event of his or her inability or refusal to act, perform the duties and exercise the powers of the treasurer and shall perform such other duties and have such other powers as the board of directors or the stockholders may from time to time prescribe.

5.13 AUTHORITY AND DUTIES OF OFFICERS

In addition to the foregoing authority and duties, all officers of the corporation shall respectively have such authority and perform such duties in the management of the business of the corporation as may be designated from time to time by the board of directors or the stockholders.

ARTICLE VI

INDEMNITY

6.1 INDEMNIFICATION OF DIRECTORS AND OFFICERS

The corporation shall, to the maximum extent and in the manner permitted by the General Corporation Law of Delaware, indemnify each of its directors and officers against expenses (including attorneys' fees), judgments, fines, settlements, and other amounts actually and reasonably incurred in connection with any proceeding, arising by reason of the fact that such person is or was an agent of the corporation. For purposes of this Section 6.1, a "director" or "officer" of the corporation includes any person (i) who is or was a director or officer of the corporation, (ii) who is or was serving at the request of the corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise, or (iii) who was a director or officer of a corporation which was a predecessor corporation of the corporation or of another enterprise at the request of such predecessor corporation.

6.2 INDEMNIFICATION OF OTHERS

The corporation shall have the power, to the extent and in the manner permitted by the General Corporation Law of Delaware, to indemnify each of its employees and agents (other than directors and officers) against expenses (including attorneys' fees), judgments, fines, settlements, and other amounts actually and reasonably incurred in connection with any proceeding, arising by reason of the fact that such person is or was an agent of the corporation. For purposes of this Section 6.2, an "employee" or "agent" of the corporation (other than a director or officer) includes any person (i) who is or was an employee or agent of the corporation, (ii) who is or was serving at the request of the corporation as an employee or agent of another corporation, partnership, joint venture, trust or other enterprise, or (iii) who was an employee or agent of a corporation which was a predecessor corporation of the corporation or of another enterprise at the request of such predecessor corporation.

6.3 INSURANCE

The corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the corporation would have the power to indemnify him against such liability under the provisions of the General Corporation Law of Delaware.

ARTICLE VII

RECORDS AND REPORTS

7.1 MAINTENANCE AND INSPECTION OF RECORDS

The corporation shall, either at its principal executive office or at such place or places as designated by the board of directors, keep a record of its stockholders listing their names and addresses and the number and class of shares held by each stockholder, a copy of these bylaws as amended to date, accounting books, and other records.

Any stockholder of record, in person or by attorney or other agent, shall, upon written demand under oath stating the purpose thereof, have the right during the usual hours for business to inspect for any proper purpose the corporation' s stock ledger, a list of its stockholders, and its other books and records and to make copies or extracts therefrom. A proper purpose shall mean a purpose reasonably related to such person' s interest as a stockholder. In every instance where an attorney or other agent is the person who seeks the right to inspection, the demand under oath shall be accompanied by a power of attorney or such other writing that authorizes the attorney or other agent to so act on behalf of the stockholder. The demand under oath shall be directed to the corporation at its registered office in Delaware or at its principal place of business.

The officer who has charge of the stock ledger of a corporation shall prepare and make, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten (10) days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

7.2 INSPECTION BY DIRECTORS

Any director shall have the right to examine the corporation' s stock ledger, a list of its stockholders, and its other books and records for a purpose reasonably related to his position as a director. The Court of Chancery is hereby vested with the exclusive jurisdiction to determine whether a director is entitled to the inspection sought. The Court may summarily order the corporation to permit the director to inspect any and all books and records, the stock ledger, and the stock list and to make copies or extracts therefrom. The Court may, in its discretion, prescribe any limitations or conditions with reference to the inspection, or award such other and further relief as the Court may deem just and proper.

7.3 ANNUAL STATEMENT TO STOCKHOLDERS

The board of directors shall present at each annual meeting, and at any special meeting of the stockholders when called for by vote of the stockholders, a full and clear statement of the business and condition of the corporation.

7.4 REPRESENTATION OF SHARES OF OTHER CORPORATIONS

The chairman of the board, the president, any vice president, the treasurer, the secretary or assistant secretary of this corporation, or any other person authorized by the board of directors or the president or a vice president, is authorized to vote, represent, and exercise on behalf of this corporation all rights incident to any and all shares of any other corporation or corporations standing in the name of this corporation. The authority granted herein may be exercised either by such person directly or by any other person authorized to do so by proxy or power of attorney duly executed by such person having the authority.

ARTICLE VIII

GENERAL MATTERS

8.1 CHECKS

From time to time, the board of directors shall determine by resolution which person or persons may sign or endorse all checks, drafts, other orders for payment of money, notes or other evidences of indebtedness that are issued in the name of or payable to the corporation, and only the persons so authorized shall sign or endorse those instruments.

8.2 EXECUTION OF CORPORATE CONTRACTS AND INSTRUMENTS

The board of directors, except as otherwise provided in these bylaws, may authorize any officer or officers, or agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the corporation; such authority may be general or confined to specific instances. Unless so authorized or ratified by the board of directors or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

8.3 STOCK CERTIFICATES; PARTLY PAID SHARES

The shares of a corporation shall be represented by certificates, provided that the board of directors of the corporation may provide by resolution or resolutions that some or all of any or all classes or series of its stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the corporation. Notwithstanding the adoption of such a resolution by the board of directors, every holder of stock

represented by certificates and upon request every holder of uncertificated shares shall be entitled to have a certificate signed by, or in the name of the corporation by the chairman or vice-chairman of the board of directors, or the president or vice-president, and by the treasurer or an assistant treasurer, or the secretary or an assistant secretary of such corporation representing the number of shares registered in certificate form. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate has ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

The corporation may issue the whole or any part of its shares as partly paid and subject to call for the remainder of the consideration to be paid therefor. Upon the face or back of each stock certificate issued to represent any such partly paid shares, upon the books and records of the corporation in the case of uncertificated partly paid shares, the total amount of the consideration to be paid therefor and the amount paid thereon shall be stated. Upon the declaration of any dividend on fully paid shares, the corporation shall declare a dividend upon partly paid shares of the same class, but only upon the basis of the percentage of the consideration actually paid thereon.

8.4 SPECIAL DESIGNATION ON CERTIFICATES

If the corporation is authorized to issue more than one class of stock or more than one series of any class, then the powers, the designations, the preferences, and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate that the corporation shall issue to represent such class or series of stock; provided, however, that, except as otherwise provided in Section 202 of the General Corporation Law of Delaware, in lieu of the foregoing requirements there may be set forth on the face or back of the certificate that the corporation shall issue to represent such class or series of stock a statement that the corporation will furnish without charge to each stockholder who so requests the powers, the designations, the preferences, and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

8.5 LOST CERTIFICATES

Except as provided in this Section 8.5, no new certificates for shares shall be issued to replace a previously issued certificate unless the latter is surrendered to the corporation and cancelled at the same time. The corporation may issue a new certificate of stock or uncertificated shares in the place of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the corporation may require the owner of the lost, stolen or destroyed certificate, or his legal representative, to give the corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate or uncertificated shares.

8.6 CONSTRUCTION; DEFINITIONS

Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the Delaware General Corporation Law shall govern the construction of these bylaws. Without limiting the generality of this provision, the singular number includes the plural, the plural number includes the singular, and the term "person" includes both a corporation and a natural person.

8.7 DIVIDENDS

The directors of the corporation, subject to any restrictions contained in the certificate of incorporation, may declare and pay dividends upon the shares of its capital stock pursuant to the General Corporation Law of Delaware. Dividends may be paid in cash, in property, or in shares of the corporation' s capital stock.

The directors of the corporation may set apart out of any of the funds of the corporation available for dividends a reserve or reserves for any proper purpose and may abolish any such reserve. Such purposes shall include but not be limited to equalizing dividends, repairing or maintaining any property of the corporation, and meeting contingencies.

8.8 FISCAL YEAR

The fiscal year of the corporation shall be fixed by resolution of the board of directors and may be changed by the board of directors.

8.9 SEAL

The seal of the corporation shall be such as from time to time may be approved by the board of directors.

8.10 TRANSFER OF STOCK

Upon surrender to the corporation or the transfer agent of the corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignation or authority to transfer, it shall be the duty of the corporation to issue a new certificate to the person entitled thereto, cancel the old certificate, and record the transaction in its books.

8.11 STOCK TRANSFER AGREEMENTS

The corporation shall have power to enter into and perform any agreement with any number of stockholders of any one or more classes of stock of the corporation to restrict the transfer of shares of stock of the corporation of any one or more classes owned by such stockholders in any manner not prohibited by the General Corporation Law of Delaware.

8.12 REGISTERED STOCKHOLDERS

The corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends and to vote as such owner, shall be entitled to hold liable for calls and assessments the person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of another person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

ARTICLE IX

AMENDMENTS

The original or other bylaws of the corporation may be adopted, amended or repealed by the stockholders entitled to vote; provided, however, that the corporation may, in its certificate of incorporation, confer the power to adopt, amend or repeal bylaws upon the directors. The fact that such power has been so conferred upon the directors shall not divest the stockholders of the power, nor limit their power to adopt, amend or repeal bylaws.

ARTICLE X

DISSOLUTION

If it should be deemed advisable in the judgment of the board of directors of the corporation that the corporation should be dissolved, the board, after the adoption of a resolution to that effect by a majority of the whole board at any meeting called for that purpose, shall cause notice to be mailed to each stockholder entitled to vote thereon of the adoption of the resolution and of a meeting of stockholders to take action upon the resolution.

At the meeting a vote shall be taken for and against the proposed dissolution. If a majority of the outstanding stock of the corporation entitled to vote thereon votes for the proposed dissolution, then a certificate stating that the dissolution has been authorized in accordance with the provisions of Section 275 of the General Corporation Law of Delaware and setting forth the names and residences of the directors and officers shall be executed, acknowledged, and filed and shall become effective in accordance with Section 103 of the General Corporation Law of Delaware. Upon such certificate' s becoming effective in accordance with Section 103 of the General Corporation Law of Delaware, the corporation shall be dissolved.

Whenever all the stockholders entitled to vote on a dissolution consent in writing, either in person or by duly authorized attorney, to a dissolution, no meeting of directors or stockholders shall be necessary. The consent shall be filed and shall become effective in accordance with Section 103 of the General Corporation Law of Delaware. Upon such consent' s becoming effective in accordance with Section 103 of the General Corporation Law of Delaware, the corporation shall be

dissolved. If the consent is signed by an attorney, then the original power of attorney or a photocopy thereof shall be attached to and filed with the consent. The consent filed with the Secretary of State shall have attached to it the affidavit of the secretary or some other officer of the corporation stating that the consent has been signed by or on behalf of all the stockholders entitled to vote on a dissolution; in addition, there shall be attached to the consent a certification by the secretary or some other officer of the corporation setting forth the names and residences of the directors and officers of the corporation.

ARTICLE XI

CUSTODIAN

11.1 APPOINTMENT OF A CUSTODIAN IN CERTAIN CASES

The Court of Chancery, upon application of any stockholder, may appoint one or more persons to be custodians and, if the corporation is insolvent, to be receivers, of and for the corporation when:

(a) at any meeting held for the election of directors the stockholders are so divided that they have failed to elect successors to directors whose terms have expired or would have expired upon qualification of their successors; or

(b) the business of the corporation is suffering or is threatened with irreparable injury because the directors are so divided respecting the management of the affairs of the corporation that the required vote for action by the board of directors cannot be obtained and the stockholders are unable to terminate this division; or

(c) the corporation has abandoned its business and has failed within a reasonable time to take steps to dissolve, liquidate or distribute its assets.

11.2 DUTIES OF CUSTODIAN

The custodian shall have all the powers and title of a receiver appointed under Section 291 of the General Corporation Law of Delaware, but the authority of the custodian shall be to continue the business of the corporation and not to liquidate its affairs and distribute its assets, except when the Court of Chancery otherwise orders and except in cases arising under Sections 226(a)(3) or 352(a)(2) of the General Corporation Law of Delaware.

CERTIFICATE OF ADOPTION OF BYLAWS

OF

ILLUMINA, INC.

Adoption by Incorporator

The undersigned person appointed in the Certificate of Incorporation to act as the Incorporator of Illumina, Inc. hereby adopts the foregoing bylaws, comprising 20 pages, as the Bylaws of the corporation.

Executed as of _____, 2000.

_____

Martin J. Waters, Incorporator

Certificate by Secretary of Adoption by Incorporator

The undersigned hereby certifies that he is the duly elected, qualified, and acting Secretary of Illumina, Inc. and that the foregoing Bylaws, comprising 20 pages, were adopted as the Bylaws of the corporation on _____, 2000, by the person appointed in the Certificate of Incorporation to act as the Incorporator of the corporation.

IN WITNESS WHEREOF, the undersigned has hereunto set his hand and affixed the corporate seal this _____ day of _____, 2000.

_____

Michael J. O' Donnell, Secretary

(ALTERNATIVE)

CERTIFICATE OF ADOPTION OF BYLAWS

OF

ILLUMINA, INC.

Certificate by Secretary of Adoption by Stockholders' Vote

The undersigned hereby certifies that he is the duly elected, qualified, and acting Secretary of Illimina, Inc. and that the foregoing Bylaws, comprising 20 pages, were submitted to the stockholders at their first meeting held on _____, 2000, and recorded in the minutes thereof and were ratified by the vote of stockholders entitled to exercise the majority of the voting power of the corporation.

IN WITNESS WHEREOF, the undersigned has hereunto set his hand and affixed the corporate seal this _____ day of _____ 2000.

_____

Michael J. O' Donnell, Secretary

CERTAIN CONFIDENTIAL INFORMATION CONTAINED IN THIS DOCUMENT, MARKED BY BRACKETS, HAS BEEN OMITTED PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT PURSUANT TO RULE 24B-2 UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. THE OMITTED MATERIAL HAS BEEN FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION.

Exhibit 10.32

JOINT DEVELOPMENT AND LICENSING AGREEMENT

This JOINT DEVELOPMENT AND LICENSING AGREEMENT (this "Development Agreement") is made effective as of the 15th day of May, 2006 (the "Effective Date") by and among ILLUMINA, INC., a Delaware corporation having its principal place of business at 9885 Towne Centre Drive, San Diego, California, 92121, including its subsidiary CyVera Corporation, having a place of business at 50 Barnes Park North, Wallingford, CT 06492 (hereinafter collectively referred to as "Illumina"), and DECODE GENETICS, EHF., a limited liability company having its principal place of business at Sturlugata 8, Reykjavik, Iceland ("deCODE"). Illumina and deCODE are sometimes referred to herein individually as a "Party" and, collectively, as the "Parties." Defined terms have the respective meanings set forth in Section 1 hereof.

RECITALS

1. deCODE possesses certain Intellectual Property, well-phenotyped patient samples, the ability to create well-planned clinically and statistically relevant cohorts studies in the disease states referred to herein, the ability to associate research data generated utilizing those cohorts to enable the discovery and validation of potentially relevant diagnostic content, and has rights to contribute Diagnostic Content.

2. Illumina possesses certain Intellectual Property and has developed a Diagnostic Platform especially conducive to genotyping multiple SNPs or to assay other relevant diagnostic targets for clinical diagnostics.

3. Illumina has also developed a Discovery Platform that can facilitate extension of the Diagnostic Content to include other members of the molecular pathways defined by the genes in the Diagnostic Content that may contain variants that further increase the population attributed risk and therefore the value of the corresponding diagnostic.

4. The Parties desire to enter into an exclusive co-development collaboration to commercialize diagnostic assays, pursuant and subject to the terms of this Development Agreement, whereby (a) deCODE provides Diagnostic Content, (b) Illumina provides the Discovery Platforms to deCODE, (c) Illumina independently develops and commercializes a Diagnostic Platform for deploying the Diagnostic Content, and (d) the Parties co-develop Diagnostic Products for the Diagnostic Platform.

5. The Parties have executed a Supply Agreement whose terms are contingent upon execution of this Development Agreement. The Supply Agreement covers the terms and conditions for Illumina to supply a Discovery Platform for whole genome genotyping to deCODE.

NOW, THEREFORE, in consideration of the premises, covenants and agreements set forth herein, and for other good and valuable consideration, the mutual receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound hereby, the Parties hereby agree as follows:

1. Definitions.

As used in this Development Agreement, the following terms, whether used in the singular or plural, shall have the following meanings:

"AAA" shall have the meaning set forth in Section 12.1.

"Affiliate" shall mean any corporation or other business entity (a) in which a Party owns or controls, directly or indirectly, at least fifty percent (50%) of the outstanding stock or other voting rights entitled to elect directors, or (b) which owns or controls, directly or indirectly, at least fifty percent (50%) of the outstanding stock or other voting rights entitled to elect directors, of a Party, or (c) which is under common control with a Party, through ownership or control of at least fifty percent (50%) of the outstanding stock or other voting rights entitled to elect directors; provided, however, in any country where the local law does not permit foreign equity participation of at least fifty percent (50%), then an "Affiliate" includes any company in which the Party owns or controls or is owned or controlled by, directly or indirectly, the maximum percentage of outstanding stock or voting rights permitted by local law.

"Allowable Expenses" shall have the meaning set forth in Section 7.3.

"Bankruptcy Code" shall have the meaning set forth in Section 6.5.

"BARD1 Breast-cancer associated Variants" shall have the meaning set forth in Appendix 1.

"Budget" shall mean the annual projected income and related statements for the Development Effort in a particular calendar year or portion thereof, covering, among other things, costs and expenses for capital and facility investments, research and development, additional validation and clinical trials, commercialization and marketing, and to the extent practicable, reasonable estimates for On-going Development Costs and Other Costs.

"Change in Control" shall mean and shall be deemed to occur if a Party is involved in a merger, reorganization, or consolidation in which its shareholders immediately prior to such transaction would hold less than fifty percent (50%) of the securities or other ownership or voting interests representing the equity of the surviving entity immediately after such merger, reorganization or consolidation, or if there is a sale of all or substantially all of a Party' s assets or business relating to this Development Agreement.

"Chip" shall mean the HumanHap300 Genotyping BeadChip or substantially equivalent product that permits the genotyping of approximately 317,000 SNP loci per Sample using the Infinium™ Reagents.

"COGS" shall have the meaning set forth in Section 7.3.

"Commercially Reasonable Efforts" shall mean, with respect to the efforts to be expended by a Party with respect to any objective, reasonable, diligent, good faith efforts to accomplish such objective as such Party would normally use to accomplish a similar objective under similar circumstances.

"Confidential Information" shall mean all Know-How or other information, including, without limitation, proprietary information and materials (whether or not patentable) regarding a Party' s technology, products, business information or objectives, that is designated as confidential by the disclosing Party or is treated as confidential by the disclosing Party in the regular course of business.

"Controlled" shall mean, with respect to any Intellectual Property Right, the possession (whether by license (other than a license granted pursuant to this Development Agreement) or ownership, or by control over an Affiliate having possession by license or ownership) by a Party, of the ability to grant to the other Party access, a license or sublicense without violating the terms of any agreement with any third party.

"deCODE" shall have the meaning set forth in the preamble to this Development Agreement.

"deCODE Marks" shall have the meaning set forth in Section 6.1(d).

"deCODE Patents" shall have the meaning set forth in Section 6.1(a).

"Development" shall mean the Parties' activities directed towards the validation, development, analysis, manufacture, achievement of regulatory approval for, and sale and marketing of the Diagnostic Products throughout the world.

"Development Effort" shall mean the Parties' Development activities hereunder.

"Development Agreement" shall have the meaning set forth in the preamble to this Development Agreement.

"Diagnostic Content" shall mean have the meaning set forth in Appendix 1.

"Diagnostic Platform" shall mean the Microbead scanner and associated digitally encoded Microbead technology currently in development by Illumina or other relevant technology platforms which the Illumina intends to use for genotyping multiple SNPs or for other relevant diagnostic targets in the clinical diagnostics market.

"Diagnostic Products" shall mean any commercially available testing kit or service able to detect the Diagnostic Content as set forth in Appendix 1.

"Discovery Platform" shall mean Illumina' s BeadStation, robots, corresponding LIMS systems and HumanHap300 Genotyping BeadChip or substantially equivalent product that permits the genotyping of approximately 317,000 SNP loci per Sample using the Infinium™ Reagents.

"Effective Date" shall have the meaning set forth in the preamble to this Development Agreement.

"Gross Profit" shall have the meaning set forth in Section 7.3.

"Illumina" shall have the meaning set forth in the preamble to this Development Agreement.

"Illumina Marks" shall have the meaning set forth in Section 6.2(c).

"Independent Accountants" shall have the meaning set forth in Section 8.2.

"Industry Communications" shall mean industry communications and Diagnostic Product press releases, Diagnostic Product branding, commercial trade show positioning and presence, scientific publications and Diagnostic Product related literature.

"Intellectual Property" shall mean all U.S. and non-U.S. Patents, Know-How, copyrights and other intellectual property and proprietary rights (regardless of whether such rights are registered, unregistered or pending) protectable under the laws of any jurisdiction, together with all rights under applications therefor and registrations thereof.

"Intellectual Property Subcommittee" shall have the meaning set forth in Section 2.5.

"Joint Management Committee" shall have the meaning set forth in Section 2.1.

"Joint Intellectual Property" shall have the meaning set forth in Section 6.4.

"Know-How" shall mean any information or materials, whether or not patentable and whether stored or transmitted in oral, documentary, electronic or other form, Controlled by a Party during the Term that is necessary or useful for the development, manufacture or commercialization of Diagnostic Products. Know-How may include, without limitation, ideas, concepts, formulas, methods, procedures, designs, plans, documents, data, inventions, discoveries, developments, e-commerce tools, works of authorship, standard operating procedures, quality control testing procedures, customer service software and any information relating to research and development plans, experiments, results, trade secrets (including proprietary processes, inventions, formulae and ideas), and technical, manufacturing, marketing, financial, regulatory, commercial, personnel and other business information and plans, and any scientific, clinical, regulatory, marketing, financial and commercial information or data; in each case, to the extent necessary or useful for the development, manufacture or commercialization of Diagnostic Products.

"LTA4H" shall have the meaning set forth in Appendix 1

"LTA4H Pathway Genes" shall have the meaning set forth in Appendix 2.

"Microbead" shall mean a particle of glass, or other suitable substrate material, having an optically readable digital code therein developed, manufactured and/or sold by Illumina.

"Net Sales" shall have the meaning set forth in Section 7.3.

"On-going Development Costs" shall have the meaning set forth in Section 7.3.

"Operating Profit" shall have the meaning set forth in Section 7.3.

"Other Costs" shall have the meaning set forth in Section 7.3.

"Party" shall have the meaning set forth in the preamble to this Development Agreement.

"Patents" shall mean U.S. and non-U.S. (i) unexpired letters patent (including inventor' s certificates) which have not lapsed or been held invalid or unenforceable by a court or administrative body of competent jurisdiction from which no appeal can be taken or has been taken within the required time period, including, without limitation, any substitution, extension, registration, confirmation, reissue, reexamination, renewal or any like filing thereof and (ii) pending applications for letters patent that have not been the subject of a rejection notice from which an appeal cannot be taken or in respect of which the applicable period of appeal has expired, including, without limitation, any continuation, division or continuation-in-part thereof and any provisional applications.

"Pricing Guidelines" shall mean the Development' s global pricing strategy and range of pricing for the Diagnostic Products, which are subject to review and revision by the Joint Management Committee at least on an annual basis, taking into consideration, changes in currency exchange rates, market conditions, competitive pricing and industry average sales prices.

"Progress Reports" shall mean the report generated and reviewed by the Joint Management Committee describing the progress of the Development.

"Quarter" shall mean a calendar quarter ending on March 31, June 30, September 30 and December 31.

"Reagents" shall mean the Infinium™ reagent kits that Illumina supplies to allow whole genome genotyping on a Chip.

"Samples" shall mean an individual human DNA sample collected for deCODE' s internal research purposes.

"SG&A Allocation" shall have the meaning set forth in Section 7.3.

"SNP" shall mean a single nucleotide polymorphism.

"Solely Owned Intellectual Property" shall have the meaning set forth in Section 6.4.

"Statistical/Informatics Programs" shall have the meaning set forth in Section 6.1(c) and Appendix 6.

"Supply Agreement" shall mean the agreement entered into between the Parties dated the 10th day of May, 2006.

"TCF7L2" shall have the meaning set forth in Appendix 1.

"TCF7L2 Pathway Genes" shall have the meaning set forth in Appendix 3.

"Term" shall mean the period of time beginning on the Effective Date and ending on the date that this Development Agreement expires in accordance with Section 10.1.

2. Management of Development.

2.1 Formation of Joint Management Committee; Purposes and Principles. Within fourteen (14) days after the Effective Date, Illumina and deCODE shall establish a committee (the "Joint Management Committee") that will govern, subject to approval by authorized representatives of the respective Parties, and have overall responsibility for the success of the Development Effort. The purposes of the Joint Management Committee will be (i) to determine the overall strategy for the Development Effort consistent with the terms and conditions of this Development Agreement, (ii) to coordinate the Parties' activities hereunder, and (iii) to develop, approve and effectuate plans for the Development Effort as provided herein. It is the intent of the Parties to assign responsibilities for the various operational aspects of the Development Effort to those portions of their respective organizations which have the appropriate resources, expertise and responsibility for such functions. The Parties intend that their respective organizations will work together towards the success of the Development Effort.

2.2 Membership. The Joint Management Committee shall be composed of an equal number of representatives appointed by each Party. The Joint Management Committee shall initially have six (6) members, consisting of three (3) representatives from each Party; provided that the Joint Management Committee may change its size from time to time by unanimous consent of its members. A Party' s representatives shall serve at the discretion of such Party and each Party may replace any of its Joint Management Committee representatives at any time upon written notice to the other Party. Each representative appointed by a Party shall have the requisite experience, knowledge and seniority to be able to make decisions on behalf of such Party with respect to the Development Effort. From time to time, the Joint Management Committee may establish subcommittees or subordinate committees (which may or may not include members of the Joint Management Committee itself) to oversee particular projects or activities, and such subcommittees or subordinate committees shall be constituted and shall operate as the Joint Management Committee agrees until such particular projects or

activities are deemed complete or are no longer required as determined by the Joint Management Committee.

2.3 Meetings of the Joint Management Committee. The Joint Management Committee shall hold meetings at such times as it elects to do so, but in no event shall such meetings be held less frequently than once every Quarter, unless the Parties mutually agree to an alternate schedule. The Joint Management Committee shall meet alternately at Illumina' s facilities in San Diego, California and deCODE' s facilities in Reykjavik, Iceland or at such locations as the Parties may otherwise agree (including by audio or video teleconference with the consent of each Party). With the consent of the representatives of each Party serving on the Joint Management Committee, other representatives of each Party or of third parties involved in the collaboration may attend meetings of the Joint Management Committee as nonvoting participants. Each Party shall be responsible for all of its own expenses of participating in the Joint Management Committee.

2.4 Specific Responsibilities of the Joint Management Committee. In addition to its overall responsibility for managing the Development Effort, subject to approval by the authorized representative of the respective Parties, the Joint Management Committee shall have exclusive responsibility to:

[*]

2.5 Intellectual Property Subcommittee. The Joint Management Committee shall organize the establishment of an Intellectual Property Subcommittee composed of one (1) primary representative appointed by each Party; provided that each Party may choose to appoint a second representative if they so choose. The Intellectual Property Subcommittee shall evaluate subject matter from the Development Effort and make recommendations to the Joint Management Committee regarding whether a patent application(s) should be filed for such subject matter.

2.6 Financial Manager. Within fourteen (14) days after the Joint Management Committee is established, the Joint Management Committee shall appoint one (1) senior financial manager, whom shall have expertise in the areas of accounting, cost allocation, budgeting and financial reporting. The financial manager shall have the responsibility for administering all financial, budgetary and accounting matters that arise in connection with the Development Effort and/or the Budget, as well as such other duties as may be referred or delegated by the Joint Management Committee, subject to the overall supervision of the Joint Management Committee. It shall be the responsibility of the financial manager to prepare the Budget(s) and, within thirty (30) days following their appointment, shall prepare and recommend to the Joint Management Committee for its review and approval, a Budget for the remainder of calendar year 2006. The Budget will include a breakdown of the operations by month. Thereafter, on or before October 31st of each year the financial manager shall review and amend the Budget for the next calendar year, as appropriate, for recommendation to the Joint Management Committee for its review and approval. During any calendar year, the Budget may only be modified or amended upon written approval of the Joint Management Committee.

2.7 Decision-Making. All decisions of the Joint Management Committee shall be made by unanimous vote of the Parties, with each Party' s representatives collectively having one (1) vote on behalf of such Party regardless of the number of representatives in attendance. Any deadlocks in disputes arising from the Joint Management Committee, including as to specific activities to be conducted and/or cost estimates of elements of the development and commercialization of Diagnostic Products, shall be promptly referred to designated representatives selected by the Parties' respective Chief Executive Officers ("Representatives") or equivalent for resolution. If the Representatives cannot resolve such dispute, the parties shall agree to a binding arbitration process as set forth in Section 12.

2.8 Management Team. Each Party shall appoint a senior representative (who may or may not be a member of the Joint Management Committee) to act as its project coordinator for all of the activities contemplated under this Development Agreement. Such project coordinators will be responsible for the day-to-day worldwide coordination of the Development Effort and will serve to facilitate communication between the Parties. Such project coordinators will be experienced in project management and diagnostics and have a general understanding of development, regulatory, manufacturing and sales and marketing issues.

2.9 Clinical Advisory Group. The Parties may consider appointment of an independent clinical advisory group for each diagnostic area for guidance to the Joint Management Committee on the Development and commercialization of the Diagnostic Products.

2.10 Development Guidelines.

(a) General. In all matters related to the Development Effort, the Parties shall strive to balance as best they can the legitimate interests and concerns of the Parties and to realize the economic potential of the Diagnostic Products and each Party agrees to use Commercially Reasonable Efforts to carry out the activities assigned to such Party in this Development Agreement and/or by the Joint Management Committee. In conducting activities under this Development Agreement, neither Party shall intentionally prejudice the value of any Diagnostic Product by reason of such Party' s activities outside of the Development Effort; provided that nothing in this Development Agreement is intended to require either Party to limit or prejudice the development or commercialization of products that are not Diagnostic Products. Furthermore, nothing in this Development Agreement shall be construed as restricting such businesses or imposing a duty to market and/or sell and exploit the Diagnostic Products to the exclusion of, or in preference to, any other product or process, or in any way other than in accordance with its normal commercial practices.

(b) Independence. Subject to the terms of this Development Agreement, the activities and resources of each Party shall be managed by such Party, acting independently and in its individual capacity. Nothing in this Development Agreement shall constitute or create a joint venture, partnership, or any other similar arrangement between the Parties and the Parties owe no fiduciary duty or other duties or obligations to

each other by virtue of any relationship created by this Development Agreement. Without limiting the foregoing, the Parties also acknowledge and agree that if it should be determined by a court of competent jurisdiction or by the arbitration panel convened pursuant to Section 12, that notwithstanding the foregoing, such duties exist, the Parties hereby waive same and agree not to assert or rely on same in any proceeding. Neither Party is authorized to act as agent for the other Party nor shall either Party have the power to bind or obligate the other Party in any manner.

(c) Compliance with Applicable Law. Each Party agrees to conduct all of its activities in furtherance of or in connection with the Development Effort in compliance with all applicable laws and regulations.

2.11 Actions by Affiliates. Any action required to be performed by a Party under this Development Agreement may be performed by an Affiliate of such Party; provided, however that such Party shall (a) not thereby be relieved of any of its responsibilities under this Development Agreement, and (b) be jointly and severally responsible with such Affiliate for failure by such Affiliate to comply with all relevant restrictions, limitations and obligations in this Development Agreement.

3. Development Plan.

3.1 The Parties' intention is to enter into this Development Agreement as a condition to certain of the terms of the Supply Agreement, wherein deCODE will be provided a Discovery Platform and a discount on Chips according to the terms and conditions stated therein. In consideration for the discount offered to deCODE by Illumina in the Supply Agreement and subject to the Development Agreement, deCODE grants Illumina certain rights to develop and market Diagnostic Products, as described in Section 6, containing deCODE Diagnostic Content.

3.2 Subject to the terms and conditions of this Development Agreement, deCODE and Illumina will hereby agree to undertake the following:

(a) The Parties will jointly develop Diagnostic Products for the following fields: (1) myocardial infarction; (2) type 2 diabetes; and (3) breast cancer. Development Effort priority will be given to the Diagnostic Product for myocardial infarction.

(b) To perform the activities set forth in Section 3.2(a), the Parties agree to use Commercially Reasonable Efforts with respect to the following respective undertakings:

(i) Illumina will develop, manufacture, market and sell Diagnostic Products for deployment on the Illumina Diagnostic Platform;

(ii) jointly performing clinical validation in additional populations;

(iii) jointly performing clinical trials for Diagnostic Products;

(iv) jointly performing the analysis of the results, including the use of any Statistical/Informatics Programs that deCODE has, and

(v) jointly filing for regulatory approval of the Diagnostic Product(s) with the FDA or equivalent foreign regulatory body.

The foregoing joint undertakings shall be effected under the supervision of the Joint Management Committee.

(c) deCODE will provide already assayed samples to further enable the Development Effort.

(d) The Parties have contemplated that additional variants of the genes in the original Diagnostic Content may be found in Caucasian or other ethnic groups. If such additional variants are found, the Joint Management Committee will evaluate and determine the value in updating the original Diagnostic Products.

(e) As part of the 100,000 Sample project, as described in the Supply Agreement, deCODE will prioritize running cardiovascular disease, type-2 diabetes and breast cancer patient cohorts on the Illumina Chips within [*] after the Effective Date, and will further include special analysis of the genes of the molecular pathways defined by LTA4H, TCF7L2, and the BARD1 Variants. Appendices 2, 3 and 4 identify known pathway members for LTA4H, TCF7L2 and BARD1, respectively. The Joint Management Committee will evaluate and determine the value of updating the Diagnostic Products.

(f) If the Joint Management Committee so determines, the Parties will co-develop any updates to the original Diagnostic Products.

3.3 Development Effort By One Party. The Parties acknowledge that, from time to time during the Term, the Parties may differ as to future developments of Diagnostic Products and one party may elect to discontinue funding the Development Effort of a Diagnostic Product(s). Any such discontinuation shall constitute termination of the terms of this Development Agreement which would otherwise apply to such Development Efforts, and the Party that wishes to proceed with Development Effort shall be free to do so. In such case where one Party desires to proceed and the other Party does not, the Party continuing the Development Effort will: (i) pay all its own costs that result from such action; and (ii) compensate the discontinuing Party with a royalty on sales at [*] of the Operating Profit, after the continuing Party has recovered all of its unreimbursed Development Efforts associated with that Diagnostic Product, applicable to that particular Diagnostic Product then in effect, as currently in effect or otherwise as

agreed to by the Parties in an amendment hereto (without any influence from the costs of the continuing Party' s activity) to which the discontinuing Party would otherwise have been entitled. In case an FDA approved test for the LTA4H gene is not launched by [*], assuming such delay is not caused by any action or inaction of deCODE, deCODE shall have the right to develop the test with the platform, manufacturing, launch and/or sales of a third party. Illumina will still receive half of the operating profit as calculated using the value sharing formula in Section 7.3, taking into account the contributions of all three parties.

3.4 Expansion of Field.

(a) Right of First Negotiation. For projects that are not previously partnered Illumina shall receive a [*] first right of negotiation to extend its rights beyond those fields and molecular pathways in the area of cardiovascular including all forms of stroke, myocardial infarction, and peripheral arterial disease for the term of [*] from signing the contract. deCODE will negotiate in good faith to enter into a commercially reasonable agreement to do so.

4. Sales and Marketing.

4.1 Marketing. Illumina will have the primary responsibility for the sale and marketing of the Diagnostic Products and may enter into distribution agreements with third parties. Illumina agrees to consider co-marketing arrangements with deCODE or third party opportunities for distribution proposed by deCODE; provided, that any decision to proceed with such proposals shall be at Illumina' s sole discretion.

4.2 Illumina will promote the Diagnostic Products in accordance with this Development Agreement. Subject to Section 6.1(d), all Diagnostic Products will be co-branded globally with primary Illumina branding and prominent secondary deCODE branding as approved by the Joint Management Committee.

5. Manufacturing.

5.1 Illumina Manufacturing. Illumina shall have manufacturing responsibility for the Diagnostic Platforms and all associated consumables for the Diagnostic Products. Illumina will implement the appropriate quality controls for the manufacture of the Diagnostic Platform and Diagnostic Products and may enter into contract manufacturing agreements with third parties in order to satisfy its manufacturing obligations hereunder.

6. Intellectual Property.

6.1 deCODE Grants.

(a) deCODE hereby grants to Illumina, under Intellectual Property Controlled by deCODE (other than the deCODE Marks) that, but for the license granted in this Section 6.1(a) would be infringed or otherwise violated, a royalty-free (except to the extent that royalties are owed to third party licensors), worldwide, exclusive right (even

as to deCODE, except to the extent necessary for deCODE to satisfy it obligations hereunder) and license, with the right to grant sublicenses only as permitted under Section 6.3, to develop, make, have made, use, offer for sale, sell, have sold and import the Diagnostic Products. An initial list of the patents and patent applications to be licensed pursuant to this subparagraph is listed on the attached Appendix 5, and shall be referred to as "deCODE Patents". These rights continue even if deCODE were to genotype fewer than the planned 100,000 Samples as anticipated in the Supply Agreement. Such rights shall survive expiration or termination of this Development Agreement if Illumina is the Non-Defaulting Party.

(b) deCODE hereby grants to Illumina, under all Intellectual Property that (i) deCODE develops during the Term, and (ii) was developed by funding approved by the Joint Management Committee, a perpetual, royalty-free (except to the extent that royalties are owed to third party licensors, in which event such royalties shall be deducted by deCODE in determining COGS), worldwide, co-exclusive right with deCODE and license, with the right to grant sublicenses only as permitted under Section 6.3, to develop, make, have made, use, offer for sale, sell, have sold and import the Diagnostic Products. Any issued patents and patent applications resulting from Intellectual Property invented or discovered pursuant to this Section 6.1(b) and which subject to Section 6.4 are determined to be deCODE Solely Owned Intellectual Property shall be considered to be deCODE Patents. Such rights shall survive expiration or termination of this Development Agreement if Illumina is the Non-Defaulting Party.

(c) deCODE hereby grants to Illumina during the Term, a limited, royalty-free, non-exclusive right and license, with the right to grant sublicenses only as permitted under Section 6.3, to access and use the Statistical/Informatics Programs, defined in Appendix 6, that were developed by deCODE to define phase of haplotypes based on measured SNPs along with accuracy parameters, for use in the Development Effort.

(d) deCODE hereby grants Illumina during the Term, a limited, royalty-free, non-exclusive right and license, with the right to grant sublicenses only as permitted under Section 6.3, to the use of certain of its trademarks and service marks, trade names and logos to be specifically identified by deCODE (collectively hereinafter referred to as "deCODE Marks") solely in connection with the commercialization activities provided for in this Development Agreement. Illumina agrees to comply with deCODE' s guidelines delivered to Illumina from time to time with respect to manner of use, and to maintain the quality standards of deCODE with respect to the goods sold and services provided in connection with the deCODE Marks. Illumina recognizes and agrees that no ownership rights are vested or created by the limited rights of use granted to Illumina in connection with this use of the deCODE Marks, and that all goodwill associated with the use thereof inures to the benefit of deCODE. Further, Illumina shall submit to deCODE any materials bearing the deCODE Marks for review and approval prior to the use thereof and shall make no use of the deCODE Marks without deCODE' s prior written consent. Each Party shall execute any documents required in the reasonable opinion of the other Party for Illumina to be entered as a "registered user", recorded

licensee, or to demonstrate use, of the deCODE Marks, or to be removed as registered user or licensee thereof.

6.2 Illumina Grants.

(a) Illumina hereby grants to deCODE a discount on Chips pursuant to the terms and conditions set forth in the Supply Agreement.

(b) Illumina hereby grants to deCODE, under all Intellectual Property that (i) Illumina develops during the Term, and (ii) was developed by funding approved by the Joint Management Committee, a perpetual, royalty-free (except to the extent that royalties are owed to third party licensors, in which event such royalties shall be deducted by Illumina in determining COGS), worldwide, co-exclusive right with Illumina and license, with the right to grant sublicenses only as permitted under Section 6.3, to develop and use the Diagnostic Products in accordance with this Development Agreement. Such rights shall survive termination of this Development Agreement if deCODE is the Non-Defaulting Party.

(c) Illumina hereby grants deCODE during the Term, a limited, royalty-free, non-exclusive right and license, with the right to grant sublicenses only as permitted under Section 6.3, to the use of certain of its trademarks and service marks, trade names and logos to be specifically identified by Illumina (collectively hereinafter referred to as "Illumina Marks") solely in connection with the commercialization activities provided for in this Development Agreement. deCODE agrees to comply with Illumina' s guidelines delivered to deCODE from time to time with respect to manner of use, and to maintain the quality standards of Illumina with respect to the goods sold and services provided in connection with the Illumina Marks. deCODE recognizes and agrees that no ownership rights are vested or created by the limited rights of use granted to deCODE in connection with this use of the Illumina Marks, and that all goodwill associated with the use thereof inures to the benefit of Illumina. Further, deCODE shall submit to Illumina any materials bearing the Illumina Marks for review and approval prior to the use thereof and shall make no use of the Illumina Marks without Illumina' s prior written consent. Each Party shall execute any documents required in the reasonable opinion of the other Party for deCODE to be entered as a "registered user", recorded licensee, or to demonstrate use, of the Illumina Marks, or to be removed as registered user or licensee thereof.

6.3 Sublicensing and Extension of Rights. Either Party may, subject to the prior written approval of the other Party on a case-by-case basis, sublicense its rights under the licenses granted pursuant to Section 6.1 or 6.2, as the case may be; provided, however, that no consent or approval shall be required for either Party to extend such a sublicense to its Affiliates and/or third party distributors for Diagnostic Products. All such sublicenses (other than sublicenses to Affiliates and/or third party distributors for Diagnostic Products) shall be granted pursuant to a written agreement that subjects the sublicensee to all relevant restrictions, limitations and obligations in this Development Agreement; provided, that no such sublicensee shall be permitted to further sublicense. A Party sublicensing its rights pursuant to this Section 6.3 shall be jointly and severally

responsible with each of its sublicensees (including its Affiliates) for failure by such sublicensee to comply with all relevant restrictions, limitations and obligations in this Development Agreement.

6.4 Ownership; Reservation of Rights. The Parties shall jointly own all inventions and Intellectual Property developed jointly from projects funded by On-Going Development Costs during the term of this Development Agreement by employees, agents and consultants of deCODE and Illumina, respectively, on the basis of each Party having an undivided interest in the whole (collectively, "Joint Intellectual Property"). Other than Joint Intellectual Property, each Party shall own, to the exclusion of the other Party, all inventions and Intellectual Property developed by such Party, its employees, agents and consultants, regardless of whether funded by On-Going Development Costs (collectively, "Solely Owned Intellectual Property"). For purposes of determining whether an invention or Intellectual Property Right is Joint Intellectual Property or Solely-Owned Intellectual Property, questions of inventorship and/or ownership shall be resolved in accordance with applicable United States laws. Each Party reserves all rights not expressly granted in this Development Agreement, and no licenses are granted by such Party under this Development Agreement, whether by implication, estoppel or otherwise, except as expressly set forth herein and nothing in this Development Agreement is intended to be or should be construed as an assignment of any Intellectual Property Controlled by either Party prior to the Effective Date or thereafter. The Parties shall jointly share the costs associated with prosecution of Joint Intellectual Property.

6.5 Bankruptcy. All rights and licenses granted pursuant to this Development Agreement are, for purposes of Section 365(n) of Title 11 of the United States Code, as amended, and any foreign equivalents thereof ("Bankruptcy Code"), licenses of rights to "intellectual property" as such term is used in Bankruptcy Code. Each Party in its capacity as a licensor hereunder agrees that, in the event of the commencement of bankruptcy proceedings by or against such Party under Bankruptcy Code, the other Party, in its capacity as a licensee of rights under this Development Agreement, shall retain and may fully exercise all of such licensed rights under this Development Agreement (including the license granted hereunder) and all of its rights and elections under Bankruptcy Code.

6.6 Infringement by Third Parties. Each Party shall promptly notify the other Party in writing of any suspected, alleged or threatened infringement or violation of any Intellectual Property Controlled by either Party, or of the Joint Intellectual Property, that covers the development, manufacture, use or sale of the Diagnostic Products of which it becomes aware.

(a) The Party Controlling the Intellectual Property suspected, alleged or threatened to be infringed shall have the right, but not the obligation, to control the prosecution of any infringement or violation. In the event that such Party brings an infringement action in accordance with this Section 6.6(a), the other Party shall cooperate fully, including, if required to bring such action, the furnishing of a power of attorney. If one Party brings any such action or proceeding, the other Party agrees to be joined as a party plaintiff and to give the first Party reasonable assistance and authority to file and

prosecute the suit. The costs of any litigation commenced pursuant to this Section 6.6(a), including attorneys' fees and expenses, shall be borne by the Party commencing such litigation. The Party bringing or threatening such litigation shall be entitled to any recovery realized as a result of any settlement or litigation.

(b) In respect of Joint Intellectual Property, Illumina shall have the first right, but not the obligation to bring suit and control the prosecution of any infringement or violation. deCODE shall have the right, but not the obligation, before commencement of such action or proceeding, to be joined as a party plaintiff and to be represented separately by counsel of its own choosing. In no event shall Illumina enter into any settlement, consent judgment or other voluntary final disposition which would adversely affect deCODE' s rights under this Development Agreement, without deCODE' s prior written consent, not unreasonably withheld. If Illumina declines to proceed with an infringement suit, deCODE may proceed. The costs of any litigation commenced pursuant to this Section 6.6(b), including attorneys' fees and expenses, shall be borne by the Party commencing such litigation. The Party bringing or threatening such litigation shall be entitled to any recovery realized as a result of any settlement or litigation. Notwithstanding the foregoing, if the Parties jointly prosecute an infringement action pursuant to this Section 6.6(b) any recovery or damages shall be first used to reimburse the Parties for their respective documented out-of-pocket legal expenses relating to the suit, with any remaining amounts to be shared equally by the Parties.

6.7 Defense and Settlement of Third-Party Claims Against Diagnostic Products. If a third party asserts that an Intellectual Property right Controlled by it is infringed or otherwise violated by the development, manufacture, use or sale of any Diagnostic Product, the Party first obtaining knowledge of such a claim shall immediately provide the other Party notice of such claim and the related facts in reasonable detail. In such event, except for third party claims covered by Sections 11.5 or 11.6:

(a) The Parties shall determine how best to control the defense of any such claim (including the bringing of a declaratory judgment action) with respect to the Diagnostic Products;

(b) The Party receiving the claim shall have the right, but not the obligation, to control such defense, and in such event the other Party shall cooperate in the defense and shall have the right to be represented separately by counsel of its own choice;

(c) The Party (whether deCODE or Illumina) that controls the defense of a given claim with respect to Diagnostic Products shall also have the right to control settlement of such claim; provided, however, that if one Party controls, no settlement shall be entered into without the consent of the other Party if such settlement would adversely affect the interests of such other Party in a manner different from the interests of the defending Party; and

(d) The expenses of defending and/or settling a third-party claim relating to Diagnostic Products shall be a shared expense of the Parties.

7. Financial Provisions.

7.1 Development Funding. Both Parties shall share equally the On-going Development Costs and expenses incurred in performing its obligations under this Development Agreement consistent with the Budgets and other financial considerations included in the responsibilities of the financial manager as approved by the Joint Management Committee pursuant to Sections 2.6 and 2.7.

7.2 Illumina will have the responsibility for accounts payable, accounts receivable, purchasing, shipping, receiving, and financial reporting for the Diagnostic Products. Both Parties will have responsibility for tracking their On-going Development Costs.

7.3 Value Sharing. deCODE and Illumina will share in the profits of the collaboration contemplated hereby after subtraction of appropriate costs by both Parties. Illumina will book all revenue from sales of Diagnostic Products. For the purpose of this Development Agreement:

(a) "Allowable Expenses" shall mean [*]

(b) "COGS" shall mean [*]

(c) "Gross Profit" shall mean [*]

(d) "Net Sales" shall mean [*]

(e) "On-going Development Costs" shall mean [*]

(f) "Operating Profit" shall mean [*]

(g) "Other Costs" shall mean [*]

(h) "SG&A Allocation" shall mean [*]

(i) "Commercialization Costs" shall mean [*]

To the extent that Allowable Expenses exceed Gross Profit, both Parties would share equally in such losses.

7.4 Profit Share. [*]

7.5 Reporting and Payment.

(a) deCODE Reports. deCODE shall prepare an expense report on a monthly basis laying out its Allowable Expenses incurred in the previous month. deCODE shall aim to prepare and submit its expense report to Illumina within five (5) business days of the end of the relevant month but no later than ten (10) business days of the end of the relevant month.

(b) Illumina Reports. Illumina shall prepare a sales and expense report on a monthly basis laying out the Net Sales, COGS and its Allowable Expenses incurred in the previous month and calculate the Gross Profit and the Parties' respective allocation of such Gross Profit. Illumina shall prepare and submit its sales and expense report to deCODE within ten (10) business days of the end of the relevant month.

(c) Payment. The Parties may not have equivalent expenses in a given quarter. It is the intention of the Parties to make a net payment to the Party that incurred more cost in a given Quarter in order to true-up the expenses. This payment will be made within thirty (30) days of the end of the Quarter. Upon commercialization of the Diagnostic Products Illumina shall pay deCODE its share of Operating Profit from commercialization of Diagnostic Products within forty-five (45) days of the end of each Quarter.

7.6 United States Dollars. All payments required to be made pursuant to this Development Agreement shall be made in United States dollars. All dollar ($) amounts specified in this Development Agreement are United States Dollar amounts. For purposes of computing Operating Profits, all revenues earned or expenses incurred in foreign currencies shall be converted to United States dollars using the same foreign exchange rate Illumina uses for preparing its consolidated financial statements filed with the United States Securities and Exchange Commission. Any benefit or detriment to either Party resulting from currency exchange rate fluctuations shall be shared equally by the Parties.

7.7 Tax Matters. The Parties shall use all reasonable efforts to reduce or otherwise optimize, in a manner consistent with applicable laws, tax withholding on payments, if any, made pursuant to this Development Agreement. Each Party agrees to cooperate in good faith to provide the other Party with such documents and certifications as are reasonably necessary to enable such other Party to minimize any withholding tax obligations. The Parties will reasonably cooperate in providing one another with documentation of the payment of any withholding taxes paid pursuant to this Section 7.7 and in completing and filing documents required under the provisions of any applicable tax laws or under any other applicable law in connection with the making of any required tax payment or withholding payment, or in connection with any claim to a refund of or credit for any such payment.

8. Records and Audits.

8.1 Records. Each Party shall keep accurate books and accounts of record relating to the research and development, manufacture, marketing and sale of the Diagnostic Products (including the Operating Profits, number of bases sold, Gross Profit,

Net Sales, COGs and SG&A), in sufficient detail to permit accurate determination of all figures necessary for verification of amounts required to be paid hereunder. Each Party shall maintain such records for a period of at least two (2) years after the end of the calendar year in which they were generated.

8.2 Audits. During the Term and for one (1) year thereafter, each Party shall permit, upon thirty (30) days' prior written notice from the other Party, an independent certified public accounting firm of national standing selected by the auditing Party (the "Independent Accountants") to examine its relevant books and records as may be reasonably necessary to verify the accuracy of any payments or invoicing required to be made hereunder. Such examination shall be limited to the pertinent books and records for any calendar year ending not more than two (2) years before the date of the request. Neither Party shall be entitled to an examination of the other Party' s books and records under this Section 8.2 more than once in any calendar year. The Independent Accountants shall be provided access to such books and records at the audited Party' s facility(ies), as applicable, where such books and records are normally kept and such examination shall be conducted during normal business hours. Either Party may require the Independent Accountants to sign a standard non-disclosure agreement before providing the Independent Accountants access to facilities or records. Upon completion of the examination, the Independent Accountants shall provide to both Parties a written report disclosing whether the reports submitted by the audited Party are correct or incorrect, whether the relevant payments are correct or incorrect, and, in each case, the specific details concerning any discrepancies. No other information will be provided to the auditing Party by the Independent Accountants.

8.3 Reconciliation. If the review by the Independent Accountants reveals an over- or under-payment under this Development Agreement, then the Parties shall reconcile such payments within thirty (30) days following the delivery of the Independent Accountants' report pursuant to Section 8.2. The auditing Party shall bear the costs and fees of the Independent Accountants associated with examinations pursuant to Section 8.2; provided, however, that in the event that it is determined by the Independent Accountants that the aggregate amount of payments remitted by the audited Party to the auditing Party during the time period covered by the records reviewed by the Independent Accountants were less than ninety-five percent (95%) of the aggregate amount of payments that should have been paid by the audited Party during such time period, then the audited Party shall reimburse the auditing Party for the fees and expenses of the Independent Accountants with respect to such audit.

8.4 GAAP. All books and accounts of record required to be kept pursuant to Section 8.1 and all calculations made for the purposes of calculating Operating Profits pursuant to Section 7.3, shall, in each case, be prepared and maintained in accordance with GAAP. However, for purposes of the Development Agreement, expenses recorded related to stock compensations expense will be excluded from all calculations.

9. Confidentiality.

9.1 Confidentiality. All Confidential Information disclosed by a Party to the other Party during the term of this Development Agreement shall not be used by the receiving Party except in connection with the activities contemplated by this Development Agreement, shall be maintained in confidence by the receiving Party, and shall not be disclosed by the receiving Party to any other person, firm, or agency, governmental or private, without the prior written consent of the disclosing Party, except to the extent that the Confidential Information disclosed by the disclosing Party, as can be demonstrated by the receiving Party' s records however maintained: (a) was known or used by the receiving Party prior to its date of disclosure to the receiving Party; or (b) either before or after the date of the disclosure by the disclosing Party to the receiving Party, is lawfully disclosed to the receiving Party by sources other than the disclosing Party rightfully in possession of the Confidential Information; or (c) either before or after the date of the disclosure to the receiving Party, becomes published or generally known to the public (including information known to the public through the sale of products in the ordinary course of business), without the receiving Party or its sublicensees violating this Section 9.1; or (d) is independently developed by or for the receiving Party without reference to or reliance upon the disclosing Party' s Confidential Information.

9.2 Remedies. Each Party acknowledges that due to the unique nature of the Confidential Information, any breach of the restrictions contained in this Section 9 is a material breach of this Development Agreement, which may cause immediate and irreparable harm for which money damages would not be an adequate remedy. Any such breach shall entitle the disclosing Party to seek injunctive relief in addition to all remedies that may be available in law, in equity or otherwise.

9.3 Publicity. Each Party may issue a press release after the execution of this Development Agreement, subject to the provisions of the following sentence. Neither Party shall issue any press release or public announcement relating to the Diagnostic Products or this Development Agreement without the prior written approval of the other Party, which approval shall not be unreasonably withheld, except that a Party may issue such a press release or public announcement if required by Law, including without limitation by the rules or regulations of the United States Securities and Exchange Commission or any stock exchange or Nasdaq; provided that the other Party has received prior notice of such intended press release or public announcement if practicable under the circumstances and the Party subject to the requirement includes in such press release or public announcement only such information relating to the Diagnostic Products or this Development Agreement as is required by such Law; provided that the party subject to the requirement shall use its reasonable and lawful efforts to avoid and/or minimize the degree of such disclosure. The rights of approval and notice granted to a Party in accordance with the preceding sentence shall not apply to subsequent public discussions relating to a press release or public announcement that has previously been reviewed and approved by the other Party, provided that the contents of such subsequent public discussions are substantially similar to the information that has previously been reviewed and approved.

9.4 Joint Press Release. The Parties will issue a mutually agreed upon joint press release within five (5) days of the Effective Date and will issue mutually agreed upon joint press release at the launch of each Diagnostic Product.

10. Term and Termination.

10.1 Term. The initial Term of this Development Agreement shall begin on the Effective Date and will continue, unless sooner terminated pursuant to Section 10.2, until the last-to-expire claim of a Patent covering Diagnostic Content.

10.2 Termination. This Development Agreement may be terminated by a Party (the "Non-defaulting Party") in the event that the other Party (the "Defaulting Party"): (a) or one or more of its Affiliates materially breaches any term of this Development Agreement, if after written notification the breach is not cured within ninety (90) days, or (b) becomes the subject of a voluntary or involuntary petition in bankruptcy or any proceeding relating to insolvency, receivership, liquidation or composition for the benefit of creditors that is not dismissed within sixty (60) days. If the Defaulting Party disputes it is in material breach, then it may institute an arbitration proceeding as provided in Section 12. If the cure period for material breach expires, and the Non-Defaulting Party terminates this Development Agreement, the Non-Defaulting Party may institute an arbitration proceeding as provided in Section 12 to seek its remedies.

10.3 Effect of Expiration or Termination.

(a) All rights and obligations of the Parties set forth herein that expressly or by their nature survive the expiration or termination of this Development Agreement, including provisions of Sections 1, 6.1(a), 6.1(b), 6.2(b), 6.4, 6.5, 8, 9, 10.2, 10.3, 11, 12 and 13 shall continue in full force and effect subsequent to and notwithstanding the expiration or termination of this Development Agreement, until they are satisfied or by their nature expire and shall bind the Parties and their legal representatives, successors, and permitted assigns. Termination of this Development Agreement shall not relieve the Parties of any liability which accrued hereunder prior to the effective date of such termination nor preclude either Party from pursuing all rights and remedies it may have hereunder or at law or in equity with respect to any breach of this Development Agreement nor prejudice either Party' s right to obtain performance of any obligation.

(b) If the Development Agreement is terminated pursuant to Section 10.2 and the Non-Defaulting Party wishes to continue with the Development Effort, commercialization and marketing of Diagnostic Products that (i) were under Development or (ii) were commercialized or marketed, at the time of the effective date of the termination, it may do so subject only to the obligation to pay to the Defaulting Party the amounts due under Section 3.3 as they become due; provided, however, in the event that such termination was due to material breach, the Non-Defaulting Party shall only be obligated to pay to the Defaulting Party the amounts due to the discontinuing Party under Section 3.3 as they become due.

11. Representations and Warranties; Limitation of Liability.

11.1 Mutual Representations and Warranties. Each Party represents and warrants to the other Party that (i) it has the full corporate right, power and authority to enter into this Development Agreement and to perform its obligations hereunder, (ii) the execution of this Development Agreement and the performance of its obligations hereunder does not and shall not conflict with or result in a material breach (including with the passage of time) of any other agreement to which it is a party or by which any of its assets or properties is bound or affected, and (iii) this Development Agreement has been duly executed and delivered by such Party and constitutes the valid and binding agreement of such Party, enforceable against such Party in accordance with its terms, except to the extent that enforceability is limited by public policy or creditors' rights generally.

11.3 DISCLAIMER. EXCEPT AS EXPRESSLY PROVIDED IN THIS DEVELOPMENT AGREEMENT, NEITHER PARTY MAKES ANY REPRESENTATIONS OR WARRANTIES, EXPRESS, IMPLIED OR STATUTORY, WITH RESPECT TO ANY DIAGNOSTIC PRODUCTS, THE DISCOVERY PLATFORM, THE DIAGNOSTIC PLATFORM OR ANY OTHER PRODUCTS OR SERVICES PROVIDED IN CONNECTION WITH THIS AGREEMENT, INCLUDING ANY IMPLIED WARRANTY OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, NONINFRINGEMENT, OR ARISING FROM COURSE OF PERFORMANCE, DEALING, USAGE OR TRADE.

11.4 Without prejudice to the foregoing, the Joint Management Committee shall approve of the representations and warranties that may be granted to Diagnostic Product customers and the liabilities arising from breaches of such representations and warranties and any insurance obtained to limit such liabilities shall be divided between the Parties.

11.5 Indemnification by deCODE. deCODE shall indemnify, defend and hold harmless Illumina (including its officers, trustees, employees and Affiliates) against any and all third party claims, losses, damages, costs or liabilities, including attorneys' fees and court costs, for any loss, damage, injury or loss of life, arising out of the development, manufacture, use or sale of Diagnostic Products under this Development Agreement to the extent attributable to deCODE' s technology, execution of responsibilities under this Development Agreement, negligence or willful misconduct. Illumina shall promptly notify deCODE in writing after Illumina has received notice of any claim under this Section 11.5. deCODE shall have the sole control of the defense, trial and any related settlement negotiations, provided that Illumina may be represented at its own expense by counsel of its own choosing and provided further that deCODE may not enter into any settlement that diminishes the rights or interests of Illumina or requires an admission on the part of Illumina or incurs financial obligation on the part of Illumina, without Illumina' s prior written consent. Illumina shall fully cooperate with deCODE in the defense of any such claim.

11.6 Indemnification by Illumina. Illumina shall indemnify, defend and hold harmless deCODE (including its officers, trustees, employees and Affiliates) against any and all third party claims, losses, damages, costs or liabilities, including attorneys' fees and court costs, for any loss, damage, injury or loss of life, arising out of the development, manufacture, use or sale of Diagnostic Products under this Development Agreement to the extent attributable to Illumina' s technology, execution of responsibilities under this Development Agreement, negligence or willful misconduct. deCODE shall promptly notify Illumina in writing after deCODE has received notice of any claim under this Section 11.6. Illumina shall have the sole control of the defense, trial and any related settlement negotiations, provided that deCODE may be represented at its own expense by counsel of its own choosing and provided further that Illumina may not enter into any settlement that diminishes the rights or interests of deCODE or requires an admission on the part of deCODE or incurs financial obligation on the part of deCODE, without deCODE' s prior written consent. deCODE shall fully cooperate with Illumina in the defense of any such claim.

11.7 LIMITATION OF LIABILITY. EXCEPT FOR VIOLATIONS OF SECTION 9 AND NOTWITHSTANDING ANY PROVISION TO THE CONTRARY IN SECTIONS 11.5 AND 11.6 OF THIS DEVELOPMENT AGREEMENT, IN NO EVENT SHALL EITHER PARTY HERETO BE LIABLE TO THE OTHER FOR INDIRECT, INCIDENTAL, CONSEQUENTIAL, SPECIAL, EXEMPLARY OR MULTIPLE DAMAGES ARISING FROM OR RELATING TO ANY BREACH OF THIS DEVELOPMENT AGREEMENT OR THE EXERCISE OF ITS RIGHTS HEREUNDER, REGARDLESS OF ANY NOTICE OF SUCH DAMAGES.

12. Arbitration.

12.1 Any dispute, controversy or claim arising out of or relating to the validity, construction, enforceability or performance of this Development Agreement, including disputes relating to alleged breach or to termination of this Development Agreement and disputes that cannot be resolved by the Joint Management Committee, shall be settled by arbitration administered by the American Arbitration Association ("AAA") under its Commercial Arbitration Rules, in each case, not inconsistent with the terms of this Development Agreement, and judgment on the award rendered by the arbitrators may be entered in any court having jurisdiction thereof. Notwithstanding the above, any disputes, controversies or claims relating in any way to patents, patent applications, trade secrets, know-how or other Intellectual Property or relating to a breach of Section 9 shall not be subject to this Section 12. In the event an arbitration is initiated on an alleged breach, the cure period of Section 10.2 for such alleged breach is stayed pending the outcome of the arbitration, thus preventing the termination of this Development Agreement during the arbitration process.

12.2 The arbitration shall be conducted in New York, New York by a panel of three (3) arbitrators of the AAA selected as follows: within thirty (30) days after initiation of arbitration, each Party shall select one (1) person to act as arbitrators and the two (2) Party-selected arbitrators shall select a third arbitrator within five (5) days of their

appointment. If the arbitrators selected by the Parties are unable or fail to agree upon the third arbitrator, the third arbitrator shall be appointed by the AAA as soon as practicable.

12.3 Each Party shall share equally in the Parties' total costs of the arbitration, except that each Party shall be responsible for the costs and expenses incurred in presenting its own case to the arbitrators, including attorneys' fees and expenses. Except to the extent necessary to confirm an award or as may be required by law, neither a Party nor an arbitrator may disclose the existence, content, or results of an arbitration without the prior written consent of both Parties.

12.4 In no event shall arbitration be initiated after the date when commencement of a legal or equitable proceeding based on the dispute, controversy or claim would be barred by the applicable New York statute of limitations.

12.5 Remedies for Material Breach. At the completion of an arbitration, the arbitrator may declare one party in material breach of this Development Agreement. The arbitrator shall issue an order which will contain provisions to resolve the dispute to return the Development to its pre-notice of breach condition. If such order is implemented, the material breach will be deemed to have been cured. If unsuccessful, and the Development Agreement terminates as a result of the material breach, the arbitrators in their discretion may order a remedy to the Non-defaulting party to allow the Non-Defaulting party to remain in the business of commercializing Diagnostic Products that were Diagnostic Products during the term of this Development Agreement. These remedies could include financial compensation, requirements for continued supply, and/or licenses to Intellectual Property, such that both Parties are fairly compensated. The arbitrators have no authority to prevent either Party from commercializing products that were Diagnostic Products under this Development Agreement.

13. Miscellaneous.

13.1 Severability. If any provision of this Development Agreement is held invalid or unenforceable, such provision shall be enforced to the maximum extent permissible so as to effect the intent of the Parties, and the remainder of this Development Agreement will continue in full force and effect.

13.2 Waiver. The failure of either Party to exercise any right granted herein or to require any performance of any term of this Development Agreement or the waiver by either Party of any breach of this Development Agreement shall not prevent a subsequent exercise or enforcement of, or be deemed a waiver of any subsequent breach of, the same or any other term of this Development Agreement.

13.3 No Third-Party Beneficiaries. Nothing in this Development Agreement is intended to or shall confer upon any person who is not a Party to this Development Agreement any rights, benefits or remedies of any nature whatsoever under or by reason of this Development Agreement, nor shall any such person be entitled to assert any claim hereunder.

13.4 Export Control. This Development Agreement is made subject to any restrictions concerning the export of products or technical information from the United States of America or other countries which may be imposed upon or related to deCODE or Illumina from time to time. Each Party agrees that it will not export, directly or indirectly, any technical information acquired from the other Party under this Development Agreement or any products using such technical information to a location or in a manner that at the time of export requires an export license or other governmental approval, without first obtaining the written consent to do so from the appropriate agency or other governmental entity.

13.5 Notices. Any notice required or permitted to be given under this Development Agreement shall be in writing, shall specifically refer to this Development Agreement and shall be deemed to have been sufficiently given for all purposes on the third day following the date of mailing if mailed by first class certified or registered mail, postage prepaid and on the date of delivery if by express delivery service or personally delivered. Unless otherwise specified in writing, the mailing addresses of the Parties shall be as described below:

For deCODE:	deCODE genetics, ehf., Sturlugata 8 101 Reykjavik Iceland Attention: President
With a Copy to:	deCODE genetics, ehf., Sturlugata 8 101 Reykjavik Iceland Attention: General Counsel
For Illumina:	Illumina, Inc. 9885 Towne Centre Drive San Diego, CA 92121 Attention: President
With a copy to:	Illumina, Inc. 9885 Towne Centre Drive San Diego, CA 92121 Attention: Chief Financial Officer

13.6 Assignment. Neither Party shall assign or transfer this Development Agreement or any rights or obligations under this Development Agreement, whether voluntary, by operation of law or otherwise, without the prior written consent of the other Party, except that either Party may assign or transfer this Development Agreement in its entirety to a successor in connection with the sale of all or substantially all of such Party' s stock, assets or business, provided that such successor agrees in writing to be bound by and perform the obligations of the such Party under this Development

Agreement and is capable of performing such obligations. A Change in Control of a Party shall be deemed to be an assignment to a successor for purposes of this Section 13.6. Any assignment or transfer of this Development Agreement made in contravention of the terms hereof shall be a material breach and shall be null and void. Subject to the foregoing, this Development Agreement shall be binding on and inure to the benefit of the Parties' respective successors and permitted assigns.

13.7 Governing Law and Venue. This Development Agreement and performance by the Parties hereunder shall be construed in accordance with the laws in effect in the State of New York, U.S.A., without regard to provisions on the conflicts of laws. Each Party consents to the exclusive jurisdiction of, and venue in, the state and federal courts within New York County, New York, U.S.A.

13.8 Force Majeure. Neither Party shall be responsible for any failure to perform or delay attributable in whole or in part to any cause beyond its reasonable control (other than any payment obligations), including Acts of God, fire, flood, tornado, earthquake, hurricane, lightning, government actions, actual or threatened acts of war, terrorism, civil disturbance or insurrection, sabotage, labor shortages or disputes, failure or delay in delivery by suppliers or subcontractors, transportation difficulties, shortage of energy or raw materials or equipment, or the other Party' s fault or negligence.

13.9 Entire Agreement and Modifications. This Development Agreement supersedes all prior communications, transactions, and understandings, whether oral or written, with respect to the subject matter hereof and constitutes the sole and entire agreement between the Parties pertaining to the subject matter thereof. No modification, addition or deletion, or waiver of any of the terms and conditions of this Development Agreement shall be binding on either Party unless made in a written agreement clearly understood by both Parties to be a modification or waiver, and signed by a duly authorized representative of each Party.

13.10 Counterparts. This Development Agreement may be executed in one or more counterparts, each in the English language and each of which shall be deemed to be an original instrument, and all such counterparts shall together constitute the same agreement.

13.11 Interpretation. Sections, titles, headings and any table of contents are inserted for convenience of reference only and are not intended to be a part of or to affect the meaning or interpretation hereof. The Appendices referred to herein shall be construed with and as an integral part of this Development Agreement to the same extent as if they were set forth verbatim herein. As used in this Development Agreement, except as the context may otherwise require, "include," "includes" and "including" are deemed to be followed by "without limitation," whether or not they are in fact followed by such words or words of like import; references to any gender include the other; the singular includes the plural and vice versa; and references to "Section" or another subdivision or to an "Appendix" are to a section or subdivision hereof or an "Appendix" annexed hereto. As used herein, the term "business days" shall mean all days other than Saturdays, Sundays or state (recognized in California) or federal holidays. Ambiguities,

if any, in this Development Agreement shall not be construed against any Party, irrespective of which Party may be deemed to have authored the ambiguous provision.

13.12 Non-solicitation. Without the prior written approval of the other Party, neither Party shall solicit the employment or engagement (as employee, consultant or agent), of any officer, director or employee of the other Party or solicit such person to terminate his or her employment and/or engagement with the other Party prior to twelve (12) months after the termination of this Development Agreement or services of such effected employee, officer or director with either Party. A general advertisement or a request for employment which is initiated exclusively by an officer, director or employee of the other shall not be considered a solicitation pursuant to this Section 13.12.

IN WITNESS WHEREOF, the Parties hereto have caused this Development Agreement to be executed by their respective authorized officers as of the day and year first written above.

ILLUMINA, INC.

By: _____
Name: Jay Flatley
Title: CEO

DECODE GENETICS, EHF.

By: _____
Name: Kari Stefansson
Title: CEO

Appendix 1

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Appendix 2

[*]

Appendix 3

[*]

Appendix 4

[*]

Appendix 5

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Appendix 6

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Exhibit 31.1

CERTIFICATION OF JAY T. FLATLEY PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jay T. Flatley, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Illumina, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant' s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter (the registrant' s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting; and

5. The registrant' s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant' s auditors and the audit committee of the registrant' s board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant' s ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal control over financial reporting.

Dated: August 2, 2006

/s/ Jay T. Flatley
Jay T. Flatley
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHRISTIAN O. HENRY PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Christian O. Henry, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Illumina, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant' s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter (the registrant' s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting; and

5. The registrant' s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant' s auditors and the audit committee of the registrant' s board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant' s ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal control over financial reporting.

Dated: August 2, 2006

/s/ Christian O. Henry
Christian O. Henry
Vice President and Chief Financial Officer

Exhibit 32.1

CERTIFICATION OF JAY T. FLATLEY PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Illumina, Inc. (the "Company") on Form 10-Q for the three months ended July 2, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jay T. Flatley, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Dated: August 2, 2006

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

This certification accompanying the Report is not deemed filed with the Securities and Exchange Commission for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities such Section, and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before, on or after the date of the Report), irrespective of any general incorporation language contained in such filing.

Exhibit 32.2

CERTIFICATION OF CHRISTIAN O. HENRY PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Illumina, Inc. (the "Company") on Form 10-Q for the three months ended July 2, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Christian O. Henry, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Dated: August 2, 2006

By: /s/ Christian O. Henry
Christian O. Henry
Vice President and Chief Financial Officer

This certification accompanying the Report is not deemed filed with the Securities and Exchange Commission for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities such Section, and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before, on or after the date of the Report), irrespective of any general incorporation language contained in such filing.