

ILLUMINA INC
Form DEF 14A
May 17, 2005

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

ILLUMINA, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

Table of Contents

ILLUMINA, INC.
NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held on June 28, 2005

To the Stockholders of Illumina, Inc.:

NOTICE IS HEREBY GIVEN that the annual meeting of stockholders of Illumina, Inc., a Delaware corporation, will be held on Tuesday, June 28, 2005 at 10:00 a.m. Pacific Daylight Time at **9885 Towne Centre Drive, San Diego, California 92121**, for the following purposes, as more fully described in the proxy statement accompanying this notice:

1. To elect two directors to serve for a three-year term ending in the year 2008 or until their respective successors are duly elected and qualified;
2. To ratify the appointment of Ernst & Young LLP as independent auditors of the Company for the fiscal year ending January 1, 2006;
3. To approve the Company's 2005 Stock and Incentive Plan; and
4. To transact such other business as may properly come before the meeting or any adjournment or adjournments thereof.

Only stockholders of record at the close of business on May 2, 2005, are entitled to notice of and to vote at the annual meeting. Our stock transfer books will remain open between the record date and the date of the meeting. A list of stockholders entitled to vote at the annual meeting will be available for inspection at our executive offices.

All stockholders are cordially invited to attend the meeting in person. Whether or not you plan to attend, please sign and return the enclosed proxy as promptly as possible in the envelope enclosed for your convenience. Should you receive more than one proxy because your shares are registered in different names and addresses, each proxy should be signed and returned to assure that all your shares will be voted. You may revoke your proxy at any time prior to the annual meeting. If you attend the annual meeting and vote by ballot, your proxy will be revoked automatically and only your vote at the annual meeting will be counted.

Sincerely,

Jay T. Flatley
President and Chief Executive Officer

San Diego, California
May 17, 2005

WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, PLEASE COMPLETE, SIGN, DATE AND MAIL PROMPTLY THE ACCOMPANYING PROXY CARD IN THE ENCLOSED RETURN ENVELOPE, WHICH REQUIRES NO POSTAGE IF MAILED IN THE UNITED STATES. THIS WILL ENSURE THE PRESENCE OF A QUORUM AT THE MEETING. IF YOU ATTEND THE MEETING, YOU MAY VOTE IN PERSON IF YOU WISH TO DO SO EVEN IF YOU HAVE PREVIOUSLY SENT IN YOUR PROXY CARD.

TABLE OF CONTENTS

PROXY STATEMENT

MATTERS TO BE CONSIDERED AT THE ANNUAL MEETING

PROPOSAL ONE: ELECTION OF DIRECTORS

DIRECTOR NOMINATION

COMMUNICATIONS WITH DIRECTORS

PROPOSAL TWO: RATIFICATION OF INDEPENDENT AUDITORS

PROPOSAL THREE -- APPROVAL OF THE 2005 STOCK AND INCENTIVE PLAN

OWNERSHIP OF SECURITIES

EXECUTIVE COMPENSATION AND OTHER INFORMATION

CERTAIN TRANSACTIONS

COMPLIANCE WITH SECTION 16(a) OF THE SECURITIES EXCHANGE ACT

STOCKHOLDER PROPOSALS FOR OUR 2006 ANNUAL MEETING

ANNUAL REPORT

FORM 10-K

Table of Contents

**ILLUMINA, INC.
PROXY STATEMENT
FOR THE ANNUAL MEETING OF STOCKHOLDERS
To Be Held on June 28, 2005**

General

The enclosed proxy is solicited on behalf of the board of directors of Illumina, Inc., a Delaware corporation, for use at its annual meeting of stockholders to be held on Tuesday, June 28, 2005. The annual meeting will be held at 10 a.m. Pacific Daylight Time at **9885 Towne Centre Drive, San Diego, California 92121**. These proxy solicitation materials were mailed on or about May 17, 2005, to all stockholders entitled to vote at the annual meeting.

Voting

The specific proposals to be considered and acted upon at the annual meeting are summarized in the accompanying notice and are described in more detail in this proxy statement. On May 2, 2005, the record date for determination of stockholders entitled to receive notice of and to vote at the annual meeting, 40,186,800 shares of our common stock, par value \$0.01, were issued and outstanding. No shares of our preferred stock were outstanding. Each stockholder is entitled to one vote for each share of common stock held by such stockholder on May 2, 2005. Stockholders may not cumulate votes in the election of directors.

If your shares are held in your name, you must return your proxy or attend the annual meeting in person in order to vote on the proposals. Under the rules that govern brokers who have record ownership of shares that are held in street name for their clients, brokers may vote such shares on behalf of their clients with respect to routine matters (such as the election of directors or the ratification of auditors), but not with respect to non-routine matters (such as the approval of the 2005 Stock and Incentive Plan or a proposal submitted by a stockholder). If the proposals to be acted upon at any meeting include both routine and non-routine matters, the broker may turn in a proxy card for uninstructed shares that vote FOR the routine matters, but expressly states that the broker is not voting on non-routine matters. This is called a broker non-vote. If your shares are held in street name and you do not vote your proxy, your brokerage firm may either vote your shares on routine matters or leave your shares unvoted.

All votes will be tabulated by the inspector of election appointed for the meeting, who will separately tabulate affirmative and negative votes, abstentions and broker non-votes. Abstentions and broker non-votes are counted as present for purposes of determining the presence or absence of a quorum for the transaction of business. Abstentions will be counted toward the tabulations of votes cast on proposals presented to the stockholders and will have the same effect as negative votes, whereas broker non-votes will not be counted for purposes of determining whether a proposal has been approved. We encourage you to provide instructions to your brokerage firm by voting your proxy. This ensures that your shares will be voted at the meeting.

Shares are counted as present at the meeting if the stockholder either is present and votes in person at the meeting or has properly submitted a proxy card. A majority of our outstanding shares as of the record date must be present at the meeting (either in person or by proxy) in order to hold the annual meeting and conduct business. This is called a quorum. Assuming a quorum is present, the two nominees receiving the highest number of votes will be elected as directors. The ratification of the independent auditors and the approval of the 2005 Stock and Incentive Plan will require the affirmative vote of a majority of shares present in person or represented by proxy at the meeting. We will announce preliminary voting results at the meeting and will publish the final results in our quarterly

Table of Contents

report on Form 10-Q for the second quarter of 2005, which will be filed with the Securities and Exchange Commission.

Voting Electronically via the Internet or by Telephone

If your shares are registered in the name of a bank or brokerage firm, you may be eligible to vote your shares electronically over the Internet or by telephone. A large number of banks and brokerage firms are participating in the ADP Investor Communication Services online program. This program provides eligible stockholders who receive a paper copy of this proxy statement the opportunity to vote via Internet or by telephone. If your bank or brokerage firm is participating in ADP's program, your proxy card will provide instructions. If your proxy card does not reference Internet or telephone information, please complete and return the proxy card in the self-addressed, postage paid envelope provided.

Proxies

If the enclosed form of proxy is properly signed, dated and returned, the shares represented will be voted at the annual meeting in accordance with the instructions specified on the proxy.

If the proxy does not specify how the shares are to be voted:

the proxy will be voted FOR the election of the directors nominated by the board of directors (unless the authority to vote for the election of nominee directors is withheld);

the proxy will be voted FOR the ratification of the appointment of Ernst & Young LLP as independent auditors of the Company for the fiscal year ending January 1, 2006 (unless contrary instructions are given); and

the proxy will be voted FOR the approval of the Company's 2005 Stock and Incentive Plan (unless contrary instructions are given).

You may revoke or change your proxy at any time before the annual meeting by filing with the Secretary of the Company at our principal executive offices at 9885 Towne Centre Drive, San Diego, California 92121, a notice of revocation or another signed proxy with a later date. In addition, if you attend the annual meeting and vote by ballot, your proxy will be revoked automatically and only your vote at the annual meeting will be counted.

We do not know of other matters to be presented for consideration at the annual meeting. However, if any other matters properly come before the annual meeting, it is the intention of the persons named in the enclosed form of proxy to vote the shares they represent as the board of directors may recommend. Your execution of the enclosed proxy grants discretionary authority to the board of directors with respect to such other matters.

Solicitation

We will bear the entire cost of solicitation, including the preparation, assembly, printing and mailing of this proxy statement, the proxy and any additional solicitation materials furnished to our stockholders. Copies of solicitation materials will be furnished to brokerage houses, fiduciaries and custodians holding shares in their names that are beneficially owned by others so that they may forward the solicitation material to such beneficial owners. In addition, we may reimburse such persons for their costs in forwarding the solicitation materials to such beneficial owners. The original solicitation of proxies by mail may be supplemented by a solicitation by telephone, telegram or other means by our directors, officers or employees. No additional compensation will be paid to these individuals for any such services. We have retained InvestorCom, Inc. to aid in the solicitation of proxies, including soliciting proxies from brokerage firms, banks, nominees, custodians and fiduciaries. The fees for these services will total approximately \$5,000 plus out-of-pocket costs and expenses.

Table of Contents

**MATTERS TO BE CONSIDERED AT THE ANNUAL MEETING
PROPOSAL ONE: ELECTION OF DIRECTORS**

General

Our certificate of incorporation and bylaws provide for a classified board of directors consisting of three classes of directors with staggered three-year terms. The board currently consists of seven persons, with two classes consisting of two directors each and one class consisting of three directors. The board has determined that a majority of the members of the board, specifically Mr. Bradbury, Drs. Rastetter and Grint and Ms. Eastham, are independent directors under the rules of the NASDAQ Stock Market. The class whose term of office expires at the annual meeting currently consists of two directors. The directors elected to this class will serve for a term of three years, expiring at the 2008 annual meeting of stockholders or until their respective successors have been duly elected and qualified. Each of the nominees listed below, Daniel M. Bradbury and John R. Stuelpnagel, D.V.M. are currently serving on the board. The nominees have agreed to serve if elected, and management has no reason to believe that such nominees will be unable to serve. The proposal to elect the two nominees to the board requires the affirmative vote of the holders of a plurality of shares entitled to vote that are present or represented at the annual meeting and entitled to vote on such proposal. In the event the nominees are unable or decline to serve as directors at the time of the annual meeting, the proxies will be voted for any nominees who may be designated by the present board of directors to fill the vacancy. Unless otherwise instructed, the proxy holders will vote the proxies received by them FOR the nominees named below.

Recommendation of the Board of Directors

The board of directors recommends that the stockholders vote FOR the election of the nominees listed below.

Nominees for Term Ending Upon the 2008 Annual Meeting of Stockholders

Daniel M. Bradbury, 44, has been a director since January 2004. Since June 2003, Mr. Bradbury has served as Chief Operating Officer of Amylin Pharmaceuticals, a biopharmaceutical company. He served in various other positions with that company from 1994 to 2003. From 1984 to 1994, Mr. Bradbury held a number of positions at SmithKline Beecham Pharmaceuticals. Mr. Bradbury is a director of Peninsula Pharmaceuticals. Mr. Bradbury holds a B.Pharm. (Hons.) from Nottingham University and a Diploma in Management Studies from Harrow and Ealing Colleges of Higher Education, is a member of the Royal Pharmaceutical Society of Great Britain and is a Certified Director.

John R. Stuelpnagel, D.V.M., 47, one of our founders, is our Sr. Vice President and Chief Operating Officer and has been a director since April 1998. From April 2002 to October 2004 he served as Sr. Vice President of Operations. From October 1999 to April 2002, he served as our Vice President of Business Development. From April 1998 to October 1999, he served as our acting President and Chief Executive Officer and was acting Chief Financial Officer through April 2000. While founding Illumina, Dr. Stuelpnagel was an associate with CW Group, a venture capital firm, from June 1997 to September 1998 and with Catalyst Partners, a venture capital firm, from August 1996 to June 1997. Dr. Stuelpnagel received his B.S. in Biochemistry and his Doctorate in Veterinary Medicine from the University of California, Davis and his M.B.A. from the University of California, Los Angeles.

Continuing Directors for Term Ending Upon the 2006 Annual Meeting of Stockholders

Karin Eastham, 55, has been a director since August 2004. Ms. Eastham is currently Executive Vice President, Chief Operating Officer and a member of the board of trustees of The Burnham Institute. She also serves on the board of directors of Tercica, Inc., Cyntellect, Inc. and Salmedix, Inc., as well as on the board of UCSD Athena. Prior to joining The Burnham Institute in 2004, Ms. Eastham was senior Vice President and Chief Financial Officer of Diversa Corporation. She previously held similar positions

Table of Contents

with CombiChem, Inc., Cytel Corporation, and Boehringer Mannheim Corporation. Ms. Eastham received B.S. and M.B.A. degrees from Indiana University and is a Certified Public Accountant and a Certified Director.

Jay T. Flatley, 52, has served as our President, Chief Executive Officer and a director since October 1999. Prior to joining Illumina, Mr. Flatley was co-founder, President, Chief Executive Officer and a director of Molecular Dynamics, a life sciences company, from May 1994 to September 1999. He served in various other positions with that company from 1987 to 1994. From 1985 to 1987, Mr. Flatley was Vice President of Engineering and Vice President of Strategic Planning at Plexus Computers, a UNIX computer company. Mr. Flatley also serves as a director at GenVault. Mr. Flatley holds a B.A. in Economics from Claremont McKenna College and a B.S. and M.S. in Industrial Engineering from Stanford University.

William H. Rastetter, Ph.D., 57, has been a director since November 1998 and chairman of the board since January 2005. Since November 2003, Dr. Rastetter has served as the Executive Chairman of Biogen Idec Inc., a biopharmaceutical company. He served as Chief Executive Officer of IDEC Pharmaceuticals Corporation from December 1986 through November 2003 and as chairman of the board of directors from May 1996 to November 2003. Additionally, he served as President of IDEC Pharmaceuticals from 1986 through 2002. From 1982 to 1986, Dr. Rastetter served in various positions at Genentech and previously he was an associate professor at the Massachusetts Institute of Technology. He also serves on the board of the California Healthcare Institute and is an R. B. Woodward Visiting Scholar of the Department of Chemistry and Chemical Biology at Harvard University. Dr. Rastetter holds a S.B. in Chemistry from the Massachusetts Institute of Technology and received his M.A. and Ph.D. in Chemistry from Harvard University.

Continuing Directors for Term Ending Upon the 2007 Annual Meeting of Stockholders

Paul Grint, M.D., 47, has been a director since April 2005. Dr. Grint is currently Senior Vice President and Chief Medical Officer of Zephyr Sciences, Inc., a biopharmaceutical company. Prior to joining Zephyr, Dr. Grint was Vice President and Head of Clinical Research and Development for Pfizer in La Jolla. He held similar positions at IDEC Pharmaceuticals, Schering-Plough and Wellcome Research Laboratories. Dr. Grint received his medical degree from the University of London, St. Bartholomew's Hospital Medical College in London, U.K. He is a Fellow of the Royal College of Pathologists, a member of numerous professional and medical societies, and the author or coauthor of over 50 publications.

David R. Walt, Ph.D., 52, one of our founders, has been a director and Chairman of our Scientific Advisory Board since June 1998. Dr. Walt has been the Robinson Professor of Chemistry at Tufts University since September 1995. Dr. Walt has published over 100 papers and holds over 20 patents. Dr. Walt holds a B.S. in Chemistry from the University of Michigan and received his Ph.D. in Organic Chemistry and Pharmacology from the State University of New York at Stony Brook.

In April 2005, R. Scott Greer resigned from the board.

DIRECTOR NOMINATION

Criteria for Board Membership. In selecting candidates for appointment or re-election to the board, the nominating/corporate governance committee (the "nominating committee") considers the appropriate balance of experience, skills and characteristics required of the board of directors, and seeks to insure that at least a majority of the directors are independent under the rules of the Nasdaq Stock Market, that members of the Company's audit committee meet the financial literacy and sophistication requirements under the rules of the Nasdaq Stock Market and at least one of them qualifies as an "audit committee financial expert" under the rules of the Securities and Exchange Commission. Nominees for director are selected on the basis of their depth and breadth of experience,

Table of Contents

integrity, ability to make independent analytical inquiries, understanding of the Company's business environment, and willingness to devote adequate time to board duties.

Process for Identifying and Evaluating Nominees. The nominating committee believes the Company is well-served by its current directors. In the ordinary course, absent special circumstances or a material change in the criteria for board membership, the nominating committee will re-nominate incumbent directors who continue to be qualified for board service and are willing to continue as directors. If an incumbent director is not standing for re-election, or if a vacancy on the board occurs between annual stockholder meetings, the nominating committee will seek out potential candidates for board appointment who meet the criteria for selection as a nominee and have the specific qualities or skills being sought. In addition, from time to time the board may seek to expand its ranks to bring in new board members with special skills and/or experience relevant and useful to the Company at its particular stage of development. Director candidates will be selected based on input from members of the board, senior management of the Company and, if the nominating committee deems appropriate, a third-party search firm. The nominating committee will evaluate each candidate's qualifications and check relevant references; in addition, such candidates will be interviewed by at least one member of the nominating committee. Candidates meriting serious consideration will meet with all members of the board. Based on this input, the nominating committee will evaluate which of the prospective candidates is qualified to serve as a director and whether the committee should recommend to the board that this candidate be appointed to fill a current vacancy on the board, or presented for the approval of the stockholders, as appropriate.

Stockholder Nominees. The nominating committee will consider written proposals from stockholders for nominees for director. Any such nominations should be submitted to the nominating committee, via the attention of the Secretary of the Company and should include the following information: (a) all information relating to such nominee that is required to be disclosed pursuant to Regulation 14A under the Securities Exchange Act of 1934 (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (b) the names and addresses of the stockholders making the nomination and the number of shares of the Company's common stock which are owned beneficially and of record by such stockholders; and (c) appropriate biographical information and a statement as to the qualification of the nominee, and should be submitted in the time frame described in the Bylaws of the Company and under the caption, "Stockholder Proposals for our 2006 Annual Meeting below."

The Company has never received a proposal from a stockholder to nominate a director. Although the nominating committee has not adopted a formal policy with respect to stockholder nominees, the committee expects that the evaluation process for a stockholder nominee would be similar to the process outlined above.

Karin Eastham and Paul Grint were appointed to serve as directors by the board of directors in August 2004 and April 2005, respectively. In connection with their appointments, a third party search firm was retained to assist the nominating committee in identifying and evaluating potential candidates.

Board Nominees for the 2005 Annual Meeting. Nominees listed in this Proxy Statement are current directors standing for re-election.

Board Committees and Meetings

The board of directors held seven meetings during the fiscal year ended January 2, 2005. The board of directors has an audit committee, a compensation committee and a nominating committee. Each director attended or participated in 75% or more of the aggregate of (i) the total number of meetings of the board of directors and (ii) the total number of meetings held by all committees of the board on which such director served during the 2004 fiscal year.

Table of Contents

The audit committee currently consists of three directors, Mr. Bradbury (chairperson), Ms. Eastham, and Dr. Rastetter, each of whom is independent as defined under Rule 4200 of the National Association of Securities Dealers listing standards and Rule 10A-3 of the Exchange Act. The board of directors has determined that all audit committee members are financially literate under the current listing standards of the National Association of Securities Dealers. The board also determined that Ms. Eastham qualifies as an audit committee financial expert as defined by the SEC rules adopted pursuant to the Sarbanes-Oxley Act of 2002. The audit committee is responsible for, among other things, approving the services performed by our independent auditors and reviewing our accounting practices and systems of internal accounting controls. The audit committee held eight meetings during 2004. The audit committee is governed by a written charter approved by the board of directors.

The compensation committee currently consists of three directors, Ms. Eastham (chairperson), and Drs. Grint and Rastetter, each of whom the board has determined is an independent director under the rules of the Nasdaq Stock Market. The compensation committee is primarily responsible for reviewing and approving our general compensation policies and setting compensation levels for our executive officers. The compensation committee also has the authority to administer our 2000 employee stock purchase plan, our 2000 stock plan and if approved by the stockholders, the 2005 stock and incentive plan. The compensation committee held one meeting during 2004.

The nominating committee currently consists of three directors, Mr. Bradbury and Drs. Grint and Rastetter, each of whom the board has determined is an independent director under the rules of the Nasdaq Stock Market. The nominating and corporate governance committee's responsibilities include recommending to the board of directors nominees for possible election to the board of directors and providing oversight with respect to corporate governance.

Director Compensation

Each non-employee director received during 2004 and will receive for the first two quarters of 2005 an annual cash retainer fee of \$10,000 per year, which is paid quarterly. Non-employee directors also received during 2004 and will receive for the first two quarters of 2005 \$2,000 for each board meeting attended and \$1,000 for each board committee meeting attended. The board of directors has been reviewing director compensation and intends to increase and institute new cash retainer fees on or prior to June 30, 2005. The board in considering these changes to director compensation utilized an independent compensation consultant and the below amounts reflect the recommendations of that consultant. The consultant arrived at the recommended amounts based on board compensation packages at similar publicly traded companies in the instrumentation/ consumables sector after determining that the Company's current compensation is below market. In the event the board approves new retainers, which it will do if the stockholders approve the 2005 Stock and Incentive Plan, the board expects that the retainers will be effective July 1, 2005 and will be paid pro rata over the second half of 2005 on a quarterly basis provided the non-employee director has served on the board, the applicable committee or as chairman of the board throughout the quarter (or pro-rata in the case of a director who commences service during a quarter). The board currently expects to approve retainers in the following amounts: (i) \$25,000 annual cash retainer for all outside directors, (ii) \$9,000 annual cash retainer for members of the audit committee (plus the chair of the audit committee would receive an additional \$7,000), (iii) \$5,000 annual cash retainer for members of the compensation committee (plus the chair of the compensation committee would receive an additional \$5,000), (iv) \$2,500 annual cash retainer for members of the nominating committee (plus the chair of the nominating committee would receive an additional \$3,500) and (v) \$15,000 annual cash retainer for the chairman of the board (in addition to the \$25,000 annual retainer that all outside directors receive). If these increases and new retainer fees are approved, the board intends to discontinue payment of meeting fees (although the Company would continue to reimburse our non-employee directors for their expenses incurred in connection with attending board and committee meetings).

Table of Contents

Several directors have purchased shares of our common stock pursuant to restricted stock purchase agreements, subject to repurchase rights in our favor which lapse over time. David R. Walt, as a member of our Scientific Advisory Board, received a consulting fee of \$16,667 and other consulting fees of \$10,000 in fiscal year 2004.

Under our 2000 stock plan, as amended, directors who are not officers or employees of the Company were eligible to receive during 2004:

one-time option grants of 20,000 shares vesting annually over four years upon first joining the board, which are to be automatically granted on the date the individual is elected a director, whether by stockholder approval or appointment by the Board, with exercise prices equal to the fair market value of our common stock on the date of grant; and

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

Mr. Bradbury and Drs. Rastetter and Walt each received an annual option grant of 10,000 shares subject to the 2000 stock plan in 2004. Ms. Eastham received an initial option grant of 20,000 shares subject to the 2000 stock plan upon her appointment to the board in August 2004.

Under our 2005 Stock and Incentive Plan, as proposed to be adopted (see Proposal Three), directors who are not officers or employees of the Company receive:

a one-time option grant of 20,000 shares vesting annually over three years upon first joining the board, which are to be automatically granted on the date the individual is elected a director, whether by stockholder approval or appointment by the Board, with exercise prices equal to the fair market value of our common stock on the date of grant; and

annual option grants of 8,000 shares vesting on the earlier of (i) the one year anniversary of the date of grant of the option and (ii) the date immediately preceding the date of the annual meeting of the Company's stockholders for the year following the year of grant of the option, which are to be automatically granted on the date of each annual stockholder meeting, with exercise prices equal to the fair market value of our common stock on the date of grant.

The terms of the 2005 Stock and Incentive Plan permit the Board to change the terms (including the number of shares and vesting terms) of the director options at any time.

On the date of the annual meeting, our existing non-employee board members, Ms. Eastham, Dr. Rastetter, Dr. Walt and if re-elected, Mr. Bradbury, will automatically receive option grants of 8,000 shares of our common stock if the 2005 Stock and Incentive Plan is approved and 10,000 shares of our common stock if the 2005 Stock and Incentive Plan is not approved. The exercise price per share under each such option will be equal to the fair market value per share of common stock on the grant date and the vesting will be as described above.

COMMUNICATIONS WITH DIRECTORS

You may send, in an envelope marked Confidential, a written communication to the Chair of the Audit Committee, via the attention of the Company's Secretary, at 9885 Towne Centre Drive, San Diego, CA 92121. All such envelopes will be delivered unopened to the Chair of our Audit Committee.

Table of Contents

PROPOSAL TWO: RATIFICATION OF INDEPENDENT AUDITORS

The board of directors, upon recommendation of the audit committee, has appointed the firm of Ernst & Young LLP, our independent public auditors during 2004, to serve in the same capacity for the year ending January 1, 2006, and is asking the stockholders to ratify this appointment. The affirmative vote of a majority of the shares represented and voting at the annual meeting is required to ratify the appointment of Ernst & Young LLP.

In the event the stockholders fail to ratify the appointment, the board of directors will reconsider its selection. Even if the selection is ratified, the board of directors in its discretion may direct the appointment of a different independent auditing firm at any time during the year if the board of directors believes that such a change would be in the best interests of Illumina and its stockholders.

A representative of Ernst & Young LLP is expected to be present at the annual meeting. This representative will have the opportunity to make a statement if he or she desires to do so, and will be available to respond to appropriate questions.

Audit Fees

The aggregate fees billed by Ernst & Young LLP for professional services rendered for the audit of our annual financial statements, the quarterly reviews of the financial statements included in our Forms 10-Q, review of Form S-3 and an A-133 audit required by our government grants were \$312,226 and \$135,720 for fiscal years 2004 and 2003, respectively. In 2004, audit fees also include fees for professional services rendered for the audits of (i) management's assessment of the effectiveness of internal control over financial reporting and (ii) the effectiveness of internal control over financial reporting.

Audit-Related Fees

Ernst & Young LLP did not perform any audit-related services, for fiscal years 2004 and 2003.

Tax Fees

The aggregate fees billed by Ernst & Young LLP for professional services rendered for the preparation of our tax returns and tax planning and advice were \$25,520 for fiscal year 2003. In fiscal year 2004, all tax related services were performed by parties other than Ernst & Young LLP.

All Other Fees

Ernst & Young LLP did not perform any professional services other than as stated under the captions Audit Fees, Audit-Related Fees and Tax Fees for fiscal year 2004 or 2003.

Pre Approval Policies and Procedures

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

Recommendation of the Board of Directors

The board of directors recommends that the stockholders vote FOR the ratification of the selection of Ernst & Young LLP to serve as our independent auditors for the fiscal year ending January 1, 2006.

Table of Contents

PROPOSAL THREE APPROVAL OF THE 2005 STOCK AND INCENTIVE PLAN

At the annual meeting, you are being asked to approve the Illumina, Inc. 2005 Stock and Incentive Plan (the Stock Plan).

The Stock Plan was adopted by the Board of Directors in April 2005, subject to stockholder approval. The Board adopted the Stock Plan to replace the Company's 2000 Stock Plan (the 2000 Stock Plan) because it believes it is necessary to expand the types of equity awards permitted under its equity compensation plans in order to attract and retain employees, executive officers, directors and other service providers. The Board also believes it is in the best interests of the Company and its stockholders to expand the type of awards it may grant to maximize the Company's ability to take income tax deductions for certain compensation paid to executive officers of the Company under Section 162(m) (Section 162(m)) of the Internal Revenue Code of 1986, as amended (the Code). The Board continues to believe that equity compensation awards are an important part of the Company's overall compensation program and that such awards are important in retaining and motivating existing personnel.

The Stock Plan will not become effective unless it is approved by our stockholders. In accordance with applicable listing standards established by the National Association of Securities Dealers, the Board is asking the Company's stockholders to approve the Stock Plan. The Company also seeks stockholder approval in order to qualify the Stock Plan and certain awards made pursuant to it under the incentive stock option provisions of the Code and to assure that the Company may fully deduct for federal income tax purposes certain compensation that may be paid under the Stock Plan in accordance with Section 162(m) of the Code.

The Stock Plan provides that an aggregate of up to 11,542,358 shares of our common stock will be reserved and available to be issued pursuant to awards granted under the Stock Plan, plus additional shares that may be added to the Stock Plan as described below. This maximum number of shares reserved and available for issuance under the Stock Plan consists of shares reserved for issuance under the 2000 Stock Plan that as of May 2, 2005 were either (i) available for grant pursuant to awards that may be made under the 2000 Stock Plan or (ii) are subject to outstanding options granted under the 2000 Stock Plan which shares might be returned to the 2000 Stock Plan if and to the extent the options to which they are subject terminate or expire or become unexercisable for any reason without having been exercised in full. As of May 2, 2005, options to purchase a total of 6,879,109 shares of common stock were outstanding under the 2000 Stock Plan and 4,663,249 shares remained available for issuance under the 2000 Stock Plan. While the number of options issued and outstanding under the 2000 Stock Plan may change between May 2, 2005 and the date of the annual meeting, the total number of shares reserved for issuance under the Stock Plan under (i) and (ii) above will not exceed 11,542,358 shares. As of the record date, May 2, 2005, 11,542,358 shares represent approximately 28.7% of the Company's outstanding common stock.

In addition, the Stock Plan has an evergreen feature pursuant to which additional shares will automatically be added to the shares reserved for issuance under the Stock Plan without further stockholder approval as of the first day of our fiscal year in each of 2006 through 2010. The number of shares that may be added each year will equal the lesser of 1,200,000 shares, 5% of our outstanding common stock as of the last day of the immediately preceding fiscal year or a number of shares established by our board. Therefore, the maximum number of shares that may be added to the Stock Plan through this evergreen feature over the term of the Stock Plan is 6,000,000 shares. The 2000 Stock Plan has an evergreen feature which provides that up to an additional 7,500,000 shares of common stock would become available for grant under the Stock Plan without further stockholder approval over time between 2006 through 2010.

If the Stock Plan is approved by the stockholders, the Company will cease granting awards under the 2000 Stock Plan. Therefore, on a net basis, adoption of the Stock Plan will result in a decrease in stockholder dilution over the next five years by an aggregate of 1,500,000 shares as a result of the lower share limit in the Stock Plan's evergreen feature relative to the evergreen provisions of the 2000

Table of Contents

Stock Plan. If the Stock Plan is not approved by the stockholders, the 2000 Stock Plan will continue in operation pursuant to its terms.

The material terms of the Stock Plan include the following:

the types of awards that may be granted under the Stock Plan are stock options (including incentive stock options and nonstatutory stock options), restricted stock grants, restricted stock units, stock appreciation rights and other similar types of awards (including other awards under which recipients are not required to pay any purchase or exercise price, such as phantom stock rights), as well as cash awards;

the maximum number of shares subject to awards that may be granted to any one participant under the Stock Plan during any single fiscal year of the Company is 500,000 shares; provided that up to 1,000,000 additional shares may be granted to a participant during the fiscal year in which the participant's service with the Company commences (the 162(m) Share Limit);

the maximum value of any cash award granted to any participant for any fiscal year under the Stock Plan is \$1,000,000 (the 162(m) Cash Limit);

the Company may not reprice or otherwise reduce the exercise price of outstanding options granted under the Stock Plan (other than in connection with certain corporate transactions such as stock splits, stock dividends or similar transactions) without the approval of our stockholders;

the Stock Plan provides that the board may grant awards to members of the Company's board (including our outside or non-employee directors) and, to the extent the Stock Plan or the board establishes an automatic option grant program for directors under the Stock Plan, the board may in its discretion change the terms of options to be granted under such program, or discontinue the program at any time in its sole discretion. The Stock Plan provides for an automatic option grant program for our outside directors, as described below, which assuming the Stock Plan is approved, the board will not change prior to 2006;

the number of shares reserved for issuance under the Stock Plan (including the maximum number of shares in the evergreen feature) and subject to outstanding awards, the exercise or purchase price per share applicable to outstanding awards, the number of shares to be granted to our non-employee directors under any director option grant program for our non-employee directors and the 162(m) Share Limit will each be adjusted to proportionately reflect the terms of certain corporate transactions including stock splits, stock dividends, and certain other transactions affecting the capital stock of the Company;

the maximum number of shares reserved for issuance under the Stock Plan is as described above;

shares subject to awards that expire or terminate for any reason without having been exercised in full or without the shares subject thereto having been issued in full will become available for re-issuance under the Stock Plan;

shares of common stock which are retained by the Company upon exercise of an award in order to satisfy the exercise or purchase price of an award or any withholding taxes due with respect to the exercise or purchase shall not continue to be available for issuance under the Stock Plan; and

the Stock Plan will expire in 2015 (unless it expires or is terminated earlier pursuant to its terms).

Background on Stock Plan

The 2000 Stock Plan provides for the granting of stock options to eligible participants. In light of the changing pressures affecting compensation, including executive compensation, as a result of the recent market developments as well as increased focus on corporate governance matters generally, and because of the anticipated effectiveness of

Table of Contents

significant changes on the way in which stock options are accounted for, our board believes it appropriate for us to have increased flexibility as to the types of equity compensation awards the Board may grant to employees and other eligible plan participants.

Specifically, our board has determined that the Company would be better positioned to attract and retain qualified officers, employees, consultants and directors if we had the ability, in addition to being able to grant stock options, to be able to grant stock awards pursuant to the Stock Plan in the form of restricted stock, restricted stock units, stock appreciation rights and other similar types of stock awards pursuant to which the recipient is not required to make any payment to the Company upon issuance of the shares underlying the award, such as phantom stock rights. These awards may or may not be granted subject to vesting or other forfeiture conditions. We are seeking approval of the Stock Plan by our stockholders at the annual meeting to expand the types of awards that the Company has the authority to grant.

In addition, we are seeking approval of the Stock Plan to expand the Company's ability to grant awards qualifying as performance-based under Code Section 162(m). Pursuant to Section 162(m), we generally may not deduct for federal income tax purposes compensation paid to certain executive officers (our Chief Executive Officer and our other four most highly compensated executive officers) to the extent that any of these persons receive more than \$1,000,000 in compensation in any single year. However, if the compensation qualifies as performance-based for Section 162(m) purposes, we may deduct it for federal income tax purposes even if it exceeds \$1,000,000 in a single year. One of the material terms of the Stock Plan is that the maximum number of shares that may be granted subject to options and other stock awards under the Stock Plan to any employee during any single fiscal year is 500,000 shares plus an additional 1,000,000 shares during the fiscal year in which the participant's service with the Company commences. This 162(m) Share Limit is included in the Stock Plan specifically for purposes of Section 162(m).

In addition, the board desires that the Company be able to pay cash bonuses that are fully deductible by the Company under applicable tax rules. The maximum amount payable pursuant to a cash award granted under the Stock Plan for any fiscal year may not exceed \$1,000,000 (the 162(m) Cash Limit). This 162(m) Cash Limit is included in the Stock Plan specifically for purposes of Section 162(m).

The Stock Plan includes restricted stock grants, restricted stock units and stock appreciation rights (and other similar types of stock awards). To qualify such awards, as well as cash awards, as performance-based compensation, these awards must be made subject to performance conditions approved by the board's compensation committee and our stockholders as required under the Section 162(m) regulations. The Company may or may not apply performance criteria and qualify the awards under Section 162(m), but the Company believes it is in the best interests of the Company and its stockholders to have the ability to do so.

The Stock Plan permits the Company to issue such awards incorporating performance objectives and provides that these performance objectives (Qualifying Performance Criteria) may be based upon: (1) cash flow, (2) earnings (including gross margin, earnings before interest and taxes, earnings before taxes, and net earnings), (3) earnings per share, (4) growth in earnings or earnings per share; (5) stock price, (6) return on equity or average stockholders' equity, (7) total stockholder return, (8) return on capital, (9) return on assets or net assets, (10) return on investment, (11) revenue, (12) income or net income, (13) operating income or net operating income, (14) operating profit or net operating profit, (15) operating margin, (16) return on operating revenue, (17) market share, (18) contract awards or backlog, (19) overhead or other expense reduction, (20) growth in stockholder value relative to the moving average of the S&P 500 Index or the Company's peer group index, (21) credit rating, (22) strategic plan development and implementation, (23) improvement in workforce diversity, and (24) such other similar criteria as may be determined by the Administrator (as defined below). To the extent that the Administrator determines that an award will be granted subject to Qualifying Performance Criteria, such criteria will be specified with respect to a particular award by our

Table of Contents

compensation committee in a manner designed to comply with Section 162(m). These criteria may be applied to the Company as a whole or to a business unit, parent, subsidiary or business segment, either individually, alternatively or in any combination, and may be measured either annually or cumulatively over a period of years, on an absolute basis, or relative to a pre-established target, to previous years' results or to a designated comparison group, in each case as specified by the Administrator in the award agreement. The Company will generally attempt to qualify awards under the Stock Plan as performance-based compensation so as to meet the standards of Section 162(m), but may not do so in every instance.

Stockholder approval of the Stock Plan pursuant to this proposal will constitute stockholder approval of the material terms of the Stock Plan, including the 162(m) Share Limit and the 162(m) Cash Limit as described above and the Qualifying Performance Criteria, for Section 162(m) purposes.

Recommendation of the Board of Directors

The board of directors recommends a vote FOR the approval of the Stock Plan.

Vote Required

Approval of the Stock Plan requires the affirmative vote of a majority of the shares of our common stock present in person or represented by proxy and entitled to be voted on the proposal at the annual meeting.

Brokers do not have discretion to vote on this proposal without your instruction. If you do not instruct your broker how to vote on this proposal, your broker will deliver a non-vote on this proposal. Broker non-votes, if any, will have no effect on the outcome of the vote on this proposal. Abstentions will have the effect of a vote against the proposal.

General

A copy of the Stock Plan is attached to this proxy statement as Appendix A. The following description of the Stock Plan is only a summary and so is qualified by reference to the complete text of the Stock Plan.

The purpose of the Stock Plan is to enhance the long-term stockholders' value of the Company by offering incentives to attract and retain the best available personnel for positions of substantial responsibility and by providing additional incentive to employees and consultants to promote the success of the Company's business. Stock options, restricted stock, restricted stock units, stock appreciation rights and other similar types of awards (including other awards under which recipients are not required to pay any purchase price or exercise price, such as phantom stock rights), as well as cash awards may be granted under the Stock Plan (each an "Award"). Options granted under the Stock Plan may be either incentive stock options, as defined in section 422 of the Code, or non-statutory stock options.

Administration. The Stock Plan is administered by the compensation committee of the board of directors (the Administrator).

Eligibility. Non-statutory stock options and stock awards may be granted under the Stock Plan to employees, directors (including non-employee directors) and consultants of the Company, its parent and subsidiaries. Incentive stock options and cash awards may be granted only to employees of the Company or its subsidiaries. The Administrator, in its discretion, selects the employees to whom stock options and other stock awards, as well as cash awards, may be granted, the time or times at which such Awards are granted, and the terms of such Awards to be granted under the Stock Plan. As of May 2, 2005, the Company had approximately 321 employees and consultants and five non-employee directors who would be eligible to participate in the Stock Plan.

Table of Contents

New Plan Benefits. Because benefits under the Stock Plan will depend on the Administrator's actions and, with respect to options and other stock awards, the fair market value of common stock at various future dates, it is not possible to determine the benefits that will be received by employees, officers, directors, and consultants under such types of awards if the Stock Plan is approved by the stockholders. No Awards have been granted or promised to be granted under the Stock Plan, except see Automatic Director Stock Option Program below regarding options that will be automatically granted to our non-employee directors on the date of the annual meeting if our stockholders approve the Stock Plan. As of May 2, 2005, the closing sales prices of common stock was \$9.87 per share.

Nontransferability of Awards. Options and stock awards granted under the Stock Plan are not transferable other than by will or the laws of descent and distribution and may be exercised during the lifetime of the holder of the option or stock award only by the holder; provided that non-statutory options may be transferred by gift to immediate family members of the participant or to a trust in which non-statutory options are to be passed to a beneficiary of the participant upon the death of participant.

Stock Options

Exercise Price. The Administrator determines the exercise price of options at the time the options are granted. The exercise price of options granted under the Stock Plan may not be less than 100% of the fair market value of our common stock on the date of grant of such option, provided that the exercise price of an incentive stock option to an employee who is also a 10% stockholder must have an exercise price at least equal to 110% of the fair market value of our common stock on the date of grant of such option. The Company may grant options with exercise prices equal to less than 100% of the fair market value of our common stock on the date of grant in connection with an acquisition by the Company of another company. The fair market value of our common stock is generally the closing sales price as quoted on the Nasdaq National Market on the date of grant. No option may be repriced to reduce the exercise price of such option without stockholder approval (except in connection with a change in our capitalization, such as a stock split or a recapitalization).

Exercise of Option; Form of Consideration. The Administrator determines when options vest and become exercisable, and in its discretion may accelerate the vesting and/or exercisability of any outstanding option. The Company's standard vesting schedule applicable to options granted to newly hired employees is one-fifth of the total number of shares subject to the option become vested and exercisable on the first year anniversary of the date of grant and an additional one-sixtieth of the total number of shares subject to the option become vested and exercisable on each subsequent monthly anniversary of the date of grant. The Company's standard vesting schedule for options granted to continuing employees is one-sixtieth of the total number of shares subject to an option become vested and exercisable on each monthly anniversary of the date of grant. The means of payment for shares issued upon exercise of an option are specified in each option agreement. The Stock Plan permits payment to be made by cash, check, promissory note, cancellation of indebtedness, other shares of common stock of the Company (with some restrictions), broker assisted same-day sale or any other means of consideration permitted by applicable law.

Term of Option. The term of an option may be no more than ten years from the date of grant; provided that the term of an incentive stock option may not be more than five years from the date of grant for an optionee who is also a 10% stockholder. No option may be exercised after the expiration of its term.

Termination of Options. Generally, if an optionee's services to the Company as an employee, consultant or director terminate other than for death or disability, vested options will remain exercisable for a period of three months following the optionee's termination. Unless otherwise provided for in the option agreement, generally if an optionee becomes disabled or dies while an employee, consultant or director, the optionee's vested options shall be exercisable for twelve months following the optionee's death or termination as a result of disability, or if earlier, the expiration of the

Table of Contents

term of such option. The Administrator shall have the authority to extend the period of time for which an option is to remain exercisable following optionee's termination; provided that in no event will an option be exercisable later than the expiration of the term of the option.

Automatic Director Stock Option Program. The Stock Plan allows the Administrator to grant nonstatutory stock options to non-employee directors, and to the extent it establishes an automatic option grant program for directors under the Stock Plan, it may change the terms of options to be granted under such program or discontinue the program at any time in its sole discretion. The Stock Plan provides for the automatic grant of nonstatutory stock options to our non-employee directors as follows: each non-employee director first joining our board will be granted an option (the Initial Option) to purchase 20,000 shares of common stock (as adjusted for stock splits, stock dividends, reclassifications and like transactions) and each non-employee director who both has served on our board for at least six months prior to, and continues to serve on our board following, an annual stockholders meeting will be granted an option (the Annual Option) to purchase 8,000 shares of common stock (as adjusted for stock splits, stock dividends, reclassifications and like transactions) at the time of the stockholders meeting. The per-share exercise price applicable to Initial and Annual Options is equal to the fair market value of our common stock on the date of grant. Subject to the director's continuing to serve on our board, all Initial Options vest as to 33% of the shares subject to the option on each of the first three anniversaries following the grant date, and all Annual Options vest as to 100% of the shares subject to the option on the earlier of (i) the one year anniversary of the date of grant of the option and (ii) the date immediately preceding the date of the annual meeting of the Company's stockholders for the year following the year of grant of the option. In the event of the Company's merger with or into another corporation, a sale of substantially all of the Company's assets or another corporate transaction (as defined in the Stock Plan), if a successor corporation does not assume or substitute for each Initial Option and Subsequent Option, each outstanding Initial Option and Substitute Option shall vest in full and be fully exercisable, including as to shares which would not otherwise be vested or exercisable. If the Stock Plan is approved, the board will not amend the automatic director stock option program prior to 2006.

Stock Awards

Stock awards may be stock grants, stock units, stock appreciation rights or other similar stock awards (including stock awards having an exercise or purchase price that is less than the fair market value of the common stock as of the date of grant of the award, such as phantom stock rights). Stock grants are awards of a specific number of shares of our common stock. Stock units represent a promise to deliver shares of our common stock, or an amount of cash or property equal to the value of the underlying shares, at a future date. Stock appreciation rights are rights to receive cash and/or shares of our common stock based on a change in the fair market value of a specific number of shares of our common stock. Each stock award is evidenced by a stock award agreement between the Company and the participant. The Stock Plan allows the Administrator broad discretion to determine the terms of individual awards, including the number of shares that such participant shall be entitled to purchase or receive and the price (if any) to be paid by the recipient in connection with the issuance of the shares. Each stock award agreement will contain provisions regarding (i) the number of shares subject to such stock award or a formula for determining such number, (ii) the purchase price of the shares, if any, and the means of payment for the shares, (iii) the performance criteria (including the Qualifying Performance Criteria), if any, and level of achievement versus these criteria that will determine the number of shares granted, issued, retainable and vested, as applicable, (iv) such terms and conditions on the grant, issuance, vesting and forfeiture of the shares, as applicable, as may be determined from time to time by the Administrator, (v) restrictions on the transferability of the stock award, and (vi) such further terms and conditions, in each case not inconsistent with the Stock Plan, as may be determined from time to time by the Administrator. Shares may be granted under the Stock Plan as stock awards without requiring the participant to pay the Company an amount equal to the fair market value of our common stock as of the Award grant date in order to acquire the Award shares.

Table of Contents

Cash Awards

Cash awards granted under the Stock Plan will generally be made to individuals who are, or who the Company anticipates may be, one of our five most highly compensated officers (such individuals being those employees whose compensation may not be fully deductible by the Company under Code Section 162(m) if it exceeds with respect to a given year the limits imposed by that section). Each cash award granted under the Stock Plan will be subject to Qualifying Performance Criteria and will be reflected in an agreement containing provisions regarding (1) the target and maximum amount payable to the participant as a cash award, (2) the Qualifying Performance Criteria and level of achievement versus the criteria that will determine the amount of such payment, (3) the period as to which performance shall be measured for establishing the amount of any payment, (4) the timing of any payment earned by virtue of performance, (5) restrictions on the alienation or transfer of the cash award prior to actual payment, (6) forfeiture provisions, and (7) such further terms and conditions, in each case not inconsistent with the Stock Plan, as may be determined from time to time by the Administrator. The maximum amount payable as a cash award may be a multiple of the target amount payable. The maximum amount payable pursuant to a cash award granted under the Stock Plan for any fiscal year to any participant may not exceed \$1,000,000. Nothing in the Stock Plan prevents the Company from granting cash awards outside of the Stock Plan to any individual.

Adjustments on Changes in Capitalization, Merger or Change of Control

In the event of any stock dividend, stock split, reverse stock split, recapitalization, combination, reclassification or similar change to the capital structure of the Company without receipt of consideration by the Company, appropriate adjustments will be made to (i) the number of shares subject to the Stock Plan (including the number of shares subject to the evergreen feature), (ii) the 162(m) Share Limit, (iii) the number of shares that may be granted to our non-employee directors under the automatic stock option provisions of the Stock Plan applicable to such directors, and (iv) the exercise price and number of shares under each outstanding Award. Any such adjustments shall be made by the Administrator, and the decision of the Administrator shall be final, binding and conclusive.

The Stock Plan provides that in the event of our merger with or into another corporation, a sale of substantially all of our assets or another corporate transaction (as defined in the Stock Plan), the board or the Administrator may provide for the assumption, substitution or adjustment of each outstanding Award, accelerate the vesting of options and terminate any restrictions on stock awards or cash awards or terminate Awards on such terms and conditions as the board or Administrator determines, including for a cash payment to the participant.

In the event of a proposed dissolution or liquidation of the Company, each Award will terminate immediately prior to the consummation of the dissolution or liquidation, unless otherwise determined by the Administrator.

Amendment and Termination of the Stock Plan

The board may amend, alter, suspend or discontinue the Stock Plan. However, the Company shall obtain stockholder approval for any amendment to the Stock Plan to the extent necessary and desirable to comply with applicable laws and Nasdaq National Market listing requirements. Generally, no such action by the board or stockholders may alter or impair any outstanding Award under the Stock Plan without the written consent of the holder. In addition, no amendment shall be made that would reduce the exercise price of outstanding options without the written consent of the stockholders. The Stock Plan will terminate in June 2015.

Federal Income Tax Consequences of Awards under the Stock Plan

THE FOLLOWING IS A GENERAL SUMMARY OF THE TYPICAL FEDERAL INCOME TAX CONSEQUENCES OF THE ISSUANCE AND EXERCISE OF OPTIONS OR AWARDS OF RESTRICTED STOCK

Table of Contents

UNDER THE PLAN. IT DOES NOT DESCRIBE STATE OR OTHER TAX CONSEQUENCES OF THE ISSUANCE AND EXERCISE OF OPTIONS OR OF GRANT OF RESTRICTED STOCK.

Options. The grant of an incentive stock option has no federal income tax effect on the optionee. Upon exercise the optionee does not recognize income for regular tax purposes. However, the excess of the fair market value of the stock subject to an option over the exercise price of such option (the option spread) is includible in the optionee's alternative minimum taxable income for purposes of the alternative minimum tax. If the optionee does not dispose of the stock acquired upon exercise of an incentive stock option until more than two years after the option grant date and more than one year after exercise of the option, any gain (or loss) upon sale of the shares will be a long-term capital gain (or loss). If the holding periods are not satisfied, then: (1) if the sale price exceeds the exercise price, the optionee will recognize capital gain equal to the excess, if any, of the sale price over the fair market value of the shares on the date of exercise and will recognize ordinary income equal to the difference, if any, between the lesser of the sale price or the fair market value of the shares on the exercise date and the exercise price; or (2) if the sale price is less than the exercise price, the optionee will recognize a capital loss equal to the difference between the exercise price and the sale price. The Company is not entitled to a federal income tax deduction in connection with incentive stock options, except to the extent that the optionee has taxable ordinary income on a disqualifying disposition (unless limited by Section 162(m)).

The grant of a non-statutory option has no federal income tax effect on the optionee. Upon the exercise of a non-statutory option with respect to vested shares, the optionee has taxable ordinary income (and unless limited by Section 162(m) the Company is entitled to a corresponding deduction) equal to the option spread on the date of exercise. Upon the disposition of stock acquired upon exercise of a non-statutory option, the optionee recognizes either long-term or short-term capital gain or loss, depending on how long such stock was held, on any difference between the sale price and the exercise price, to the extent not recognized as taxable income on the date of exercise. The Company may allow non-statutory options to be transferred subject to conditions and restrictions imposed by the Administrator; special tax rules may apply on such a transfer.

In the case of both incentive stock options and non-statutory options, special federal income tax rules apply if Company common stock is used to pay all or part of the option price, and different rules than those described above will apply if unvested shares are purchased on exercise of the option.

Stock Awards. Stock awards will generally be taxed in the same manner as non-statutory stock options. However, shares issued under a restricted stock award are subject to a substantial risk of forfeiture within the meaning of Section 83 of the Code to the extent the shares will be forfeited in the event that the participant ceases to provide services to the Company and are not nontransferable. As a result of this substantial risk of forfeiture, the participant will not recognize ordinary income at the time the award shares are issued. Instead, the participant will recognize ordinary income on the dates when the stock is no longer subject to a substantial risk of forfeiture, or when the stock becomes transferable, if earlier. The participant's ordinary income is measured as the difference between the amount paid for the stock, if any, and the fair market value of the stock on the date the stock is no longer subject to forfeiture.

The employee may accelerate his or her recognition of ordinary income, if any, and begin his or her capital gains holding period by timely filing (i.e., within thirty days of the share issuance date) an election pursuant to Section 83(b) of the Code. In such event, the ordinary income recognized, if any, is measured as the difference between the amount paid for the stock, if any, and the fair market value of the stock on the date of such issuance, and the capital gain holding period commences on such date. The ordinary income recognized by an employee will be subject to tax withholding by the Company. Unless limited by Section 162(m), the Company is entitled to a deduction in the same amount as and at the time the employee recognizes ordinary income.

Cash Awards. Upon receipt of cash, the recipient will have taxable ordinary income, in the year of receipt, equal to the cash received. Any cash received will be subject to tax withholding by the

Table of Contents

Company. Unless limited by Section 162(m) of the Code, the Company will be entitled to tax deduction in the amount and at the time the recipient recognizes compensation income.

Accounting Treatment

Prior to the first quarter of fiscal 2006, options granted to employees under the Stock Plan that have fixed exercise prices that are equal to or greater than the fair value per share on the grant date and that have a fixed number of shares associated with the option will generally not result in any direct charge to the Company's reported earnings under current accounting rules. However, the fair value of those options is required to be disclosed in the notes to the Company's financial statements, and the Company also must disclose, in the notes to its financial statements, the pro forma impact those options would have upon the Company's reported earnings and earnings per share were the fair value of those options at the time of grant treated as a compensation expense over the life of the option.

Beginning with the first quarter of fiscal 2006 (assuming that the stated effective date for FAS 123R is not amended), the Company will generally be required to recognize compensation expense in an amount equal to the fair value on the date of grant of all stock options that are unvested as of or after such period. The fair value of an option will be based on the number of shares subject to the option that are expected to vest. The Company will use either Black-Scholes or a binomial valuation model to measure fair value of option grants. In addition, the Company will be required to recognize compensation expense for options as they vest, as adjusted for actual forfeitures that occur before vesting but not adjusted for any previously recognized compensation cost if an option lapses unexercised.

OTHER MATTERS

We know of no other matters that will be presented for consideration at the annual meeting. If any other matters properly come before the annual meeting, it is the intention of the persons named in the enclosed form of proxy to vote the shares they represent as the board of directors may recommend. Discretionary authority with respect to such other matters is granted by the execution of the enclosed proxy.

OWNERSHIP OF SECURITIES

The following table sets forth information known to us with respect to the beneficial ownership of our common stock as of January 31, 2005 for:

each of our directors;

each of the named executive officers listed in the summary compensation table included in this proxy statement;

each stockholder known by us to own beneficially more than 5% of our common stock; and

all of our directors and executive officers as a group.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock subject to stock options and warrants currently exercisable or exercisable within 60 days from January 31, 2005 are deemed to be outstanding for computing the percentage ownership of the person holding these options and the percentage ownership of any group of which the holder is a member, but are not deemed outstanding for computing the percentage of any other person. Except as indicated by footnote, and subject to community property laws where applicable, the persons named in the table have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them. Except as otherwise noted below, the address of each person listed on the table is 9885 Towne Centre Drive, San Diego, CA 92121. Some of the shares of common

Table of Contents

stock held by our directors, officers and consultants are subject to repurchase rights in our favor. For a description of these repurchase rights, see the footnotes below.

Name and Address	Shares Issuable Pursuant to Options Exercisable Within 60 days of January 31, 2005	Beneficial Ownership	
		Number of Shares (including number shown in first column)	Percentage of Total(1)
DIRECTORS AND EXECUTIVE OFFICERS			
Jay T. Flatley(2)	143,540	1,069,615	2.8
David L. Barker, Ph.D.(3)	40,790	297,857	*
Noemi C. Espinosa(4)	22,811	242,061	&nb