INTERLEUKIN GENETICS INC
Form 10-K/A
June 30, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

AMENDMENT NO. 1 TO FORM 10-K

x ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2004

Commission File Number: 0-23413

INTERLEUKIN GENETICS, INC.

(Name of Registrant in its Charter)

Delaware (State or other jurisdiction of incorporation or organization)	**94-3123681** (I.R.S. Employer Identification No.)
135 Beaver Street, Waltham, MA (Address of principal executive offices)	**02452** (Zip Code)

Registrant s Telephone Number: **(781) 398-0700**

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

Common Stock, $0.001 par value per share	**Boston Stock Exchange**

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

Common Stock, $0.001 par value per share

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 x No o

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

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

The aggregate market value of the registrant s voting and non-voting common stock held by non-affiliates of the registrant (without admitting that any person whose shares are not included in such calculation is an affiliate) computed by reference to the price at which the common stock was last sold as of the last business day of the registrant s most recently completed second fiscal quarter was $101,873,276.

As of June 29, 2005, there were 23,661,527 shares of the Registrant s Common Stock and 5,000,000 shares of the Registrant s Series A Preferred Stock, issued and outstanding.

This Amendment No. 1 on Form 10-K/A to the Registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2004 (Fiscal 2004) is being filed to amend and restate in their entirety the information set forth in Item 9A of Part II and the Reports of the Independent Registered Public Accounting Firm incorporated by reference into Item 8 of Part II and Item 15 of Part IV.

Item 8. *Financial Statements and Supplementary Data*

The Consolidated Financial Statements of the Company, together with the Independent Auditors Reports, are included in Item 15 of Part IV of this Annual Report on Form 10-K/A and are presented beginning on page F-1.

Item 9A. *Controls and Procedures*

(a) *Evaluation of Disclosure Controls and Procedures.* Our principal executive officer and principal financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Annual Report on Form 10-K, have concluded that, based on such evaluation, our disclosure controls and procedures were adequate and effective to ensure that material information relating to us, including our consolidated subsidiary, was made known to it by others within that entity, particularly during the period in which this Annual Report on Form 10-K was being prepared.

In designing and evaluating our disclosure controls and procedures, our management recognizes 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 necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

(b) *Changes in Internal Controls.* There were no changes in our internal control over financial reporting, identified in connection with the evaluation of such internal control that occurred during our last fiscal quarter, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management s Report of Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended, as a process designed by, or under the supervision of, the company s principal executive and principal financial officers and effected by the company s board of directors, management and other personnel 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.

The company s internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an assessment of the effectiveness of the company s internal control over financial reporting as of December 31, 2004. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its *Internal Control Integrated Framework*. Because of the material weaknesses described below, management believes that, as of December 31, 2004, the company s internal control over financial reporting was not effective based on those criteria.

Material weaknesses in the company s internal controls over financial reporting were identified in the following areas:

- *Assessment of the Effectiveness of Internal Controls* The testing and evaluation of internal controls in several areas was not performed on a timely basis. Also, the documentation of the tests performed to evaluate whether the controls were operating effectively was inadequate. This limited the ability to provide reasonable assurance that the controls were operating effectively.

- *Evidence of Management Review and Monitoring Controls* In several instances, management s design of controls did not require documentation of evidence, such as signatures, of reviews performed. Notwithstanding this lack of evidence, management believes that such reviews were regularly performed during the relevant periods. The inability to demonstrate that reviews were performed creates the potential that undetected errors could occur.

- *Application of U.S. GAAP* The Company did not maintain sufficient knowledge and expertise with respect to the requirements and application of U.S. GAAP for convertible instruments. This material weakness led to a restatement of the Company s 2003 financial statements and 2004 interim financial reports.

- *Segregation of Duties* The Company only has a few individuals in the accounting and finance function. These individuals perform recording, monitoring and controlling activities that are ordinarily performed by more individuals in a larger operation. While management is not aware of any evidence that this control deficiency resulted in financial statement error, the potential exists that errors could occur that would not be prevented or detected.

Management has and will continue to evaluate the segregation of duties issue by examining consistently the employees involved and the control procedures in place to determine whether the potential benefits of adding employees to clearly segregate duties justifies the expense associated with such increases. Management has put in place an action plan to remediate the other weaknesses and will report on progress in subsequent filings during the year.

In making this assessment, management used the criteria set forth by the COSO in its *Internal Control Integrated Framework*. Management s assessment of the effectiveness of the company s internal control over financial reporting as of December 31, 2004 has been attested to by Grant Thornton LLP, the Company s independent registered public accounting firm, as stated in their report, which is set forth beginning on page F-3.

Item 15. *Exhibits and Financial Statement Schedules*

(a) Documents Filed as Part of Report

1. Financial Statements:

The Consolidated Financial Statements of the Company and the related report of the Company s independent registered public accounting firm thereon have been filed under Item 8 hereof.

2. Financial Statement Schedules:

The information required by this item is not applicable.

3. Exhibits:

The exhibits listed below are filed as part of or incorporated by reference in this report. Where such filing is incorporated by reference to a previously filed document, such document is identified in parentheses.

Exhibit No.	**Identification of Exhibit**
3.1	Articles of Incorporation of the Company, as amended (incorporated herein by reference to Exhibit 3.1 of the Company s Quarterly Report on Form 10-Q filed August 14, 2000)
3.2	Bylaws of the Company, as adopted on June 5, 2000 (incorporated herein by reference to Exhibit 3.2 of the Company s Quarterly Report on Form 10-Q filed August 14, 2000)
3.3	Certificate of Designations, Preferences and Rights of Series A Preferred Stock (incorporated herein by reference to Exhibit 3.1 of the Company s Current Report filed on Form 8-K on March 5, 2003)
3.4	Certificate of Amendment to Certificate of Incorporation, as filed with the Delaware Secretary of State on August 5, 2003 (incorporated herein by reference to Exhibit 3.1 of the Company s Quarterly Report on Form 10-Q filed on November 12, 2003)
4.1	Form of Stock Certificate representing Common Stock, $0.001 par value, of the Company (incorporated herein by reference to Exhibit 4.1 of the Company s Quarterly Report on Form 10-Q filed August 14, 2000)
10.1@	Interleukin Genetics, Inc. 1996 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.17 of the Company s Registration Statement No. 333-37441 on Form SB-2 filed October 8, 1997)
10.2@	Amendment to the Interleukin Genetics, Inc. 1996 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.18 of the Company s Registration Statement No. 333 37441 on Form SB-2 filed October 8, 1997)
10.3@	Form of Stock Option Agreement (incorporated herein by reference to Exhibit 10.19 of the Company s Registration Statement No. 333-37441 on Form SB-2 filed October 8, 1997)
10.4@	Stock Option Exercise Agreement (incorporated herein by reference to Exhibit 10.20 of the Company s Registration Statement No. 333-37441 on Form SB-2 filed October 8, 1997)
10.5@	Non-Qualified Stock Option Agreement dated June 1, 1999, between the Company and Philip R. Reilly (incorporated herein by reference to Exhibit 10.2 of the Company s Quarterly Report on Form 10-QSB filed August 16, 1999)
10.6+	Research and Technology Transfer Agreement dated effective July 1, 1999, between the Company and the University of Sheffield (incorporated herein by reference to Exhibit 10.1 of the Company s Quarterly Report on Form 10-QSB filed November 15, 1999)

10.7+	Research Support Agreement dated effective July 1, 1999, between the Company and the University of Sheffield (incorporated herein by reference to Exhibit 10.2 of the Company s Quarterly Report on Form 10-QSB filed November 15, 1999)
10.8+	Consulting Agreement dated effective July 1, 1999, between the Company and Gordon Duff, PhD, FRCP (incorporated herein by reference to Exhibit 10.3 of the Company s Quarterly Report on Form 10-QSB filed November 15, 1999)
10.9@	Non-Qualified Stock Option Agreement dated November 30, 1999 between the Company and Philip R. Reilly (incorporated herein by reference to Exhibit 4.5 of the Company s Registration Statement No. 333-32538 on Form S-8 filed March 15, 2000)
10.10@	Employment Agreement dated December 1, 1999 between the Company and Kenneth S. Kornman. (incorporated herein by reference to Exhibit 10.25 of the Company s Annual Report on Form 10-K filed April 15, 2000)
10.11@	Employment Agreement dated April 1, 2000 between the Company and Philip R. Reilly. (incorporated herein by reference to Exhibit 10.26 of the Company s Annual Report on Form 10-K filed on April 15, 2000)
10.12@	2000 Employee Stock Compensation Plan for the Company (incorporated herein by reference to Exhibit 10.3 of the Company s Quarterly Report on Form 10-Q filed August 14, 2000)
10.13@	Form of Nonqualified Stock Option Grant (incorporated herein by reference to Exhibit 10.4 of the Company s Quarterly Report on Form 10-Q filed August 14, 2000)
10.14@	Form of Incentive Stock Option Grant (incorporated herein by reference to Exhibit 10.5 of the Company s Quarterly Report on Form 10-Q filed August 14, 2000)
10.15@	Employment Agreement dated June 18, 2000 between the Company and Fenel Eloi (incorporated herein by reference to Exhibit 10.6 of the Company s Quarterly Report on Form 10-Q filed August 14, 2000)
10.16	Note Purchase Agreement between the Company and Pyxis Innovations, Inc. dated October 22, 2002 (incorporated herein by reference to Exhibit 10.1 of the Company s Current Report on Form 8-K filed on October 28, 2002)
10.17	Security Agreement between the Company and Pyxis Innovations, Inc dated October 22, 2002 (incorporated herein by reference to Exhibit 10.2 of the Company s Current Report on Form 8-K filed on October 28, 2002)
10.18	Form of Common Stock Purchase Warrant (incorporated herein by reference to Exhibit 10.3 of the Company s Quarterly Report on Form 10-Q filed on November 7, 2002)
10.19	Registration Rights Agreement dated August 9, 2002 (incorporated herein by reference to Exhibit 10.4 of the Company s Quarterly Report on Form 10-Q filed on November 7, 2002)
10.20	Stock Purchase Agreement between the Company and Pyxis Innovations, Inc dated March 5, 2003 (incorporated herein by reference to Exhibit 10.1 of the Company s Current Report on Form 8-K filed on March 5, 2003)
10.21	Amendment No. 3 to Note Purchase Agreement between the Company and Pyxis Innovations, Inc, dated March 5, 2003 (incorporated herein by reference to Exhibit 10.2 of the Company s Current Report on Form 8-K filed on March 5, 2003)
10.22	Amendment No. 2 to the Security Agreement between the Company and Pyxis Innovations, Inc., dated March 5, 2003 (incorporated herein by reference to Exhibit 10.3 of the Company s Current Report on Form 8-K filed on March 5, 2003)

10.23	Form of Amended and Restated Promissory Note (incorporated herein by reference to Exhibit 10.4 of the Company s Current Report on Form 8-K filed on March 5, 2003)
10.24	Amendment No. 2 to Note Purchase Agreement between the Company and Pyxis Innovations, Inc. (incorporated herein by reference to Exhibit 10.5 of the Company s Current Report on Form 8-K filed on March 5, 2003)
10.25+	Research Agreement between the Company and Access Business Group dated March 5, 2003 (incorporated herein by reference to Exhibit 10.6 of the Company s Current Report on Form 8-K filed on March 5, 2003)
10.26+	Exclusive License Agreement between the Company and Access Business Group dated March 5, 2003 (incorporated herein by reference to Exhibit 10.7 of the Company s Current Report on Form 8-K filed on March 5, 2003)
10.27	Registration Rights Agreement between the Company and Pyxis Innovations, Inc. dated March 5, 2003 (incorporated herein by reference to Exhibit 10.8 of the Company s Current Report on Form 8-K filed on March 5, 2003)
10.28@	Amendment No. 1 to the Employment Agreement with Philip R. Reilly (incorporated herein by reference to Exhibit 10.9 of the Company s Current Report on Form 8-K filed on March 5, 2003)
10.29@	Amendment to the Employment Agreement with Fenel Eloi (incorporated herein by reference to Exhibit 10.10 of the Company s Current Report on Form 8-K filed on March 5, 2003)
10.30@	Amendment to the Employment Agreement with Kenneth Kornman (incorporated herein by reference to Exhibit 10.11 of the Company s Current Report on Form 8-K filed on March 5, 2003)
10.31@	Form of Director s Indemnity Agreement dated March 5, 2003 (incorporated herein by reference to Exhibit 10.13 of the Company s Current Report on Form 8-K filed on March 5, 2003)
10.32@	Amendment 2 to the Employment Agreement with Fenel M. Eloi, dated December 11, 2003 (incorporated herein by reference to Exhibit 10.43 of the Company s Annual Report on Form 10-K filed on March 29, 2004)
10.33	Commercial Lease Agreement between the Company and Clematis LLC dated February 13, 2004 (incorporated herein by reference to Exhibit 10.44 of the Company s Annual Report on Form 10-K filed on March 29, 2004)
10.34+	Distribution Agreement with the Company and Access Business Group International LLC, dated February 26, 2004 (incorporated herein by reference to Exhibit 10.45 of the Company s Annual Report on Form 10-K filed on March 29, 2004)
10.35+	Research Agreement by and between the Company and Access Business Group LLC dated June 17, 2004 (incorporated by reference to Exhibit 10.1 of the Company s Quarterly Report on Form 10-Q filed on August 10, 2004)
10.36	Interleukin Genetics, Inc. 2004 Employee, Director and Consultant Stock Plan (incorporated by reference to Exhibit 99.1 of the Company s Registration Statement No. 333-118551 on Form S-8 filed on August 25, 2004)
10.37+	Amendment #1 to Research Agreement by and between the Company and Access Business Group LLC dated June 17, 2004 (incorporated by reference to Exhibit 10.1 of the Company s Quarterly Report on Form 10-Q filed on November 3, 2004)

10.38^++	Research Agreement by and between the Company and Access Business Group LLC dated March 5, 2005
10.39^++	Research Agreement by and between the Company and Access Business Group LLC dated March 5, 2005
10.40^	First Amendment to Distribution Agreement with the Company and Access Business Group International LLC, dated February 28, 2005
10.41^	Second Amendment to Stock Purchase Agreement between the Company and Pyxis Innovations, Inc dated February 28, 2005
21.1^	Subsidiaries of the Company
23.1*	Consent of Grant Thornton LLP
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002
32*	Certification pursuant to Section 906 of Sarbanes-Oxley Act of 2002

^ Previously filed.

* Filed herewith.

+ The Securities and Exchange Commission with respect to certain portions of this exhibit has previously granted confidential treatment. Omitted portions have been filed separately with the Securities and Exchange Commission.

++ Confidential treatment requested as to certain portions of the document, which portions have been omitted and filed separately with the Securities and Exchange Commission.

@ Management contract or compensatory plan, contract or arrangement

SIGNATURE

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	Interleukin Genetics, Inc.	
	By:	/s/ FENEL M. ELOI
		Fenel M. Eloi
		Chief Operating Officer, Chief Financial Officer, Secretary and Treasurer

Date: June 30, 2005

INTERLEUKIN GENETICS, INC. AND SUBSIDIARY
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

Board of Directors and
Shareholders of Interluekin Genetics, Inc.

We have audited the accompanying consolidated balance sheets of Interluekin Genetics, Inc. (the Company) as of December 31, 2004 and 2003, and the related consolidated statements of operations, stockholders equity (deficit) and comprehensive loss, and cash flows for each of the years in the three year period ended December 31, 2004. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Interluekin Genetics, Inc. as of December 31, 2004 and 2003, and the results of their operations and their cash flows for the each of the years in the three year period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, the accompanying fiscal 2003 consolidated financial statements have been restated.

We have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Interluekin Genetics, Inc. s internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated June 29, 2005, expressed an unqualified opinion on management s assessment of the Company s internal control over financial reporting, and an adverse opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ GRANT THORNTON LLP

Boston, Massachusetts
June 29, 2005

Report of Independent Registered Public Accounting Firm

Board of Directors and
Shareholders of Interluekin Genetics, Inc.

We have audited management s assessment, included in the accompanying Report of Management on Internal Control over Financial Reporting, that Interluekin Genetics, Inc. (the Company) did not maintain effective internal control over financial reporting as of December 31, 2004, because of the effect of the material weaknesses described below, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Interluekin Genetics, Inc. s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weaknesses have been identified and included in management s assessment.

- *Inadequate management s assessment of the effectiveness of internal control* The Company s assessment and documentation of the effectiveness of internal control was not sufficient in scope, testing and evaluation test of results. The testing and evaluation of internal controls in several areas was not performed on a timely basis. The testing documentation performed to evaluate whether the controls were operating effectively was inadequate. This limited the ability to provide reasonable assurance that the controls were operating effectively.

F-3

- *Inadequate monitoring and review controls* The Company did not have adequate monitoring and review controls or sufficient supporting documentation for key controls to ensure proper review of material transactions and periodic reports. This lack of monitoring and review controls may result in a more than remote likelihood that material misstatement of the annual or interim financial statements would not be prevented or detected.

- *Misapplication of U.S. GAAP* The Company did not maintain sufficient knowledge and expertise with respect to the requirements and application of US GAAP for convertible instruments. This material weakness led to a restatement of the Company s 2003 financial statements. The Company s 2004 quarterly unaudited financial statements had a misapplication of U.S. GAAP for convertible instruments.

- *Inadequate segregation of duties* Given the Company s size, individuals in the accounting and finance department are performing activities that are considered to be incompatible duties that are ordinarily performed by more individuals in a larger organization. This lack of segregation of duties may result in a more than remote likelihood that material misstatement of the annual or interim financial statements would not be prevented or detected.

These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2004 financial statements, and this report does not affect our report dated June 29, 2005 on those financial statements.

In our opinion, management s assessment that Interluekin Genetics, Inc. did not maintain effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also in our opinion, because of the effect of the material weaknesses described above on the achievement of the objectives of the control criteria, Interluekin Genetics, Inc. has not maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We do not express an opinion on any form of assurance of management s statements referring to management s awareness of errors or awareness of transactions inconsistent with management s intent or to the Company s plans to remediate or reports to be made in future filings.

/s/ GRANT THORNTON LLP

Boston, Massachusetts
June 29, 2005

INTERLEUKIN GENETICS, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

	December 31, 2004	2003 (As Restated)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,528,425	$ 4,759,453
Accounts receivable, net of allowance for doubtful accounts of $0 in 2004 and 2003	10,131	5,598
Prepaid expenses and other current assets	182,819	114,519
Total current assets	4,721,375	4,879,570
Fixed assets, net	1,142,087	271,669
Other assets	322,039	189,365
Total Assets	**$ 6,185,501**	**$ 5,340,604**
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 94,780	$ 69,807
Accrued expenses	914,907	538,191
Deferred revenue	12,760	28,760
Commitments for funded research and development projects	408,544	
Current portion of capital lease obligations	14,312	26,346
Total current liabilities	1,445,303	663,104
Long-term notes payable	1,209,713	747,839
Capital lease obligations, less current portion	2,978	17,290
Total liabilities	2,657,994	1,428,233
Stockholders equity:		
Convertible preferred stock, Series A $0.001 par value 6,000,000 shares authorized; 5,000,000 issued and outstanding at December 31, 2004 and 2003; aggregate liquidation preference of $18,000,000 at December 31, 2004	5,000	5,000
Common stock, $0.001 par value 75,000,000 shares authorized; 23,594,337 and 23,262,588 shares issued and outstanding at December 31, 2004 and 2003, respectively	23,595	23,263
Additional paid-in capital	58,123,868	51,262,862
Accumulated deficit	(54,624,956)	(47,378,754)
Total stockholders equity	3,527,507	3,912,371
Total liabilities and stockholders equity	**$ 6,185,501**	**$ 5,340,604**

The accompanying notes are an integral part of these consolidated financial statements.

F-5

INTERLEUKIN GENETICS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years Ended December 31, 2004 (As Restated)	2003	2002
Revenue	$ 34,671	$ 54,105	$ 289,908
Cost of revenue	351	20,658	484
Gross profit	34,320	33,447	289,424
Operating Expenses:			
Research and development	4,078,316	3,457,861	3,082,484
Selling, general and administrative	2,658,037	2,443,219	2,333,314
Total operating expenses	6,736,353	5,901,080	5,415,798
Loss from operations	(6,702,033)	(5,867,633)	(5,126,374)
Other income (expense):			
Interest income	58,115	48,535	26,784
Interest expense	(140,410)	(144,804)	(71,894)
Amortization of note discount	(461,874)	(595,014)	(150,082)
Other income (expense), net		2	15,447
Total other income (expense)	(544,169)	(691,281)	(179,745)
Net loss	**$ (7,246,202)**	**$ (6,558,914)**	**$ (5,306,119)**
Accretion of convertible preferred stock discount		(8,094,727)	
Net loss attributable to common stockholders	**$ (7,246,202)**	**$ (14,653,641)**	**$ (5,306,119)**
Basic and diluted net loss per common share	**$ (0.31)**	**$ (0.63)**	**$ (0.24)**
Weighted average common shares outstanding	**23,482,642**	**23,193,195**	**21,713,432**

The accompanying notes are an integral part of these consolidated financial statements.

F-6

INTERLEUKIN GENETICS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT) AND COMPREHENSIVE LOSS
For the Years Ended December 31, 2004, 2003 and 2002

	Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	$0.001 par value				
Balance as of December 31, 2001		$	21,427,699	$ 21,428	$ 39,042,841	$ (35,513,721)	$	$ 3,550,548
Net loss						(5,306,119)		(5,306,119)
Common stock issued:								
Exercise of employee stock options			4,437	4	3,323			3,327
Employee stock purchase plan			9,855	10	5,270			5,280
Stock options issued to non-employees for services rendered					2,203			2,203
Warrants issued in connection with interim financing					360,201			360,201
Stock issued to private placement holders in consideration of the waiver of certain rights			1,676,258	1,677	(1,677)			
Balance as of December 31, 2002			23,118,249	23,119	39,412,161	(40,819,840)		(1,384,560)
Net loss						(6,558,914)		(6,558,914)
Investment by Alticor:								
Series A preferred stock	5,000,000	5,000			6,845,225			6,850,225
Beneficial conversion feature on Series A preferred stock					8,094,727			8.094.727
Accretion of Series A preferred stock discount					(8,094,727)			(8,094,727)
Beneficial conversion feature on convertible debt					1,500,609			1,500,609
Below market stated interest rate on convertible debt					731,783			731,783
Research funding					2,500,000			2,500,000
Other					9,000			9,000
Common stock issued:								
Exercise of stock options			135,931	136	140,462			140,598
Employee stock purchase plan			8,408	8	12,042			12,050
Stock options issued to non-employees for services rendered					111,580			111,580
Balance as of December 31, 2003 (As Restated)	5,000,000	5,000	23,262,588	23,263	51,262,862	(47,378,754)		3,912,371
Net loss						(7,246,202)		(7,246,202)
Investment by Altocor:								
Series A preferred stock					2,000,000			2,000,000
Research funding					3,880,000			3,880,000
Other					274,088			274,088
Common stock issued:								
Exercise of stock options			320,751	321	674,026			674,347
Employee stock purchase plan			10,998	11	32,892			32,903
Balance as of December 31, 2004	**5,000,000**	**$ 5,000**	**23,594,337**	**$ 23,595**	**$ 58,123,868**	**$ (54,624,956)**	**$**	**$ 3,527,507**

The accompanying notes are an integral part of these consolidated financial statements.

INTERLEUKIN GENETICS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31, 2004	2003 (As Restated)	2002
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (7,246,202)	$ (6,558,914)	$ (5,306,119)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	123,566	107,528	81,281
Amortization of note discount	461,874	595,014	150,082
Issuance of stock options to non-employees for services rendered		111,580	2,203
Changes in operating assets and liabilities:			
Accounts receivable, net	(4,533)	(2,354)	72,739
Prepaid expenses and other current assets	(68,300)	(14,623)	3,540
Accounts payable	24,973	(198,427)	86,680
Accrued expenses	376,716	75,220	(14,399)
Deferred revenue	(16,000)	(16,599)	(96,989)
Commitments for funded research and development projects	408,544		
Net cash used in operating activities	(5,939,362)	(5,901,575)	(5,020,982)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of fixed assets	(971,991)	(19,817)	(180,706)
(Increase) decrease in other assets	(154,667)	(103,558)	19,843
Net cash used in investing activities	(1,126,658)	(123,375)	(160,863)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from investment by Alticor	6,154,088	9,359,225	
Proceeds from exercises of warrants and stock options	674,347	140,598	3,327
Proceeds from employee stock purchase plan	32,903	12,050	5,280
Increases in notes payable		1,095,336	2,025,000
Repayment of bridge loans		(525,000)	
Principal payments of capital lease obligations, net	(26,346)	(31,654)	(40,650)
Net cash provided by financing activities	6,834,992	10,050,555	1,992,957
Net increase (decrease) in cash and cash equivalents	(231,028)	4,025,605	(3,188,888)
Cash and cash equivalents, beginning of year	4,759,453	733,848	3,922,736
Cash and cash equivalents, end of year	**$ 4,528,425**	**$ 4,759,453**	**$ 733,848**
Supplemental disclosures of cash flow information:			
Cash paid for interest	$ 140,410	$ 205,151	$ 11,547
Cash paid for income taxes	$	$	$
Supplemental disclosure on noncash investing and financing activity:			
Acquisition of fixed assets under capital leases	$	$ 32,395	$ 42,238
Accretion of convertible preferred stock discount	$	$ 8,094,727	$

The accompanying notes are an integral part of these consolidated financial statements.

INTERLEUKIN GENETICS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Company Background and Uncertainties

Organization and Line of Business

The Company develops genetic risk assessment tests and provides research services to collaborative partners. As of December 31, 2004, the Company has commercially introduced one genetic test and is in various stages of development for several others. Additionally, the Company provides research services under contract to collaborative partners.

Commercial success of genetic risk assessment tests will depend upon their acceptance as medically useful and cost-effective by patients, physicians, dentists, other members of the medical and dental community, and third-party payers. It is uncertain whether current genetic risk assessment tests or others that the Company may develop will gain commercial acceptance on a timely basis, if at all.

Research in the field of disease predisposing genes and genetic markers is intense and highly competitive. The Company has many competitors in the United States and abroad that have considerably greater financial, technical, marketing, and other resources available. If the Company does not discover disease predisposing genes or genetic markers and develop genetic risk assessment tests and launch such services or products before their competitors, then revenues may be reduced or eliminated.

The Company s ability to successfully commercialize genetic risk assessment tests depends on obtaining adequate reimbursement for such products and related treatment from government and private healthcare insurers and other third-party payers. Doctors decisions to recommend genetic risk assessment tests will be influenced by the scope and reimbursement for such tests by third-party payers. If both third-party payers and individuals are unwilling to pay for the test, then the number of tests performed will significantly decrease, therefore resulting in a reduction of revenue.

The Company was incorporated in Texas in 1986 and re-incorporated in Delaware in March 2000.

Note 2 Restatement of Consolidated Financial Statements

The accompanying consolidated financial statements as of and for the year ended December 31, 2003, and the quarterly periods presented in Note 17, have been restated to properly account for the transaction entered into with Alticor, Inc and its affiliates on March 5, 2003.

In a private placement on March 5, 2003, the Company entered into a Stock Purchase Agreement with Pyxis Innovations, Inc., a subsidiary of Alticor, pursuant to which Pyxis purchased from the Company 5,000,000 of the Company s Series A Preferred Stock, $0.001 per share, for $7,000,000 in cash and $2,000,000 in cash to be paid, if at all, upon the Company reaching a milestone pursuant to the terms of the Stock Purchase Agreement. The Series A Preferred Stock issued in the private placement were initially convertible into 28,157,683 shares of the Company s Common Stock at the purchaser s discretion. Pursuant to the terms of the Stock Purchase Agreement, Pyxis agreed to refinance, in the form of convertible debt, certain of the Company s indebtedness in the form of previously issued promissory notes that were held by Pyxis and certain individuals. This ultimately amounted to $2,595,336 in debt refinanced and was initially convertible into 5,219,903 shares of the Company s Common Stock. Concurrent with the closing of the Stock Purchase Agreement, the Company entered into a research agreement with an affiliate of Pyxis that would provide additional funding of $5,000,000 to be paid quarterly over a two-year period.

In accordance with Emerging Issues Task Force (EITF) No. 01-1, *Accounting for Convertible Instruments Granted or Issued to a Nonemployee for Goods or Services or a Combination of Goods or Services and Cash* (EITF No. 01-1), the terms of both the agreement for goods or services provided and the convertible instrument should be evaluated to determine whether their separately stated pricing is equal to the fair value of the goods or services provided and the convertible instrument. If that is not the case, the terms of the respective transactions should be adjusted. The convertible instrument should be recognized at its fair value with a corresponding increase or decrease in the sales price of the goods or services.

On March 5, 2003, the Company was obligated to issue up to 33,377,586 shares of its common stock underlying the convertible preferred stock and the convertible debt issued. Based on a last reported trade price of $0.71 per common share of the Company s common stock on March 5, 2003, the convertible instruments had a fair value of $23,698,086 on the date of issuance. Based on the fair value of the convertible instruments and the guidance provided by EITF 01-1, the Company will recognize the fair value of the convertible instruments, to the extent of proceeds received, with a corresponding decrease to the sales price of the goods and services provided. Therefore, at March 5, 2003, the Company will treat the $5,000,000 committed research funding as an equity investment rather than revenue and any costs of performing the research services under the agreement will be classified as research and development expenses. Any subsequent proceeds that the Company will receive from Alticor that are linked to the March 2003 transaction, will be considered equity rather than revenue to the extent of the fair value of the convertible instruments at March 5, 2003. During 2003, the Company received various purchase orders from Alticor valued at $139,000 to conduct genotyping tests for research purposes. These purchase orders are deemed to be linked to the March 2003 transaction, and accordingly will be treated as equity rather than revenue. The effect of this treatment resulted in an increase to net loss attributable to common stockholders for the year ended December 31, 2003 of $2,001,838, or $0.09 per common share. As of December 31, 2003, there was $11,593,750 of unrecognized fair value of the convertible instruments.

In accordance with EITF No. 00-27, *Application of Issue No. 98-5 to Certain Convertible Instruments* (EITF No. 00-27), the Company determined that the convertible preferred stock and the convertible debt issued on March 5, 2003 each contained a beneficial conversion feature.

Based on the effective conversion price (which was determined by allocating the proceeds received on March 5, 2003 of $9,595,336 based on the relative fair value of the convertible securities issued, or $8,094,727 to the convertible preferred stock and $1,500,609 to the convertible debt) of the convertible preferred stock of $0.2875 and the market value per share of $0.71 at March 5, 2003, the intrinsic value was calculated to be $11,897,228; however, in accordance with EITF No. 00-27, the amount of the discount allocated to the beneficial conversion feature is limited to the amount of proceeds allocated to the instrument. The beneficial conversion feature resulted in a discount of the convertible preferred stock of $8,094,727 at March 5, 2003. The Company accreted this discount on March 5, 2003, the earliest date the preferred stock could be converted, which resulted in an increase to net loss attributable to common stockholders for the year ended December 31, 2003 of $8,094,727, or $0.35 per common share.

Based on the effective conversion price of the convertible debt of $0.2875 and the market value per share of $0.71 at March 5, 2003, the intrinsic value was calculated to be $2,205,522; however in accordance with EITF No. 00-27, the amount of the discount allocated to the beneficial conversion feature is limited to the amount of the proceeds allocated to the instrument. The beneficial conversion feature resulted in a discount of the convertible debt of $1,500,609 at March 5, 2003. The amount of the discount allocated to the beneficial conversion feature of the convertible debt is amortized from the date of issuance to the earlier of maturity or the actual conversion date. Therefore, the Company charged $258,726 to amortization of note discount for the year ended December 31, 2003 which resulted in an increase to net loss attributable to common stockholders for the year ended December 31, 2003 of $258,726, or $0.01 per common share.

In addition, the convertible debt has a stated interest rate of prime plus 1%. However, the promissory notes, which were refinanced with the convertible debt, originally had a stated interest rate of 15%. Therefore, the Company determined the fair value of the convertible debt, using an interest rate comparable to that of the refinanced promissory notes, at $1,863,553. The resulting discount of $731,783 is amortized from the date of issuance to the earlier of maturity or conversion date. Therefore, the Company charged $126,169 to amortization of note discount for the year ended December 31, 2003 which resulted in an increase to net loss attributable to common stockholders for the year ended December 31, 2003 of $126,169, or less than $0.01 per common share.

The following table presents the financial statement adjustments on the Company s previously reported consolidated statement of operations for the year ended December 31, 2003.

	As Reported	As Restated
Revenue	$ 2,055,943	$ 54,105
Cost of revenue	1,625,063	20,658
Gross profit	430,880	33,447
Operating expenses:		
Research and development	2,030,704	3,457,861
Selling, general and administrative	2,265,971	2,443,219
Total operating expenses	4,296,675	5,901,080
Loss from operations	(3,865,795)	(5,867,633)
Other income (expense):		
Interest income	48,535	48,535
Interest expense	(144,804)	(144,804)
Amortization of note discount	(210,119)	(595,014)
Other	2	2
Total other incom(expense)	(306,386)	(691,281)
Net loss	**$ (4,172,181)**	**$ (6,558,914)**
Accretion of convertible preferred stock discount		(8,094,727)
Net loss attributable to common stockholders	**$ (4,172,181)**	**$ (14,653,641)**
Basic and diluted net loss per common share	**$ (0.18)**	**$ (0.63)**
Weighted average common shares outstanding	**23,193,195**	**23,193,195**

F-11

The following is a summary of the impact of the adjustments on the Company s previously reported consolidated balance sheet as of December 31, 2003.

	As Reported	As Restated
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,759,453	$ 4,759,453
Accounts receivable	123,436	5,598
Prepaid expenses and other current assets	114,519	114,519
Total current assets	4,997,408	4,879,570
Fixed assets, net	271,669	271,669
Other assets	189,365	189,365
Total assets	**$ 5,458,442**	**$ 5,340,604**
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 69,807	$ 69,807
Accrued expenses	538,191	538,191
Deferred revenue	653,760	28,760
Current portion of capital lease obligations	26,346	26,346
Total current liabilities	1,288,104	663,104
Long-term notes payable	2,595,336	747,839
Capital lease obligations, less current obligations	17,290	17,290
Total liabilities	3,900,730	1,428,233
Stockholders equity:		
Convertible preferred stock	5,000	5,000
Common Stock	23,263	23,263
Additional paid-in capital	46,521,470	51,262,862
Accumulated deficit	(44,992,021)	(47,378,754)
Total stockholders equity	1,557,712	3,912,371
Total liabilities and stockholders equity	**$ 5,458,442**	**$ 5,340,604**

Note 3 Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Interleukin Genetics, Inc., and its wholly-owned subsidiary, Interleukin Genetics Laboratory Services, Inc. All intercompany accounts and transactions have been eliminated.

Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reported periods. Actual results could differ from those estimates. The Company s most critical accounting policies are in the areas of its strategic alliance with Alticor, stock-based compensation, income taxes, long-lived assets, intellectual property and beneficial conversion feature of convertible instruments. These critical accounting policies are more fully discussed in these notes to financial statements.

Strategic Alliance with Alticor

In a private placement on March 5, 2003, the Company entered into a Stock Purchase Agreement with Pyxis Innovations, Inc., a subsidiary of Alticor, pursuant to which Pyxis purchased from the Company 5,000,000 of the Company s Series A Preferred Stock, $0.001 per share, for $7,000,000 in cash and $2,000,000 in cash to be paid, if at all, upon the Company reaching a milestone pursuant to the terms of the Stock Purchase Agreement. The Series A Preferred Stock issued in the private placement were initially convertible into 28,157,683 shares of the Company s Common Stock at the purchaser s discretion. Pursuant to the terms of the Stock Purchase Agreement, Pyxis agreed to refinance, in the form of convertible debt, certain of the Company s indebtedness in the form of previously issued promissory notes that were held by Pyxis and certain individuals. This ultimately amounted to $2,595,336 in debt refinanced and was initially convertible into 5,219,903 shares of the Company s Common Stock. Concurrent with the closing of the Stock Purchase Agreement, the Company entered into a research agreement with an affiliate of Pyxis that would provide additional funding of $5,000,000 to be paid quarterly over a two-year period.

In accordance with EITF No. 01-1, the terms of both the agreement for goods or services provided and the convertible instrument should be evaluated to determine whether their separately stated pricing is equal to the fair value of the goods or services provided and the convertible instrument. If that is not the case, the terms of the respective transactions should be adjusted. The convertible instrument should be recognized at its fair value with a corresponding increase or decrease in the sales price of the goods or services.

On March 5, 2003, the Company was obligated to issue up to 33,377,586 shares of its common stock underlying the convertible preferred stock and the convertible debt issued. Based on a last reported trade price of $0.71 per common share of the Company s common stock on March 5, 2003, the convertible instruments had a fair value of $23,698,086 on the date of issuance. Based on the fair value of the convertible instruments and the guidance provided by EITF 01-1, the Company will recognize the fair value of the convertible instruments, to the extent of proceeds received, with a corresponding decrease to the sales price of the goods and services provided. Therefore, at March 5, 2003, the Company will treat the $5,000,000 committed research funding as an equity investment rather than revenue and any costs of performing the research services under the agreement will be classified as research and development expenses. Any subsequent proceeds that the Company will receive from Alticor that are linked to the March 2003 transaction, will be considered equity rather than revenue to the extent of the fair value of the convertible instruments at March 5, 2003. In June 2004, the Company entered into another research agreement with Alticor for potential funding of up to $2,200,000. In addition, since March 5, 2003, the Company received various purchase orders from Alticor valued at $441,800 to conduct genotyping tests for research purposes. These purchase orders, together with the research agreement entered into in June 2004, are deemed to be linked to the March 2003 transaction and accordingly will be treated as equity rather than revenue. As of December 31, 2004, proceeds received from Alticor, or its affiliates, which were recorded as consideration for the fair value of the convertible instruments issued in March 2003, amounted to $18,258,424. As of December 31, 2004, there was $5,439,662 of unrecognized fair value of the convertible instruments.

Stock-Based Compensation

Stock options issued to employees under the Company s stock option and stock purchase plans are accounted for under Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB No. 25). All stock-based awards to non-employees are accounted for at their fair value in accordance with Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123), and EITF Issue No. 96-18, *Accounting for Equity Instruments that are Issued to Other than Employees*.

The Company applies the disclosure-only alternative of SFAS No. 123, which defines a fair-value-based method of accounting for employee stock options or similar equity instruments. Under the fair-value-based method, compensation cost is measured at the grant date based on the value of the award and is recognized over the service period of the award, which is usually the vesting period. However, SFAS No. 123 also allows entities to continue to measure compensation costs for employee stock compensation plans using the intrinsic value method of accounting prescribed in APB No. 25. The Company has elected to continue to follow the accounting prescribed by APB No. 25 and has made the required disclosures prescribed by SFAS No. 123.

Had compensation cost for the Company s employee stock awards been determined consistent with SFAS No. 123, the Company s net loss applicable to common stock and net loss per share would have been as follows:

	Years Ended December 31, 2004	2003 (As Restated)	2002
Net loss attributable to common stockholders:			
As reported	$ (7,246,202)	$ (14,653,641)	$ (5,306,119)
Stock-based employee compensation	874,847	1,145,079	752,134
Pro forma	$ (8,121,049)	$(15,798,720)	$ (6,058,253)
Basic and diluted net loss per common share:			
As reported	$ (0.31)	$ (0.63)	$ (0.24)
Pro forma	$ (0.35)	$ (0.68)	$ (0.28)

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model, for a stock that does not pay dividends with the following assumptions.

	Years Ended December 31, 2004	2003	2002
Risk-free interest rate	4.00 %	4.00 %	4.00 %
Expected life	7 years	7 years	7 years
Expected volatility	80 %	80 %	100 %

Using these assumptions, the weighted average grant date fair value of options granted in 2004, 2003 and 2002 was $2.97, $2.69 and $0.58, respectively.

Income Taxes

The preparation of its consolidated financial statements requires the Company to estimate its income taxes in each of the jurisdictions in which it operates, including those outside the United States, which may be subject to certain risks that ordinarily would not be expected in the United States. The income tax accounting process involves estimating its actual current exposure together with assessing temporary differences resulting from differing treatment of items, such as deferred revenue, for tax and accounting purposes. These differences result in the recognition of deferred tax assets and liabilities. The Company must then record a valuation allowance to reduce its deferred tax assets to the amount that is more likely than not to be realized.

Significant management judgment is required in determining the Company s provision for income taxes, its deferred tax assets and liabilities and any valuation allowance recorded against deferred tax assets. The Company has recorded a full valuation allowance against its deferred tax assets of $15.2 million as of December 31, 2004, due to uncertainties related to its ability to utilize these assets. The valuation allowance is based on management s estimates of taxable income by jurisdiction in which the Company operates and the period over which the deferred tax assets will be recoverable. In the event that actual results differ from these estimates or management adjusts these estimates in future periods, the Company may need to adjust its valuation allowance which could materially impact its financial position and results of operations.

Research and Development

Research and development costs are expensed as incurred.

Basic and Diluted Net Loss per Common Share

The Company applies SFAS No. 128, *Earnings per Share* (SFAS No. 128), which establishes standards for computing and presenting earnings per share. Basic and diluted net loss per share was determined by dividing net loss applicable to common stockholders by the weighted average number of shares of common stock outstanding during the period. Diluted loss per share is the same as basic loss per share for all the periods presented, as the effect of the potential common stock equivalents is anti-dilutive due to the loss in each period. Potential common stock excluded from the calculation of diluted net loss per share consists of stock options, warrants, convertible preferred stock and convertible debt as described in the table below:

	2004	**2003**	**2002**
Options outstanding	2,985,474	3,180,133	2,873,652
Warrants outstanding	525,000	525,000	525,000
Convertible preferred stock	28,160,200	28,157,683	
Convertible debt	4,060,288	4,060,288	
Total	35,730,962	35,923,104	3,398,652

Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. During the years ended December 31, 2004, 2003 and 2002, there were no items other than net loss included in the comprehensive loss. Comprehensive income (loss) is disclosed in the accompanying consolidated statements of stockholders equity (deficit) and comprehensive loss.

Fair Value of Financial Instruments

The Company, using available market information, has determined the estimated fair values of financial instruments. The estimated fair values of cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to the short-term nature of these instruments. The carrying amounts of the Company s capital lease obligations also approximate fair value. The carrying amounts of borrowings under short-term agreements approximate their fair value as the rates applicable to the financial instruments reflect changes in overall market interest rates.

The fair value of long-term debt is estimated using discounted cash flow analysis, based on the Company s current incremental borrowing rates for similar types of borrowing arrangements. The carrying amount of borrowing of the Company s long-term debt at December 31, 2004 approximates fair value.

Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments purchased with original maturities of 90 days or less.

Fixed Assets

Fixed assets are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are provided using the straight-line method over estimated useful lives of three to five years.

Leasehold improvements are amortized over the life of the lease, or the estimated useful life of the asset, whichever is shorter.

Long-Lived Assets

The Company applies the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS No. 144). SFAS No. 144 requires that the Company evaluate its long-lived assets for impairment whenever events or changes in circumstances indicate that carrying amounts of such assets may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted net cash flows expected to be generated by the asset. Any write-downs, based on fair value, are to be treated as permanent reductions in the carrying amount of the assets. The Company believes that no impairment exists related to the Company s long-lived assets at December 31, 2004.

Intellectual Property

Prior to March 2003, costs incurred in connection with patents were expensed as incurred due to the possibility that the Company would never be able to derive any benefits from its patents. The Company has exclusive rights (subject to rights granted to an affiliate of Alticor within the fields of dermagenomics and nutrigenomics) in twenty issued U.S. patents and has a number of U.S. patent applications pending. The Company has also been granted a number of corresponding foreign patents and a number of foreign counterparts of its U.S. patents and patent applications pending. Since inception the Company has expensed approximately $2.8 million in the effort to obtain patent protection for its intellectual property. Due to the alliance with Alticor Inc. that was entered into on March 5, 2003, the Company began capitalizing certain costs of patents for which the prospect of deriving benefits had become more certain. As of December 31, 2004 and 2003, the Company has capitalized $311,466 and $128,356, respectively, in patent costs and is included in other assets on the accompanying consolidated balance sheets. The Company amortizes these costs over the shorter of the life of the patent or ten years, their expected useful life. Accumulated amortization of capitalized patent costs was $28,410 and $6,418 at December 31, 2004 and 2003, respectively.

Beneficial Conversion Feature of Convertible Instruments

Based on EITF No. 00-27, which provides guidance on the calculation of a beneficial conversion feature of a convertible instrument, the Company has determined that the convertible preferred stock and the convertible debt issued on March 5, 2003 each contained a beneficial conversion feature.

Based on the effective conversion price (which was determined by allocating the proceeds received on March 5, 2003 of $9,595,336 based on the relative fair value of the convertible securities issued, or $8,094,727 to the convertible preferred stock and $1,500,609 to the convertible debt) of the convertible preferred stock of $0.2875 and the market value per share of $0.71 at March 5, 2003, the intrinsic value was calculated to be $11,897,228; however, in accordance with EITF No. 00-27, the amount of the discount allocated to the beneficial conversion feature is limited to the amount of the proceeds allocated to the instrument. This beneficial conversion feature resulted in a discount of the preferred stock of $8,094,727 at March 5, 2003. The Company accreted this discount on March 5, 2003, the earliest date the stock could be converted.

Based on the effective conversion price of the convertible debt of $0.2875 and the market value per share of $0.71 at March 5, 2003, the intrinsic value was calculated to be $2,205,522; however in accordance with EITF No. 00-27, the amount of the discount allocated to the beneficial conversion feature is limited to the amount of the proceeds allocated to the instrument. The beneficial conversion feature resulted in a discount of the convertible debt of $1,500,609 at March 5, 2003. The amount of the discount allocated to the beneficial conversion feature of the convertible debt is amortized from the date of issuance to the earlier of the maturity or conversion date. Therefore, the Company charged $310,471 and $258,726 to amortization of note discount for the years ended December 31, 2004 and 2003, respectively.

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (Revised 2004) Share-Based Payment (SFAS No. 123R). SFAS No. 123R addresses all forms of share-based payment (SBP) awards, including shares issued under employee stock purchase plans, stock options, restricted stock and stock appreciation rights. SFAS No. 123R will require the Company to expense SBP awards with compensation cost for SBP transactions measured at fair value. The FASB originally stated a preference for a lattice model because it believed that a lattice model more fully captures the unique characteristics of employee stock options in the estimate of fair value, as compared to the Black-Scholes model which the Company currently uses for its footnote disclosure. The FASB decided to remove its explicit preference for a lattice model and not require a single valuation methodology. SFAS No. 123R requires the Company to adopt the new accounting provisions beginning in 2006.

The Company currently accounts for its stock-based compensation plans in accordance with APB No. 25. Therefore, the adoption of this statement is likely to have a material effect on the Company s consolidated financial statements.

Note 4 Strategic Alliance with Alticor Inc.

On March 5, 2003, the Company entered into a broad strategic alliance with several affiliates of the Alticor family of companies to develop and market novel nutritional and skin care products. The alliance utilizes Interleukin Genetics intellectual property and expertise in genomics to develop personalized consumer products. Alticor has a long history of manufacturing and distributing high quality nutritional supplements and skin care products to a worldwide market.

The alliance initially included an equity investment, a multi-year research and development agreement, a licensing agreement with royalties on marketed products, the deferment of outstanding loan repayment and the refinancing of bridge financing obligations. The major elements of the initial alliance were:

- The purchase by Alticor of $7,000,000 of equity in the form of 5 million shares of Series A Preferred Stock for $1.40 per share. These were convertible into 28,157,683 shares of common stock at a stated conversion price equal to $0.2486 per share. On March 11, 2004, upon achievement of a defined milestone, Alticor contributed an additional $2,000,000 to the Company for a total equity funding of $9,000,000 and a new stated conversion price of $0.3196 per share, or 28,160,200 shares of common stock.

- The right of the Series A holders to nominate and elect four directors to a five person board.

- A research and development agreement (Research Agreement I) providing the Company with funding of $5.0 million, payable over the twenty-four month period from April 2003 through March 2005, to conduct certain research projects with a royalty on resulting products.

- Credit facilities in favor of Interleukin, as follows:

- $1,500,000 working capital credit line to initiate selected research agreements with third party entities approved by the board of directors of Interleukin;

- $2,000,000 refinancing of notes previously held by Pyxis, extending the maturity date and reducing the interest rate; and

- $595,336 refinancing on July 1, 2003 of bridge financing notes previously held by third parties, extending the maturity date and reducing the interest rate.

As of December 31, 2004, there was $2,595,336 outstanding under the terms of these credit facilities. The credit facilities will mature in December 2007, bear interest at 1% over the prime rate,

F-17

are collateralized by a security interest in Interleukin s intellectual property, and are convertible at the election of Alticor into 4,060,288 shares of common stock at a stated conversion price equal to $0.6392 per share.

On June 17, 2004, the Company entered into another research agreement (Research Agreement II), valued at $2.2 million, as amended, with Alticor to conduct research into the development of a test to identify individuals with specific genetic variations that affect how people gain and maintain weight. During the first phase of the agreement, the Company received $1,380,000 in research funding over a period of six months beginning on July 1, 2004. If Alticor determines, in its sole discretion, that it has a reasonable likelihood of commercializing weight management nutritional products, the Company will be eligible to receive, during the second phase of the agreement, an additional $820,000 in funding over a six-month period.

On March 5, 2005, the Company entered into an agreement with Alticor to expand the research being performed under Research Agreement I (Research Agreement III) to provide additional funding of $2.7 million over the two years beginning April 1, 2005. Also on March 5, 2005, the Company entered into an additional research agreement (Research Agreement IV) with Alticor for exploratory research valued at $2.3 million over a two-year period commencing April 1, 2005. These research agreements are expected to provide the Company with a total of $5.0 million during the two years ending March 2007.

Also on April 18, 2005, Alticor paid the Company, upon achieving a certain milestone, $2.0 million as an advance payment for genetic risk assessment tests to be processed under the terms of the Distribution Agreement. Further, Alticor agreed to extend the draw down period of the $1.5 million working capital credit line through 2007.

Note 5 Research Agreements

In July 1999, the Company entered into an agreement (the Research and Technology Transfer Agreement) with The University of Sheffield (Sheffield), whereby it undertook the development and commercialization of certain discoveries resulting from Sheffield s research. For certain of the discoveries, the parties reached a specific non-cancelable agreement of development and commercialization.

The Research and Technology Transfer Agreement was a five-year agreement with an automatic yearly renewal. In 1999, in accordance with this agreement, the Company issued 275,000 shares of common stock to Sheffield for transferring all rights and title of certain patents. The value of the common stock of $653,125 was charged to research and development expenses in 1999. Additionally, each year beginning July 1, 2000, Sheffield received 25,000 fully vested options to purchase common stock at the then current market price, plus 10,000 fully vested options to purchase common stock for each new patent application filed in the previous 12 months. During the year ended December 31, 2004, no options were granted under this agreement. During the years ended December 31, 2003 and 2002, 45,000 and 35,000 fully vested options to purchase common stock, respectively, were granted under this agreement and the Company charged $69,272 and $2,149, respectively, to research and development expenses based upon the fair value of the options determined using the Black-Scholes option-pricing model. These options have a five-year exercise period. In 1999, the Company entered into another research agreement with Sheffield (the Research Support Agreement) that automatically renews in one-year increments. This agreement requires the Company to pay the cost of agreed upon research projects conducted at Sheffield. For the year ended December 31, 2004, 2003 and 2002, the Company expensed approximately $294,000 for research conducted at Sheffield. This includes funding to Sheffield and to collaborators at Sheffield. Both, the Research and Technology Transfer Agreement and the Research Support Agreement expired in June 2004. The Company elected to discontinue the Research and Technology Transfer Agreement because its discovery research is being performed at its functional genomics laboratory in Waltham, Massachusetts but extended the Research Agreement through June 2005 to continue ongoing and planned research projects at Sheffield. The Research Agreement with Sheffield can be canceled if a certain key collaborator leaves Sheffield.

In 1999, a five-year consulting agreement was entered into with Sheffield s key collaborator. In accordance with the consulting agreement, the key collaborator received 200,000 shares of common stock for relinquishing interests in previous research agreements. The value of the common stock of $475,000 was charged to research and development expenses in 1999. The key collaborator was also eligible to receive 1% of the first $4 million of net sales under the PST® Technology and 2% for sales above $4 million. Since 2002, this collaborator received no significant royalty payments for sales of PST®. During the year ended December 31, 2004, no options were granted under this agreement. During the years ended December 31, 2003 and 2002, in consideration for future services, the key collaborator received 25,000 fully vested options to purchase common stock at the then current market price. These options have a five-year exercise period from the date of grant. During the years ended December 31, 2003 and 2002, the Company charged to research and development expenses $38,485 and $296 related to the issuance of these options based upon the fair value determined using the Black-Scholes option-pricing model. This agreement expired in June 2004 but was extended until September 30, 2004. Effective October 1, 2004, the Company entered into a new agreement with this collaborator to include a retainer and travel expenses but included no stock options through September 30, 2005 with an annual automatic renewal unless sooner terminated.

Note 6 Accounts Receivable

The changes in the allowance for doubtful accounts consisted of the following:

	Year Ended December 31, 2004	2003	2002
Beginning of year	$	$ 18,000	$ 14,000
Provision charged to expense			5,000
Accounts written off, net of recoveries		(18,000)	(1,000)
End of year	$	$	$ 18,000

Note 7 Fixed Assets

The fixed assets useful lives and balances at December 31, 2004 and 2003 consisted of the following:

	Useful Life	2004	2003
Computer and office equipment	3 years	$ 105,819	$ 97,139
R&D lab equipment	5 years	373,429	373,429
Genetic testing lab and equipment	5 years	866,664	
Furniture and fixtures	5 years	37,087	6,250
Leasehold improvements	5 years	58,621	20,857
Equipment under capital leases	3 to 5 years	63,390	136,373
		1,505,010	634,048
Less Accumulated depreciation and amortization		362,923	362,379
Total		$ 1,142,087	$ 271,669

Note 8 Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*, which requires the recognition of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in the financial statements or tax returns. The measurement of current and deferred tax liabilities and assets is based on provisions of the enacted tax law; the effects of future changes in tax laws or rates are not anticipated.

For the years ended December 31, 2004, 2003 and 2002, there is no provision for income taxes included in the Consolidated Statement of Operations. The Company s federal statutory income tax rate

for 2004 and 2003 was 34% and 40%, respectively. The Company has incurred losses from operations but has not recorded an income tax benefit for 2004 or 2003 as the Company has recorded a valuation allowance against its net operating losses and other net deferred tax assets due to uncertainties related to the realizability of these tax assets.

Deferred tax liabilities and assets are determined based on the difference between financial statement and tax bases using enacted tax rates in effect for the year in which the differences are expected to reverse. As of December 31, 2004 and 2003, the approximate income tax effect of the Company s deferred tax assets (liabilities) consisted of the following:

	2004	**2003**
Net operating loss carryforwards	$ 13,500,000	$ 12,770,000
Research tax credit carryforwards	761,000	621,000
Accrual to cash adjustments	795,000	410,000
Disqualifying dispositions and non-qualified stock option exercises	274,000	147,000
Charitable contributions carryforward	2,000	
Depreciation	3,000	4,000
Patents	(96,000)	
Total deferred tax assets	15,239,000	13,952,000
Valuation allowance	(15,239,000)	(13,952,000)
Net deferred tax assets	$	$

Funds received from Alticor for research and other agreements are reflected as equity in the financial statements but are reported as revenue for tax purposes and included in the calculation of the net operating loss carryforward for the years ended December 31, 2004 and 2003 in the amounts of $3,609,429 and $2,001,838, respectively.

As of December 31, 2004, the Company had net operating loss (NOL) and research tax credit carryforwards of approximately $39,500,000 and $761,000, respectively, for federal and state income tax purposes, expiring in varying amounts through the year 2024. The Company s ability to use its NOL and tax credit carryforwards to reduce future taxes is subject to the restrictions provided by Section 382 of the Internal Revenue Code of 1986. These restrictions provide for limitations on the Company s utilization of its NOL and tax credit carryforwards following a greater than 50% ownership change during the prescribed testing period. On March 5, 2003, the Company has had such a change. As a result, all of the Company s NOL carryforwards are limited in utilization. The annual limitation may result in the expiration of certain of the carryforwards prior to utilization.

Note 9 Capital Stock

Authorized Common and Preferred Stock

At December 31, 2004, the Company had authorized 6,000,000 shares of Preferred Stock and designated 5,000,000 of those as Series A Preferred Stock of which all 5,000,000 were issued and outstanding. At December 31, 2004, the Company had authorized 75,000,000 shares of $0.001 par value common stock of which 61,960,825 shares were outstanding or reserved for issuance. Of those, 23,594,337 shares were outstanding, 28,160,200 shares were reserved for the conversion of the Series A Preferred to common stock, 4,060,288 shares were reserved for the conversion of approximately $2.6 million of debt, 5,157,646 shares were reserved for the exercise of authorized and outstanding stock options, 525,000 shares were reserved for the exercise of outstanding warrants to purchase common stock and 463,354 shares were reserved for the exercise of rights held under the Employee Stock Purchase Plan.

Series A Preferred Stock

On March 5, 2003, the Company entered into a Purchase Agreement with Pyxis, pursuant to which Pyxis purchased from the Company Series A Preferred Stock for $7,000,000 in cash on that date, and an additional $2,000,000 in cash that was paid, as a result of the Company achieving a certain milestone, on March 11, 2004.

The Series A Preferred Stock accrues dividends at the rate of 8% of the original purchase price per year, payable only when, as and if declared by the Board of Directors and are non-cumulative. To date, no dividends have been declared on these shares. If the Company declares a distribution, with certain exceptions, payable in securities of other persons, evidences of indebtedness issued by us or other persons, assets (excluding cash dividends) or options or rights to purchase any such securities or evidences of indebtedness, then, in each such case the holders of the Series A Preferred Stock shall be entitled to a proportionate share of any such distribution as though the holders of the Series A Preferred Stock were the holders of the number of shares of the Company s Common Stock into which their respective shares of Series A Preferred Stock are convertible as of the record date fixed for the determination of the holders of its Common Stock entitled to receive such distribution.

In the event of any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, the holders of the Series A Preferred Stock shall be entitled to receive, prior and in preference to any distribution of any of the Company s assets or surplus funds to the holders of its Common Stock by reason of their ownership thereof, the amount of two times the then-effective purchase price per share, as adjusted for any stock dividends, combinations or splits with respect to such shares, plus all declared but unpaid dividends on such share for each share of Series A Preferred Stock then held by them. The liquidation preference at December 31, 2004 was $18,000,000. After receiving this amount, the holders of the Series A Preferred Stock shall participate on an as-converted basis with the holders of common stock in any of the remaining assets.

Each share of Series A Preferred Stock is convertible at any time at the option of the holder into a number of shares of the Company s common stock determined by dividing the then-effective purchase price ($1.80, and subject to further adjustment) by the conversion price in effect on the date the certificate is surrendered for conversion. As of December 31, 2004, the Series A Preferred Stock is convertible into 28,160,200 shares of Common Stock reflecting a conversion price of $.3196 per share.

Each holder of Series A Preferred Stock is entitled to vote its shares of Series A Preferred Stock on an as-converted basis with the holders of Common Stock as a single class on all matters submitted to a vote of the stockholders, except as otherwise required by applicable law. This means that each share of Series A Preferred Stock will be entitled to a number of votes equal to the number of shares of Common Stock into which it is convertible on the applicable record date.

Private Placements of Common Stock

In January 2001, the Company sold in a private placement 1.2 million shares of common stock for $2.50 per share. The purchasers of common stock also received warrants to purchase 600,000 shares of common stock exercisable at $3.00 per share. The Company generated net proceeds of approximately $2.9 million from this transaction. Under the terms of this private placement, the Company is required to adjust the price per share paid in this offering, by issuing additional shares, to match any offering price paid, if lower, in subsequent offerings prior to May 23, 2003.

In December 2000, the Company sold in a private placement 542,373 shares of common stock for $3.69 per share. The purchasers of common stock also received warrants to purchase 135,593 shares of common stock exercisable at $4.83 per share. The Company generated net proceeds of approximately $2.0 million from this transaction. Under the terms of this private placement, the Company is required to adjust the price per share paid in this offering, by issuing additional shares, to match any offering price paid, if lower, in subsequent offerings prior to February 9, 2003. Following the January 2001 offering described above, the Company issued an additional 257,627 shares of common stock to the purchasers in the December 2000 private placement, and a new warrant to purchase 264,407 shares of common stock exercisable at a price of $3.13 to replace the previously issued warrant to buy 135,593 shares of common stock at a price of $4.83 per share.

On October 22, 2002, as a condition for an interim financing agreement with Pyxis that is discussed further in Note 10, the Company entered into separate agreements with the purchasers in the December 2000 and January 2001 private placements to waive certain provisions of these private placement agreements. Specifically, the purchasers waived their right to receive cash payments of up to $100,000 per month when the Company s common stock is delisted from the Nasdaq SmallCap Market. Also waived was the purchasers right to receive additional shares of the Company s common stock for no additional consideration if the Company issues shares of its common stock at a price below $2.50 per share. Under these agreements, the purchasers have also agreed to cancel warrants to purchase an aggregate of 864,407 shares of common stock. In exchange, the Company issued an aggregate of 1,676,258 shares of its common stock to the purchasers for no additional cash consideration.

Employee Stock Purchase Plan

Effective October 14, 1998, the Company s Board of Directors approved an Employee Stock Purchase Plan for qualified employees of the Company. Under the terms of the Employee Stock Purchase Plan, an employee may purchase up to $25,000 per calendar year of the Company s stock at a price equal to 85% of the fair market value of the stock (as quoted on the company s listing exchange) on either the first or last day of a calendar quarter. The Company has reserved 500,000 shares of common stock for purchases to be made under the Employee Stock Purchase Plan. During the years ended December 31, 2004, 2003 and 2002, 10,998, 8,408 and 9,855 shares, respectively, were purchased under the Employee Stock Purchase Plan at an average purchase price of approximately $2.99, $1.43 and $0.54 per share, respectively.

NASDAQ Delisting

On October 9, 2002 the Company received a letter from NASDAQ stating that it did not meet the criteria for the continued listing of its common stock on the NASDAQ SmallCap Market. The letter stated that Interleukin s common stock was not in compliance with the $1 minimum bid price, that stockholders equity did not meet the $2.5 million minimum requirement, and that the NASDAQ Staff rejected the Company s plan to regain compliance with those listing criteria. The Company appealed the ruling and an appeals hearing was held on November 14, 2002. On December 10, 2002, the Company received notification from the NASDAQ Listing Qualifications Panel that the panel had denied the Company s request for continued listing on the NASDAQ SmallCap market. The Company was delisted from NASDAQ on that date. Since December 10, 2002, the Company s common stock has traded on the Over-the-Counter-Bulletin-Board (OTCBB) under the symbol ILGN. It is not known when or if the common stock will again trade on the NASDAQ SmallCap market.

Note 10 Debt

On August 9, 2002 the Company received approximately $475,000 in net proceeds from the sale of term promissory notes with an original aggregate principal amount of $525,000. These notes paid interest at a rate of 15% and had an original maturity of August 9, 2003. The purchasers of the promissory notes received warrants to purchase one share of the Company s common stock at a purchase price of $2.50 for every dollar invested in the promissory notes. In total, warrants to purchase 525,000 shares of common stock were issued. These warrants are immediately exercisable and expire ten years from the date of issuance. As of December 31, 2004, none of these warrants had been exercised. Amortization expense related to the discount of notes was approximately $210,000 and $150,000 for the years ended December 31, 2003 and 2002, respectively. These notes and $70,336 in accrued interest were repaid on July 1, 2003 using proceeds provided by Pyxis under terms of a credit facility with Pyxis (see Note 3).

On October 23, 2002, the Company entered into an interim financing agreement with Pyxis Innovations, Inc. that provided debt financing of $2.0 million. The financing was in the form of four $500,000 promissory notes, which closed on October 23, 2002, November 15, 2002, December 16, 2002 and January 30, 2003. These notes had an original maturity date of December 31, 2003 and accrued interest at a rate of 15%. The outstanding principal amount and all accrued interest were to be paid upon maturity. These notes are collateralized by all of the Company s intellectual property except intellectual property relating to periodontal disease and sepsis. These notes were amended as part of the strategic alliance with Alticor Inc. (See below).

On March 5, 2003 as part of its strategic alliance with Alticor Inc., the Company was granted credit facilities as follows:

- $1,500,000 working capital credit line to initiate selected research agreements with third party entities approved by the board of directors of Interleukin;

- $2,000,000 refinancing of notes previously held by Pyxis, extending the maturity date and reducing the interest rate; and

- $595,336 refinancing on July 1, 2003 of bridge financing notes previously held by third parties, extending the maturity date and reducing the interest rate.

As of December 31, 2004 there was $2,595,336 outstanding under the terms of these credit facilities. The credit facilities will mature in December 2007, bear interest at 1% over the prime rate (6.25% at December 31, 2004), are collateralized by a security interest in the Company s intellectual property (except intellectual property related to periodontal disease and sepsis), and are convertible at the election of Alticor into 4,060,288 shares of common stock at a stated conversion price equal to $0.6392 per share.

Note 11 Equity Interest in Molecular SkinCare Limited

In October 2003, the Company acquired 12,014 ordinary shares (representing approximately 5% of the outstanding equity) of Molecular SkinCare Limited, a start-up biotechnology company located in Sheffield, England. The transaction was in exchange for granting rights to Molecular SkinCare and Asterion Limited, a company also located in Sheffield, England, in certain intellectual property licensed to the company. Management determined that the fair value of the shares received was not determinable within reasonable limits because Molecular SkinCare Limited is a private entity and there was major uncertainty about the realizability of the value that would be assigned to this asset received in a non-monetary transaction and therefore assigned a nominal value of $1 to the shares. On February 1, 2005, York Pharma acquired all of the outstanding shares of Molecular SkinCare and will issue its ordinary shares to the shareholders of Molecular SkinCare as consideration.

Note 12 Stock Option Plans

In June 1996, the Company s shareholders approved the adoption of the 1996 Equity Incentive Plan (the 1996 Plan). The 1996 Plan provides for the award of nonqualified and incentive stock options, restricted stock and stock bonuses to employees, directors, officers and consultants of the Company. A total of 1,300,000 shares of the Company s common stock have been reserved for award under the 1996 Plan of which 294,714 remained unissued at December 31, 2004. This plan no longer complies with the current Securities Exchange Act and, consequently, was terminated with respect to new grants.

F-23

In June 2000, the Company s shareholders approved the adoption of the Interleukin Genetics, Inc. 2000 Employee Stock Compensation Plan (the 2000 Plan). The 2000 Plan provides for the award of nonqualified and incentive stock options, restricted stock, and stock awards to employees, directors, officers, and consultants of the Company. A total of 2,000,000 shares of the Company s common stock have been reserved for award under the 2000 Plan of which 115 were available for future issuance at December 31, 2004.

In June 2004, the Company s shareholders approved the adoption of the Interleukin Genetics, Inc. 2004 Employee Stock Compensation Plan (the 2004 Plan). The 2004 Plan provides for the award of nonqualified and incentive stock options, restricted stock, and stock awards to employees, directors, officers, and consultants of the Company. A total of 2,000,000 shares of the Company s common stock have been reserved for award under the 2004 Plan of which 1,877,343 were available for future issuance at December 31, 2004.

Nonqualified and incentive stock options with a life of 10 years are generally granted at exercise prices equal to the fair market value of the common stock on the date of grant. Options generally vest over a period of three to four years.

A summary of the status of the Company s stock options, issued both under the 1996, 2000 and 2004 Plans and outside of these plans, at December 31, 2004, 2003 and 2002, and changes during these years is presented in the tables below:

The following table details all stock option activity:

	2004		**2003**		**2002**	
	Shares	**Weighted Avg Exercise Price**	**Shares**	**Weighted Avg Exercise Price**	**Shares**	**Weighted Avg Exercise Price**
Outstanding, beginning of year	3,180,133	$ 2.65	2,873,652	$ 2.29	2,652,069	$ 2.47
Granted	342,707	3.97	852,000	3.70	338,600	0.84
Exercised	(320,751)	2.10	(135,931)	1.06	(4,437)	0.75
Canceled	(216,615)	3.47	(409,588)	2.95	(112,580)	2.14
Outstanding, end of year	2,985,474	$ 2.81	3,180,133	$ 2.65	2,873,652	$ 2.29
Exercisable, end of year	2,243,465	$ 2.44	2,220,971	$ 2.28	2,032,774	$ 2.41

These totals include 70,000 and 60,000 nonqualified stock options issued to non-employees in 2003 and 2002 respectively for which expenses of $111,580 and $2,203 was recorded respectively during those years. No stock options were issued to non-employees in 2004.

The following table details further information regarding stock options outstanding and exercisable at December 31, 2004:

	Stock Options Outstanding			**Stock Options Exercisable**	
Range of Exercise Price:	**Shares**	**Weighted Avg remaining contractual life (years)**	**Weighted Avg Exercise Price**	**Shares**	**Weighted Avg Exercise Price**
$0.50 - $0.99	385,527	5.15	$ 0.64	375,859	$ 0.64
$1.00 - $1.49	416,000	6.17	1.22	416,000	1.22
$1.50 - $1.99	169,965	5.57	1.72	169,965	1.72
$2.00 - $2.49	105,500	6.87	2.28	47,250	2.21
$2.50 - $2.99	795,775	4.35	2.80	784,525	2.80
$3.50 - $3.99	292,135	8.26	3.68	200,828	3.70
$4.00 - $4.49	176,400	6.26	4.27	71,200	4.42
$4.50 - and up	644,172	8.44	4.70	277,838	4.71
	2,985,474	6.24	$ 2.81	2,343,465	$ 2.44

Note 13 Employee Benefit Plan

In 1998, the Company adopted a profit sharing plan covering substantially all of its employees. Under the profit sharing plan, the Company may, at the discretion of the Board of Directors, contribute a portion of the Company s current or accumulated earnings. In September 1998, the Company amended and restated the profit sharing plan to include provisions for Section 401(k) of the Internal Revenue Code, which allowed for pre-tax employee contributions to the plan. Under the amended and restated plan, the Company may, at the discretion of the Board of Directors, match a portion of the participant contributions. The Company currently contributes 15% of any amount employees contribute, up to a maximum of $1,000 per participant per calendar year. Company contributions, if any, are credited to the participants accounts and vest over a period of four years based on the participants initial service date with the Company. During the years ended December 31, 2004, 2003 and 2002, $20,151, $936 and $20,690 was contributed to the plan, respectively.

Note 14 Commitments and Contingencies

The Company leases its office and laboratory space under a non-cancelable operating lease expiring March 2009.

The Company also leases certain office equipment under lease obligations. Future minimum lease commitments under lease agreements with initial or remaining terms of one year or more at December 31, 2004, are as follows:

Year Ending December 31,	**Operating Leases**	**Capital Leases**
2005	443,436	15,059
2006	443,436	3,017
2007	437,004	
2008	437,004	
2009	109,251	
	$ 1,870,131	18,076
Less Amount representing interest		786
Less Current portion		14,312
Long-term portion		$ 2,978

Rent expense was $389,351, $272,112 and $265,363 for the years ended December 31, 2004, 2003 and 2002, respectively.

Acquisition of Data Bases

In connection with the research agreement with Alticor dated March 5, 2003, the Company is obligated to purchase two clinical databases. As of June 30, 2004, the Company determined that this obligation met the criteria of SFAS No. 5, *Accounting for Contingencies,* and estimated the cost of these two databases at $450,000. Accordingly, the Company recorded a liability and charged research and development expenses of $450,000 at that time. As of December 31, 2004, the Company had negotiated the acquisition of the first of the two databases. The Company believes that the acquisition of the databases will not exceed the amount that the Company has estimated, however actual amounts could differ.

Sponsored Research Agreements

In connection with the research agreement with Alticor dated June 17, 2004, the Company entered into a sponsored research agreement with Tufts University to conduct a clinical study. The sponsored research agreement is for an amount not to exceed $662,000 and is payable upon achievement of certain milestones. As of December 31, 2004, Tufts University had achieved two of the four milestone payments valued at $350,000. However, as of December 31, 2004, the Company has only made payments of $100,000 and the remaining $250,000 is included in accrued expenses. The remaining commitment on this agreement is $312,000. As, and if, Tufts University completes the other milestones associated with this sponsored research agreement, the Company will record these costs as research and development expenses.

Employment Agreements

The Company has entered into employment agreements with certain key employees of the Company, which range from one to three years and provide for severance ranging from three months to one year upon termination of employment.

Note 15 Segment Information

The Company follows SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information* (SFAS No. 131) which establishes standards for reporting information about operating segments in annual and interim financial statements, and requires that companies report financial and descriptive information about its reportable segments based on a management approach. SFAS No. 131 also establishes standards for related disclosures about products and services, geographic areas and major customers. In applying the requirements of this statement, each of the Company s geographic areas described below was determined to be an operating segment as defined by the statement, but have been aggregated as allowed by the statement for reporting purposes. As a result, the Company continues to have one reportable segment, which is the development of genetic risk assessment tests and therapeutic targets for common diseases.

The Company has no operations outside of the United States. During 2004, 2003 and 2002, the Company had minimal royalty income derived from distributors outside the United States, minimal expenses derived from research partners outside the United States and minimal assets outside of the United States. The Company does not believe this risk is material and does not use derivative financial instruments to manage foreign currency fluctuation risk.

Note 16 Accrued Expenses

Accrued expenses consist of the following:

	December 31,	
	2004	**2003**
Legal	$ 50,000	$ 60,000
Vacation	96,040	98,544
Bonuses	87,500	50,000
Research	580,975	282,818
Other	100,392	46,829
Total	$ 914,907	$ 538,191

Note 17 Selected Quarterly Financial Data (Unaudited)

The following are selected quarterly financial data for the years ended December 31, 2004 and 2003

	Quarter Ended March 31, 2004 (As Restated)	June 30, 2004 (As Restated)	September 30, 2004 (As Restated)	December 31, 2004 (As Restated)
Revenue	$ 8,343	$ 9,977	$ 8,216	$ 8,135
Gross profit	$ 8,288	$ 9,934	$ 7,965	$ 8,134
Loss from operations	$ (1,541,425)	$ (2,004,794)	$ (1,594,254)	$ (1,561,560)
Net loss	$ (1,681,031)	$ (2,140,005)	$ (1,729,836)	$ (1,695,330)
Net loss attributable to common stockholders	$ (1,681,031)	$ (2,140,005)	$ (1,729,836)	$ (1,695,330)
Basic and diluted net loss per common share	$ (0.07)	$ (0.09)	$ (0.07)	$ (0.07)

	Quarter Ended March 31, 2003 (As Restated)	June 30, 2003 (As Restated)	September 30, 2003 (As Restated)	December 31, 2003 (As Restated)
Revenues	$ 28,738	$ 7,909	$ 7,985	$ 9,473
Gross profit	$ 11,856	$ 4,211	$ 7,946	$ 9,434
Loss from operations	$ (1,553,295)	$ (1,453,862)	$ (1,341,885)	$ (1,518,591)
Net loss	$ (1,704,099)	$ (1,688,604)	$ (1,508,561)	$ (1,657,650)
Net loss attributable to common stockholders	$ (9,798,826)	$ (1,688,604)	$ (1,508,561)	$ (1,657,650)
Basic and diluted net loss per common share	$ (0.42)	$ (0.07)	$ (0.06)	$ (0.07)

As discussed in Note 2, the quarterly periods have been restated. The following are selected quarterly financial data as had been previously reported.

	Quarter Ended March 31, 2004 (As Reported)	June 30, 2004 (As Reported)	September 30, 2004 (As Reported)	December 31, 2004 (As Reported)
Revenue	$ 644,943	$ 663,977	$ 1,400,066	$ 935,114
Gross profit	$ 159,813	$ 202,462	$ 570,878	$ 79,100
Loss from operations	$ (904,825)	$ (900,794)	$ (352,404)	$ (784,581)
Net loss	$ (928,962)	$ (920,536)	$ (372,517)	$ (802,884)
Net loss attributable to common stockholders	$ (928,962)	$ (920,536)	$ (372,517)	$ (802,884)
Basic and diluted net loss per common share	$ (0.04)	$ (0.04)	$ (0.02)	$ (0.03)

	Quarter Ended March 31, 2003 (As Reported)	June 30, 2003 (As Reported)	September 30, 2003 (As Reported)	December 31, 2003 (As Reported)
Revenue	$ 28,738	$ 632,909	$ 633,785	$ 760,511
Gross profit	$ 11,856	$ 250,454	$ 140,212	$ 28,358
Loss from operations	$ (1,553,295)	$ (828,862)	$ (716,085)	$ (767,553)
Net loss	$ (1,665,609)	$ (948,136)	$ (767,292)	$ (791,144)
Net loss attributable to common stockholders	$ (1,665,609)	$ (948,136)	$ (767,292)	$ (791,144)
Basic and diluted net loss per common share	$ (0.07)	$ (0.04)	$ (0.03)	$ (0.03)

Note 18 Subsequent Events

On February 1, 2005, York Pharma acquired all of the outstanding shares of Molecular SkinCare and will issue its ordinary shares to the shareholders of Molecular SkinCare as consideration.

On March 5, 2005, the Company entered into an agreement with Alticor to expand the research being performed under Research Agreement I (Research Agreement III) to provide additional funding of $2.7 million over two years beginning April 1, 2005. Also on March 5, 2005, the Company entered into an additional research agreement (Research Agreement IV) with Alticor for exploratory research valued at $2.3 million over two years commencing April 1, 2005. These research agreements are expected to provide the Company with a total of $5.0 million during the two years ending March 2007.

Also on April 18, 2005, Alticor paid the Company, upon achieving a certain milestone, $2.0 million advance payment for genetic risk assessment tests to be processed under the terms of the Distribution Agreement. Further, Alticor agreed to extend the draw down period of the $1.5 million working capital credit line through 2007.