

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

FORM 10-Q

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

For the Quarterly Period Ended October 3, 2021

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

For the transition period from _____ to _____

Commission File Number 001-35406



Illumina, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

33-0804655

(I.R.S. Employer Identification No.)

5200 Illumina Way, San Diego, CA 92122

(Address of principal executive offices) (Zip code)

(858) 202-4500

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value	ILMN	The NASDAQ Stock Market LLC

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13a of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of October 29, 2021, there were 156.3 million shares of the registrant's common stock outstanding.

ILLUMINA, INC.
FORM 10-Q
FOR THE FISCAL QUARTER ENDED OCTOBER 3, 2021
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Consideration Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains, and our officers and representatives may from time to time make, “forward-looking statements” within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as: “anticipate,” “intend,” “plan,” “goal,” “seek,” “believe,” “continue,” “project,” “estimate,” “expect,” “strategy,” “future,” “likely,” “may,” “potential,” “predict,” “should,” “will,” or similar words or phrases, or the negatives of these words, may identify forward-looking statements, but the absence of these words does not necessarily mean that a statement is not forward looking. Examples of forward-looking statements include, among others, statements we make regarding:

- our expectations as to our future financial performance, results of operations, or other operational results or metrics;
- our expectations regarding the launch of new products or services;
- the benefits that we expect will result from our business activities and certain transactions we have completed, such as product introductions, increased revenue, decreased expenses, and avoided expenses and expenditures;
- our expectations of the effect on our financial condition of claims, litigation, contingent liabilities, and governmental investigations, proceedings, and regulations;
- our strategies or expectations for product development, market position, financial results, and reserves;
- our expectations regarding the outcome of the legal and regulatory proceedings related to our recently completed acquisition of GRAIL, Inc. (GRAIL) and other actions that may be taken or pursued by the European Commission, the Federal Trade Commission and/or other governmental or regulatory authorities in connection with such acquisition;
- the hold separate arrangements we voluntarily offered to enter into or that the European Commission may seek to impose, and the duration and impacts on Illumina and GRAIL of such arrangements;
- our expectations regarding the integration of any acquired technologies with our existing technology; and
- other expectations, beliefs, plans, strategies, anticipated developments, and other matters that are not historical facts.

Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based only on our current beliefs, expectations, and assumptions regarding the future of our business, future plans and strategies, projections, anticipated events and trends, the economy, and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks, and changes in circumstances that are difficult to predict and many of which are outside of our control. Our actual results and financial condition may differ materially from those indicated in the forward-looking statements. Therefore, you should not rely on any of these forward-looking statements. Important factors that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements include, among others, the following:

- the impact to our business and operating results caused by the COVID-19 pandemic;
- our expectations and beliefs regarding prospects and growth for our business and the markets in which we operate;
- the timing and mix of customer orders among our products and services;
- challenges inherent in developing, manufacturing, and launching new products and services, including expanding manufacturing operations and reliance on third-party suppliers for critical components;
- the impact of recently launched or pre-announced products and services on existing products and services;
- our ability to develop and commercialize our instruments and consumables, to deploy new products, services, and applications, and to expand the markets for our technology platforms;
- our ability to manufacture robust instrumentation and consumables;
- our ability to identify and acquire technologies and integrate them into our products or businesses successfully;

- risks and uncertainties regarding the legal and regulatory proceedings relating to our recently completed acquisition of GRAIL and our ability to achieve the expected benefits of such acquisition and other actions that may be taken or pursued by the European Commission, the Federal Trade Commission and/or other governmental or regulatory authorities in connection with such acquisition;
- the hold separate arrangements we voluntarily offered to enter into or that the European Commission may seek to impose, and the duration and impacts on Illumina and GRAIL of such arrangements, which impacts may include material and adverse effects on synergies and other benefits we expect to achieve as a result of the acquisition of GRAIL, additional costs or liabilities, loss of revenue and other adverse effects on our business, financial condition and results of operations;
- our compliance with the terms of the hold separate arrangements, which may be burdensome to implement and administer, and the risk that the European Commission could impose or seek to impose fines and other penalties for alleged noncompliance with such terms;
- the assumptions underlying our critical accounting policies and estimates;
- our assessments and estimates that determine our effective tax rate;
- our assessments and beliefs regarding the outcome of pending legal proceedings and any liability that we may incur as a result of those proceedings;
- uncertainty, or adverse economic and business conditions, including as a result of slowing or uncertain economic growth in the United States or worldwide; and
- other factors detailed in our filings with the SEC, including the risks, uncertainties, and assumptions described in “Risk Factors” within the Business and Market Information section of our Annual Report on Form [10-K](#) for the fiscal year ended January 3, 2021, or in information disclosed in public conference calls, the date and time of which are released beforehand.

The foregoing factors should be considered together with other factors detailed in our filings with the Securities and Exchange Commission, including our most recent filings on Forms 10-K and 10-Q, or in information disclosed in public conference calls, the date and time of which are released beforehand. We undertake no obligation, and do not intend, to publicly update any forward-looking statement, whether written or oral, that may be made from time to time, or to review or confirm analysts' expectations, or to provide interim reports or updates on the progress of any current financial quarter, in each case whether as a result of new information, future developments, or otherwise.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

ILLUMINA, INC. CONDENSED CONSOLIDATED BALANCE SHEETS (In millions)

	October 3, 2021 (Unaudited)	January 3, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,080	\$ 1,810
Short-term investments	185	1,662
Accounts receivable, net	604	487
Inventory	401	372
Prepaid expenses and other current assets	181	152
Total current assets	2,451	4,483
Property and equipment, net	1,009	922
Operating lease right-of-use assets	676	532
Goodwill	7,098	897
Intangible assets, net	3,351	142
Other assets	478	609
Total assets	\$ 15,063	\$ 7,585
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 248	\$ 192
Accrued liabilities	666	541
Convertible senior notes, current portion	—	511
Total current liabilities	914	1,244
Operating lease liabilities	784	671
Term notes	993	—
Convertible senior notes	694	673
Other long-term liabilities	1,085	303
Stockholders' equity:		
Common stock	2	2
Additional paid-in capital	8,849	3,815
Accumulated other comprehensive income	13	2
Retained earnings	5,372	4,723
Treasury stock, at cost	(3,643)	(3,848)
Total stockholders' equity	10,593	4,694
Total liabilities and stockholders' equity	\$ 15,063	\$ 7,585

See accompanying notes to condensed consolidated financial statements.

ILLUMINA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(In millions, except per share amounts)

	Three Months Ended		Nine Months Ended	
	October 3, 2021	September 27, 2020	October 3, 2021	September 27, 2020
Revenue:				
Product revenue	\$ 978	\$ 676	\$ 2,903	\$ 1,904
Service and other revenue	130	118	424	382
Total revenue	1,108	794	3,327	2,286
Cost of revenue:				
Cost of product revenue	264	209	782	535
Cost of service and other revenue	56	52	177	157
Amortization of acquired intangible assets	18	7	31	21
Total cost of revenue	338	268	990	713
Gross profit	770	526	2,337	1,573
Operating expense:				
Research and development	436	172	835	483
Selling, general and administrative	879	192	1,666	643
Total operating expense	1,315	364	2,501	1,126
(Loss) income from operations	(545)	162	(164)	447
Other income (expense):				
Interest income	—	5	—	26
Interest expense	(14)	(11)	(48)	(33)
Other income, net	979	59	1,010	117
Total other income, net	965	53	962	110
Income before income taxes	420	215	798	557
Provision for income taxes	103	36	148	158
Net income	\$ 317	\$ 179	\$ 650	\$ 399
Earnings per share:				
Basic	\$ 2.09	\$ 1.22	\$ 4.39	\$ 2.72
Diluted	\$ 2.08	\$ 1.21	\$ 4.36	\$ 2.70
Shares used in computing earnings per share:				
Basic	152	146	148	147
Diluted	153	148	149	148

See accompanying notes to condensed consolidated financial statements.

ILLUMINA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(In millions)

	Three Months Ended		Nine Months Ended	
	October 3, 2021	September 27, 2020	October 3, 2021	September 27, 2020
Net income	\$ 317	\$ 179	\$ 650	\$ 399
Unrealized (loss) gain on available-for-sale debt securities, net of deferred tax	—	(2)	(1)	7
Unrealized gain on cash flow hedges, net of deferred tax	5	—	12	—
Total comprehensive income	<u>\$ 322</u>	<u>\$ 177</u>	<u>\$ 661</u>	<u>\$ 406</u>

See accompanying notes to condensed consolidated financial statements.

ILLUMINA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)
(In millions)

	Common Stock		Additional	Accumulated	Retained	Treasury Stock		Total
	Shares	Amount	Paid-In	Other	Earnings	Shares	Amount	Stockholders'
			Capital	Comprehensive				Equity
Balance as of December 29, 2019	194	\$ 2	\$ 3,560	\$ 5	\$ 4,067	(47)	\$ (3,021)	\$ 4,613
Net income	—	—	—	—	173	—	—	173
Unrealized gain on available-for-sale debt securities, net of deferred tax	—	—	—	1	—	—	—	1
Issuance of common stock, net of repurchases	—	—	32	—	—	—	(223)	(191)
Share-based compensation	—	—	39	—	—	—	—	39
Balance as of March 29, 2020	194	2	3,631	6	4,240	(47)	(3,244)	4,635
Net income	—	—	—	—	47	—	—	47
Unrealized gain on available-for-sale debt securities, net of deferred tax	—	—	—	8	—	—	—	8
Issuance of common stock, net of repurchases	—	—	2	—	—	(1)	(145)	(143)
Share-based compensation	—	—	16	—	—	—	—	16
Balance as of June 28, 2020	194	2	3,649	14	4,287	(48)	(3,389)	4,563
Net income	—	—	—	—	179	—	—	179
Unrealized loss on available-for-sale debt securities, net of deferred tax	—	—	—	(2)	—	—	—	(2)
Issuance of common stock, net of repurchases	—	—	27	—	—	—	(128)	(101)
Share-based compensation	—	—	61	—	—	—	—	61
Balance as of September 27, 2020	194	2	3,737	12	4,466	(48)	(3,517)	4,700
Net income	—	—	—	—	257	—	—	257
Unrealized loss on available-for-sale debt securities, net of deferred tax	—	—	—	(10)	—	—	—	(10)
Issuance of common stock, net of repurchases	1	—	—	—	—	(1)	(331)	(331)
Share-based compensation	—	—	78	—	—	—	—	78
Balance as of January 3, 2021	195	\$ 2	\$ 3,815	\$ 2	\$ 4,723	(49)	\$ (3,848)	\$ 4,694

See accompanying notes to condensed consolidated financial statements.

ILLUMINA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)
(In millions)

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Retained Earnings	Treasury Stock		Total Stockholders' Equity
	Shares	Amount				Shares	Amount	
Balance as of January 3, 2021	195	\$ 2	\$ 3,815	\$ 2	\$ 4,723	(49)	\$ (3,848)	\$ 4,694
Net income	—	—	—	—	147	—	—	147
Unrealized loss on available-for-sale debt securities, net of deferred tax	—	—	—	(1)	—	—	—	(1)
Unrealized gain on cash flow hedges, net of deferred tax	—	—	—	7	—	—	—	7
Issuance of common stock, net of repurchases	—	—	31	—	—	—	(24)	7
Share-based compensation	—	—	68	—	—	—	—	68
Balance as of April 4, 2021	195	2	3,914	8	4,870	(49)	(3,872)	4,922
Net income	—	—	—	—	185	—	—	185
Issuance of common stock, net of repurchases	1	—	—	—	—	—	(6)	(6)
Share-based compensation	—	—	79	—	—	—	—	79
Balance as of July 4, 2021	196	2	3,993	8	5,055	(49)	(3,878)	5,180
Net income	—	—	—	—	317	—	—	317
Unrealized gain on cash flow hedges, net of deferred tax	—	—	—	5	—	—	—	5
Issuance of common stock, net of repurchases	—	—	28	—	—	—	(2)	26
GRAIL acquisition	—	—	4,749	—	—	10	237	4,986
Share-based compensation	—	—	79	—	—	—	—	79
Balance as of October 3, 2021	196	\$ 2	\$ 8,849	\$ 13	\$ 5,372	(39)	\$ (3,643)	\$ 10,593

See accompanying notes to condensed consolidated financial statements.

ILLUMINA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In millions)

	Nine Months Ended	
	October 3, 2021	September 27, 2020
Cash flows from operating activities:		
Net income	\$ 650	\$ 399
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	128	114
Amortization of intangible assets	34	23
Share-based compensation expense	656	116
Accretion of debt discount on convertible senior notes	26	29
Deferred income taxes	(81)	50
Gain on previously held investment in GRAIL	(900)	—
Losses (gains) on equity securities, net	3	(128)
Gain on Helix contingent value right	(30)	(5)
(Gain) loss on derivative assets related to terminated acquisition	(26)	116
Change in fair value of contingent consideration	(7)	—
Other	(23)	(9)
Changes in operating assets and liabilities:		
Accounts receivable	(125)	108
Inventory	(27)	(56)
Prepaid expenses and other current assets	(34)	(15)
Operating lease right-of-use assets and liabilities, net	(9)	(9)
Other assets	(35)	(25)
Accounts payable	(28)	(2)
Accrued liabilities	81	(68)
Other long-term liabilities	10	36
Net cash provided by operating activities	263	674
Cash flows from investing activities:		
Maturities of available-for-sale securities	331	327
Purchases of available-for-sale securities	(77)	(757)
Sales of available-for-sale securities	1,031	379
Cash received (paid for) derivative assets related to terminated acquisition	52	(132)
Purchases of property and equipment	(138)	(127)
Purchases of strategic investments	(44)	(112)
Sales of strategic investments	220	—
Net cash paid for acquisitions	(2,444)	(98)
Net cash used in investing activities	(1,069)	(520)
Cash flows from financing activities:		
Net proceeds from issuance of debt	988	—
Payments on convertible senior notes	(517)	—
Common stock repurchases	—	(455)
Taxes paid related to net share settlement of equity awards	(452)	(41)
Proceeds from issuance of common stock	59	61
Net cash provided by (used in) financing activities	78	(435)
Effect of exchange rate changes on cash and cash equivalents	(2)	—
Net decrease in cash and cash equivalents	(730)	(281)
Cash and cash equivalents at beginning of period	1,810	2,042
Cash and cash equivalents at end of period	\$ 1,080	\$ 1,761

See accompanying notes to condensed consolidated financial statements.

ILLUMINA, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Unless the context requires otherwise, references in this report to “Illumina,” “we,” “us,” the “Company,” and “our” refer to Illumina, Inc. and its consolidated subsidiaries.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Business Overview

We are a provider of sequencing- and array-based solutions, serving customers in the research, clinical and applied markets. Our products are used for applications in the life sciences, oncology, reproductive health, agriculture and other emerging segments. Our customers include leading genomic research centers, academic institutions, government laboratories, and hospitals, as well as pharmaceutical, biotechnology, commercial molecular diagnostic laboratories, and consumer genomics companies.

On August 18, 2021, we acquired GRAIL, a healthcare company focused on early detection of multiple cancers. GRAIL's Galleri blood test detects more than 50 different cancers before they are symptomatic. We will hold GRAIL as a separate company during the European Commission's ongoing merger review. Refer to note [“4. Business Combinations”](#) for additional details.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. Interim financial results are not necessarily indicative of results anticipated for the full year. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and footnotes included in the Annual Report on Form [10-K](#) for the fiscal year ended January 3, 2021, from which the prior year balance sheet information herein was derived. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expense, and related disclosure of contingent assets and liabilities. Though the impact of the COVID-19 pandemic to our business and operating results presents additional uncertainty, we continue to use the best information available to form our critical accounting estimates. Actual results could differ from those estimates.

The unaudited condensed consolidated financial statements include our accounts, our wholly-owned subsidiaries, and majority-owned or controlled companies. All intercompany transactions and balances have been eliminated in consolidation. Certain prior period amounts have been reclassified to conform to the current period presentation. In management's opinion, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation of the results for the interim periods presented.

We have included the results of operations for GRAIL in our condensed consolidated statements of operations from the date of acquisition. GRAIL operates as a separate reportable segment. See note [“10. Segment Information”](#) for additional details.

Fiscal Year

Our fiscal year is the 52 or 53 weeks ending the Sunday closest to December 31, with quarters of 13 or 14 weeks ending the Sunday closest to March 31, June 30, September 30, and December 31. References to Q3 2021 and Q3 2020 refer to the three months ended October 3, 2021 and September 27, 2020, respectively, which were both 13 weeks, and references to year-to-date (YTD) 2021 and 2020 refer to the nine months ended October 3, 2021 and September 27, 2020, respectively, which were both 39 weeks.

Significant Accounting Policies

During YTD 2021, there were no changes to our significant accounting policies as described in our Annual Report on Form [10-K](#) for the fiscal year ended January 3, 2021. See below for our policy related to business combinations.

Business Combinations

Under the acquisition method of accounting, we allocate the fair value of the total consideration transferred to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values on the date of acquisition. The fair values assigned, defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants, are based on estimates and assumptions determined by management. These valuations require us to make significant estimates and assumptions, especially with respect to intangible assets. We record the excess consideration over the aggregate fair value of tangible and intangible assets, net of liabilities assumed, as goodwill.

In connection with certain of our acquisitions, additional contingent consideration can be earned by the sellers upon completion of certain future performance milestones. In these cases, a liability is recorded on the acquisition date, as a component of accrued liabilities or other long-term liabilities for an estimate of the acquisition date fair value of the contingent consideration by applying the income approach utilizing variable inputs such as anticipated future cash flows, risk-free adjusted discount rates, and nonperformance risk. This method requires significant management judgment, including the probability of achieving certain future milestones and discount rates. Future changes in our estimates could result in expenses or gains. Any change in the fair value of the contingent consideration subsequent to the acquisition date is recognized in selling, general and administrative expenses in our consolidated statements of income.

We typically use the discounted cash flow method to value our acquired intangible assets. This method requires significant management judgment to forecast future operating results and establish residual growth rates and discount factors. The estimates we use to value and amortize intangible assets are consistent with the plans and estimates that we use to manage our business and are based on available historical information and industry estimates and averages. If the subsequent actual results and updated projections of the underlying business activity change compared with the assumptions and projections used to develop these values, we could experience impairment charges. In addition, we have estimated the economic lives of certain acquired assets and these lives are used to calculate depreciation and amortization expense. If our estimates of the economic lives change, depreciation or amortization expenses could be accelerated or extended. We capitalize in-process research and development (IPR&D) and either amortize it over the life of the product upon commercialization or impair it if the project is abandoned.

If the initial accounting for a business combination is incomplete by the end of a reporting period that falls within the measurement period, we report provisional amounts in our financial statements. During the measurement period, we adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date and we record those adjustments to our financial statements.

For our policy on goodwill and intangible assets, see the significant policies as described in our Annual Report on Form [10-K](#) for the fiscal year ended January 3, 2021.

Accounting Pronouncements Pending Adoption

In August 2020, the FASB issued ASU 2020-06, *Debt - Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40)*. The new standard reduces the number of accounting models for convertible debt instruments, amends the accounting for certain contracts in an entity's own equity, and modifies how certain convertible instruments and contracts that may be settled in cash or shares impact the calculation of diluted EPS. We expect to adopt the standard on its effective date beginning in the first quarter of 2022. We are currently evaluating the impact of ASU 2020-06 on our consolidated financial statements, particularly as it relates to our outstanding Convertible Senior Notes.

Earnings per Share

Basic earnings per share is computed based on the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed based on the sum of the weighted average number of common shares and potentially dilutive common shares outstanding during the period.

Potentially dilutive common shares consist of shares issuable under convertible senior notes and equity awards. Convertible senior notes have a dilutive impact when the average market price of our common stock exceeds the applicable conversion price of the respective notes. Potentially dilutive common shares from equity awards are determined using the average share price for each period under the treasury stock method. In addition, proceeds from exercise of equity awards and the average amount of unrecognized compensation expense for equity awards are assumed to be used to repurchase shares.

The following table presents the calculation of weighted average shares used to calculate basic and diluted earnings per share:

<i>In millions</i>	Q3 2021	Q3 2020	YTD 2021	YTD 2020
Weighted average shares outstanding	152	146	148	147
Effect of potentially dilutive common shares from:				
Equity awards	1	1	1	1
Convertible senior notes	—	1	—	—
Weighted average shares used in calculating diluted earnings per share	153	148	149	148

2. REVENUE

Our revenue is generated primarily from the sale of products and services. Product revenue primarily consists of sales of instruments and consumables used in genetic analysis. Service and other revenue primarily consists of revenue generated from genotyping and sequencing services, instrument service contracts, development and licensing agreements, and cancer detection testing services related to the GRAIL business.

Revenue by Source

<i>In millions</i>	Q3 2021			Q3 2020		
	Sequencing	Microarray	Total	Sequencing	Microarray	Total
Consumables	\$ 723	\$ 71	\$ 794	\$ 500	\$ 62	\$ 562
Instruments	180	4	184	109	5	114
Total product revenue	903	75	978	609	67	676
Service and other revenue	112	18	130	99	19	118
Total revenue	\$ 1,015	\$ 93	\$ 1,108	\$ 708	\$ 86	\$ 794

<i>In millions</i>	YTD 2021			YTD 2020		
	Sequencing	Microarray	Total	Sequencing	Microarray	Total
Consumables	\$ 2,123	\$ 224	\$ 2,347	\$ 1,440	\$ 178	\$ 1,618
Instruments	544	12	556	276	10	286
Total product revenue	2,667	236	2,903	1,716	188	1,904
Service and other revenue	348	76	424	317	65	382
Total revenue	\$ 3,015	\$ 312	\$ 3,327	\$ 2,033	\$ 253	\$ 2,286

Revenue by Geographic Area

Based on region of destination (in millions)

	Q3 2021	Q3 2020	YTD 2021	YTD 2020
Americas	\$ 583	\$ 436	\$ 1,733	\$ 1,248
Europe, Middle East, and Africa	313	213	938	602
Greater China ⁽¹⁾	122	83	382	246
Asia-Pacific	90	62	274	190
Total revenue	\$ 1,108	\$ 794	\$ 3,327	\$ 2,286

⁽¹⁾ Region includes revenue from China, Taiwan, and Hong Kong.

Performance Obligations

We regularly enter into contracts with multiple performance obligations. Most performance obligations are generally satisfied within a short time frame, approximately three to six months, after the contract execution date. As of October 3, 2021, the aggregate amount of the transaction price allocated to remaining performance obligations was \$1,131 million, of which approximately 90% is expected to be converted to revenue in the next twelve months, approximately 8% in the following twelve months, and the remainder thereafter.

Contract Liabilities

Contract liabilities, which consist of deferred revenue and customer deposits, as of October 3, 2021 and January 3, 2021 were \$256 million and \$230 million, respectively, of which the short-term portions of \$198 million and \$186 million, respectively, were recorded in accrued liabilities and the remaining long-term portions were recorded in other long-term liabilities. Revenue recorded in Q3 2021 and YTD 2021 included \$32 million and \$159 million, respectively, of previously deferred revenue that was included in contract liabilities as of January 3, 2021.

3. INVESTMENTS AND FAIR VALUE MEASUREMENTS

Debt Securities

Our short-term investments include available-for-sale debt securities that consisted of the following:

In millions	October 3, 2021			January 3, 2021		
	Amortized Cost	Gross Unrealized Gains	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Estimated Fair Value
Debt securities in government-sponsored entities	\$ —	\$ —	\$ —	\$ 10	\$ —	\$ 10
Corporate debt securities	—	—	—	445	—	445
U.S. Treasury securities	—	—	—	830	1	831
Total	\$ —	\$ —	\$ —	\$ 1,285	\$ 1	\$ 1,286

During Q1 2021, we sold all of our available-for-sale debt securities in anticipation of funding the GRAIL acquisition. See note “[4. Business Combinations](#)” for further details. Realized gains and losses are determined based on the specific-identification method and are reported in interest income.

Strategic Investments

Marketable Equity Securities

As of October 3, 2021 and January 3, 2021, the fair value of our marketable equity securities, included in short-term investments, totaled \$185 million and \$376 million, respectively. Total net unrealized gains on our marketable equity securities, included in other income, net, were \$45 million in Q3 2021 and total net unrealized losses were \$16 million in YTD 2021. Total unrealized gains on our marketable equity securities were \$59 million and \$128 million in Q3 2020 and YTD 2020, respectively. Total net losses on marketable equity securities sold, included in other income, net, were \$7 million in YTD 2021. There were no sales of our marketable equity securities in Q3 2021 or YTD 2020.

Non-Marketable Equity Securities

As of October 3, 2021 and January 3, 2021, the aggregate carrying amounts of our non-marketable equity securities without readily determinable fair values, included in other assets, were \$61 million and \$314 million, respectively. The decrease was due to our acquisition of GRAIL and the reclassification of several of our equity investments, that became marketable in Q3 2021, to short-term investments.

On August 18, 2021, we completed our acquisition of GRAIL. Prior to the acquisition, we held an investment in GRAIL for which we had concluded that GRAIL was a VIE for which we were not the primary beneficiary and, therefore, we did not consolidate GRAIL in our consolidated financial statements. The carrying value of our investment was \$250 million as of January 3, 2021. See note "[4. Business Combinations](#)" for further details.

Revenue recognized from transactions with our strategic investees was \$14 million and \$47 million for Q3 2021 and YTD 2021, respectively, and \$16 million and \$39 million for Q3 2020 and YTD 2020, respectively.

Venture Funds

We invest in two venture capital investment funds (the Funds) with capital commitments of \$100 million, callable through April 2026, and up to \$150 million, callable through July 2029, respectively, of which \$23 million and up to \$122 million, respectively, remained callable as of October 3, 2021. Our investments in the Funds are accounted for as equity-method investments. The aggregate carrying amounts of the Funds, included in other assets, were \$172 million and \$104 million as of October 3, 2021 and January 3, 2021, respectively.

Helix Contingent Value Right

In conjunction with the deconsolidation of Helix Holdings I, LLC (Helix) in April 2019, we received a contingent value right with a 7-year term that entitles us to consideration dependent upon the outcome of Helix's future financing and/or liquidity events. Changes in the fair value of the contingent value right resulted in unrealized gains of \$12 million and \$30 million in Q3 2021 and YTD 2021, respectively, and an unrealized gain of \$5 million in YTD 2020, included in other income, net. There was no change in fair value in Q3 2020.

Derivative Assets Related to Terminated Acquisition

On November 1, 2018, we entered into an Agreement and Plan of Merger (the PacBio [Merger Agreement](#)) to acquire Pacific Biosciences of California, Inc. (PacBio) for an all-cash price of approximately \$1.2 billion (or \$8.00 per share). On January 2, 2020, we entered into an agreement to terminate the PacBio Merger Agreement (the [Termination Agreement](#)). Pursuant to the Termination Agreement, we made a cash payment to PacBio of \$98 million on January 2, 2020, which represented the Reverse Termination Fee (as defined in the PacBio Merger Agreement). The Reverse Termination Fee was repayable, without interest, if PacBio entered into a definitive agreement providing for, or consummating, a Change of Control Transaction by September 30, 2020 (as defined in the Termination Agreement), and such transaction was consummated by the two-year anniversary of the execution of the definitive agreement for such Change of Control Transaction. PacBio did not enter into a definitive agreement that provided for, or consummated, a Change of Control Transaction by September 30, 2020 (as defined in the Termination Agreement); therefore, the Reverse Termination Fee is no longer repayable.

In addition, we made cash payments to PacBio of \$18 million in Q4 2019, pursuant to [Amendment No. 1 to the PacBio Merger Agreement](#), and \$34 million in Q1 2020, pursuant to the Termination Agreement, collectively referred to as the Continuation Advances. Up to the \$52 million of Continuation Advances was repayable, without interest, if, within two years of March 31, 2020, PacBio entered into a Change of Control Transaction or raised at least \$100 million in equity or debt financing in a single transaction (with the amount repayable dependent on the amount raised by PacBio). In February 2021, PacBio entered into an investment agreement with SB Northstar LP for the issuance and sale of \$900 million in aggregate principal amount of PacBio's convertible notes. Pursuant to the PacBio Merger Agreement, PacBio repaid to us the \$52 million of Continuation Advances and we recorded a gain of \$26 million in Q1 2021, which was included in other income, net.

The potential repayments of the Continuation Advances and Reverse Termination Fee met the definition of derivative assets and were recorded at fair value. The \$92 million difference between the \$132 million in cash paid during Q1 2020 for the Continuation Advances and Reverse Termination Fee and the \$40 million fair value of these derivative assets on the payment dates was recorded as selling, general and administrative expense in Q1 2020. Changes in the fair value of the derivative assets were included in other income, net. Unrealized losses of \$10 million and \$25 million were recorded in Q3 2020 and YTD 2020, respectively.

Fair Value Measurements

The following table presents the hierarchy for assets and liabilities measured at fair value on a recurring basis:

In millions	October 3, 2021				January 3, 2021			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Money market funds (cash equivalents)	\$ 623	\$ —	\$ —	\$ 623	\$ 1,512	\$ —	\$ —	\$ 1,512
Debt securities in government-sponsored entities	—	—	—	—	—	10	—	10
Corporate debt securities	—	—	—	—	—	445	—	445
U.S. Treasury securities	—	—	—	—	831	—	—	831
Marketable equity securities	185	—	—	185	376	—	—	376
Helix contingent value right	—	—	65	65	—	—	35	35
Derivative assets related to terminated acquisition	—	—	—	—	—	—	26	26
Deferred compensation plan assets	—	59	—	59	—	55	—	55
Total assets measured at fair value	<u>\$ 808</u>	<u>\$ 59</u>	<u>\$ 65</u>	<u>\$ 932</u>	<u>\$ 2,719</u>	<u>\$ 510</u>	<u>\$ 61</u>	<u>\$ 3,290</u>
Liabilities:								
Contingent consideration liabilities	\$ —	\$ —	\$ 769	\$ 769	\$ —	\$ —	\$ —	\$ —
Deferred compensation plan liability	—	55	—	55	—	51	—	51
Total liabilities measured at fair value	<u>\$ —</u>	<u>\$ 55</u>	<u>\$ 769</u>	<u>\$ 824</u>	<u>\$ —</u>	<u>\$ 51</u>	<u>\$ —</u>	<u>\$ 51</u>

We consider information provided by our investment accounting and reporting service provider in the measurement of fair value of our debt securities. The investment service provider provides valuation information from an industry-recognized valuation service. Such valuations may be based on trade prices in active markets for identical assets or liabilities (Level 1 inputs) or valuation models using inputs that are observable either directly or indirectly (Level 2 inputs), such as quoted prices for similar assets or liabilities, yield curve, volatility factors, credit spreads, default rates, loss severity, current market and contractual prices for the underlying instruments or debt, broker and dealer quotes, as well as other relevant economic measures. Our marketable equity securities are measured at fair value based on quoted trade prices in active markets. Our deferred compensation plan assets consist primarily of investments in life insurance contracts carried at cash surrender value, which reflects the net asset value of the underlying publicly traded mutual funds. We perform control procedures to corroborate the fair value of our holdings, including comparing valuations obtained from our investment service provider to valuations reported by our asset custodians, validating pricing sources and models, and reviewing key model inputs, if necessary. We elected the fair value option to measure the contingent value right received from Helix. The fair value of our contingent value right, included in other assets, is derived using a Monte Carlo simulation. The derivative assets related to the terminated acquisition of PacBio were financial instruments measured at fair value, included in other assets. Significant estimates and assumptions required for these valuations include, but are not limited to, probabilities related to the timing and outcome of future financing and/or liquidity events and an assumption regarding collectibility. These unobservable inputs represent a Level 3 measurement because they are supported by little or no market activity and reflect our own assumptions in measuring fair value.

We reassess the fair value of contingent consideration to be settled in cash related to acquisitions on a quarterly basis. We use a Monte Carlo simulation to estimate the fair value of contingent consideration related to the GRAIL acquisition and an income approach to estimate the fair value of contingent consideration related to our other acquisition. See note ["4. Business Combinations"](#) for details regarding the contingent consideration arrangement related to the GRAIL acquisition. Significant assumptions used in the Monte Carlo simulation include forecasted revenues for GRAIL, a revenue risk premium, a revenue volatility, an operational leverage ratio and a counterparty credit spread. Significant assumptions used in the income approach include the probability of achieving certain milestones and a discount rate. These unobservable inputs represent a Level 3 measurement because they are supported by little or no market activity and reflect our own assumptions in measuring fair value. Changes in the fair value of the contingent consideration liabilities are recognized in selling, general and administrative expense.

Changes in the estimated fair value of contingent consideration liabilities during YTD 2021 were as follows:

<i>In millions</i>	Contingent Consideration Liability (Level 3 Measurement)
Balance as of January 3, 2021	\$ —
Acquisition of GRAIL	762
Other acquisition	14
Change in estimated fair value	(7)
Balance as of October 3, 2021	<u>\$ 769</u>

We recorded a contingent consideration liability of \$14 million as a result of an acquisition completed in Q2 2021. The acquisition-date fair value of the contingent consideration liability was derived using the income approach. Assumptions used to estimate the liability included the probability of achieving certain milestones and a discount rate. As of October 3, 2021, the estimated fair value of the contingent consideration liability was \$15 million, which is included in accrued liabilities. We recorded an expense of \$1 million in selling, general and administrative expense in Q3 2021 and YTD 2021 due to the change in estimated fair value of the contingent consideration liability.

4. BUSINESS COMBINATIONS

GRAIL, Inc.

On August 18, 2021, we completed our acquisition of GRAIL, a healthcare company focused on early detection of multiple cancers. The acquisition is expected to accelerate access and adoption of GRAIL's blood test, Galleri, that detects more than 50 different cancers before they are symptomatic. The acquisition is subject to ongoing legal proceedings and pending the European Commission's ongoing merger review. Refer to note "[8. Legal Proceedings](#)" for further details. As a result of the acquisition, GRAIL stockholders received as consideration (i) cash, (ii) shares of Illumina common stock and (iii) at their election, either a contingent value right or additional shares of Illumina common stock. We issued 9.8 million common shares as part of the consideration.

GRAIL is a separate reportable segment. See note "[10. Segment Information](#)" for more information. We have included the financial results of GRAIL in the condensed consolidated financial statements from the date of acquisition.

The total purchase price consisted of the following:

in millions

Cash	\$	2,862
Fair value of common stock issued		4,975
Fair value of contingent consideration		762
Fair value of previously held investment		1,150
Settlement of preexisting relationships		2
Total purchase price	\$	9,751

The contingent consideration relates to the GRAIL stockholders who elected to receive contingent value rights as part of the acquisition (the [Contingent Value Rights Agreement](#)). The contingent value rights entitle the holders to receive future cash payments representing a pro rata portion of certain GRAIL-related revenues each year for a 12-year period starting at the acquisition date. This will reflect a 2.5% payment right to the first \$1 billion of revenue each year for 12 years. Revenue above \$1 billion each year will be subject to a 9% contingent payment right during this same period. The acquisition-date fair value of the contingent consideration liability was measured using a Monte Carlo simulation. Key assumptions used in the fair value assessment included forecasted revenues for GRAIL, a revenue risk premium, a revenue volatility, an operational leverage ratio and a counterparty credit spread. As of October 3, 2021, the estimated fair value of the contingent consideration liability was \$754 million, of which \$753 million was included in other long-term liabilities, with the remaining balance included in accrued liabilities. Accordingly, we recorded a gain of \$8 million in selling, general and administrative expense in Q3 2021.

Prior to the acquisition, we owned a 12% interest in GRAIL. Authoritative guidance on accounting for business combinations requires that an acquirer remeasure its previously held equity investment in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss in earnings. We remeasured our previously held equity investment to its fair value, as of the date of acquisition, based on the fair value of total consideration transferred and a discount for lack of control. Significant assumptions used in the remeasurement represent a Level 3 measurement because they are supported by little or no market activity and reflect our own assumptions in measuring the fair value. As a result of the remeasurement, we valued our previously held equity investment in GRAIL at \$1.2 billion and recognized a gain of \$900 million, included in other income, net, in Q3 2021.

In connection with the acquisition of GRAIL, we accelerated the vesting of certain outstanding and unvested equity awards of GRAIL employees. Approximately \$69 million was included in the purchase price related to the fair value of accelerated equity awards attributable to the pre-combination period, with the fair value attributable to the post-combination period of \$615 million included in share-based compensation expense in Q3 2021. In addition, we issued Illumina equity awards to GRAIL employees in exchange for any of their remaining outstanding and unvested GRAIL equity awards (the "replacement awards") at acquisition. The replacement awards consist of restricted stock units and performance stock options. The terms of the replacement awards are substantially similar to the former GRAIL equity awards for which they were exchanged. The fair value of the replacement awards was \$48 million, all of which is attributable to post-combination service, and will be recognized as share-based compensation expense over the remaining vesting period subsequent to the acquisition. The weighted-average acquisition-date fair value of the replacement performance stock options was determined using the Black-Scholes option pricing model with the following assumptions: (i) market price of \$510.61 per share, which was the closing price of Illumina's common stock on the acquisition date; (ii) weighted average expected term ranging from 1.6 years to 2.2 years; (iii) weighted-average risk-free interest rate ranging from 0.17% to 0.28%; (iv) weighted average annualized volatility ranging from 40% to 43%; and (v) no dividend yield. The weighted average acquisition-date fair value per share of the replaced performance stock options was \$424.39. Refer to note "6. Stockholders' Equity" for more information.

We are still finalizing the allocation of the purchase price, therefore, the fair value estimates assigned to intangible assets, goodwill and the related tax impacts of the acquisition, among other items, are subject to change as additional information is received to complete our analysis and certain tax returns are finalized. We expect to finalize the valuation as soon as practicable, but no later than one year after the acquisition date.

The preliminary fair values of assets acquired and liabilities assumed as of the acquisition date were:

in millions

Cash and cash equivalents	\$	571
Property and equipment		89
Operating lease right-of-use assets		121
Goodwill		6,082
Intangible assets		3,180
Other current and noncurrent assets		35
Deferred tax liability		(82)
Long-term lease liabilities		(97)
Other current and noncurrent liabilities		(148)
Total net assets acquired	\$	9,751

Goodwill is primarily attributable to assembled workforce, expanded market opportunities, and expected synergies to be achieved. The goodwill recognized was assigned to the GRAIL segment and is not deductible for tax purposes.

The preliminary fair values assigned to identifiable intangible assets acquired were as follows:

in millions, except years

	Fair Value	Estimated Useful Life
Developed technology	\$ 2,470	18
Trade name	40	9
In-process research and development (IPR&D)	670	Indefinite
Total intangible assets	\$ 3,180	

The fair values of the developed technology, trade name and IPR&D were estimated using an income approach. Under the income approach, an intangible asset's fair value is equal to the present value of future economic benefits to be derived from ownership of the asset. The estimated fair values were developed by discounting future net cash flows to their present value at market-based rates of return. The useful lives of the intangible assets for amortization purposes were determined by considering the period of expected cash flows used to measure the fair values of the intangible assets adjusted as appropriate for entity-specific factors including legal, regulatory, contractual, competitive, economic and other factors that may limit the useful life. The developed technology and trade name assets are amortized on a straight-line basis over their estimated useful lives. As of October 3, 2021, the IPR&D project had not been completed or abandoned and was therefore not subject to amortization.

The transaction costs associated with the acquisition of GRAIL, excluding any Continuation Payments paid to GRAIL prior to the close of the acquisition, consisted primarily of legal, regulatory and financial advisory fees of approximately \$66 million and \$156 million for Q3 2021 and YTD 2021, respectively. These transaction costs were expensed as incurred as selling, general and administrative expense in the respective periods.

Unaudited Pro Forma Financial Information

The following unaudited pro forma financial information summarizes the combined results of operations of Illumina and GRAIL as if the companies had been combined as of the beginning of our fiscal year 2020.

<i>in millions</i>	Q3 2021	Q3 2020	YTD 2021	YTD 2020
Revenue	\$ 1,109	\$ 794	\$ 3,330	\$ 2,286
Net income	\$ 194	\$ 95	\$ 548	\$ 148

The unaudited pro forma financial information is presented for information purposes only and is not indicative of the results of operations that would have been achieved had the acquisition been completed at the beginning of our fiscal year 2020. In addition, the unaudited pro forma financial information is not a projection of future results of operations of the combined company nor does it reflect the expected realization of any synergies or cost savings associated with the acquisition. The unaudited pro forma financial information includes adjustments to reflect the elimination of intercompany transactions, incremental amortization and depreciation expense of the identifiable intangible assets and property and equipment acquired, respectively, the additional interest expense associated with the issuance of debt to finance the acquisition, and share-based compensation expense.

Prior to the acquisition, we were required to make monthly cash payments to GRAIL of \$35 million (the Continuation Payments) through the earlier of the consummation of the acquisition or termination of the GRAIL Merger Agreement, subject to certain exceptions. We made Continuation Payments to GRAIL totaling \$35 million and \$245 million in Q3 2021 and YTD 2021, respectively, which were recorded as selling, general and administrative expenses. Subsequent to the acquisition, we did not make any additional monthly payments.

Intangible Assets

The following is a summary of our identifiable intangible assets:

<i>In millions</i>	October 3, 2021			January 3, 2021		
	Gross Carrying Amount	Accumulated Amortization	Intangible Assets, Net	Gross Carrying Amount	Accumulated Amortization	Intangible Assets, Net
Core technologies	\$ 2,850	\$ (251)	\$ 2,599	\$ 352	\$ (221)	\$ 131
Licensed technologies	95	(92)	3	95	(91)	4
Customer relationships	31	(28)	3	31	(27)	4
License agreements	14	(12)	2	14	(11)	3
Trade name	44	(5)	39	4	(4)	—
Total finite-lived intangible assets, net	3,034	(388)	2,646	496	(354)	142
In-process research and development (IPR&D)	705	—	705	—	—	—
Total intangible assets, net	\$ 3,739	\$ (388)	\$ 3,351	\$ 496	\$ (354)	\$ 142

As a result of an acquisition completed in Q2 2021, we recorded an IPR&D intangible asset of \$35 million, with an indefinite useful life. As of October 3, 2021, the IPR&D project had not been completed or abandoned and was therefore not subject to amortization. Additionally, as a result of another acquisition completed in Q3 2021, we recorded a developed technology intangible asset of \$28 million, with a useful life of 10 years.

Total amortization expense recognized was \$19 million and \$34 million during Q3 2021 and YTD 2021, respectively.

The estimated annual amortization of finite-lived intangible assets for the next five years is shown in the following table. Actual amortization expense to be reported in future periods could differ from these estimates as a result of acquisitions, divestitures, and asset impairments, among other factors.

<i>In millions</i>	Estimated Annual Amortization
2021 (balance of year)	\$ 42
2022	166
2023	165
2024	163
2025	163
Thereafter	1,947
Total	\$ 2,646

Goodwill

Changes to goodwill during YTD 2021 were as follows:

<i>In millions</i>	Goodwill
Balance as of January 3, 2021	\$ 897
Acquisitions	6,201
Balance as of October 3, 2021	\$ 7,098

Goodwill is reviewed for impairment at least annually during the second quarter, or more frequently if an event occurs indicating the potential for impairment. We performed our annual assessment for goodwill impairment in Q2 2021, noting no impairment.

5. DEBT

Summary of Term Debt Obligations

<i>In millions</i>	October 3, 2021
Principal amount of 2031 Term Notes outstanding	\$ 500
Principal amount of 2023 Term Notes outstanding	500
Unamortized discounts and debt issuance costs	(7)
Net carrying amount of term notes	993
Less: current portion	—
Term notes, non-current	\$ 993
Fair value of term notes outstanding (Level 2)	\$ 1,008

0.550% Term Notes due 2023 (2023 Term Notes) and 2.550% Term Notes due 2031 (2031 Term Notes)

On March 23, 2021, we issued \$500 million aggregate principal amount of term notes due 2023 (2023 Term Notes) and \$500 million aggregate principal amount of term notes due 2031 (2031 Term Notes, together the Term Notes). We received net proceeds from the issuance of \$992 million, after deducting discounts and debt issuance costs.

The 2023 and 2031 Term Notes accrue interest at a rate of 0.550% and 2.550% per annum, respectively, payable semi-annually. Interest is payable on March 23 and September 23 of each year, beginning on September 23, 2021. The 2023 Term Notes mature on March 23, 2023 and the 2031 Term Notes mature on March 23, 2031.

We may redeem for cash all or any portion of the Term Notes, at our option, at any time prior to maturity. The 2023 Term Notes and, prior to December 23, 2030, the 2031 Term Notes are redeemable at make-whole premium redemption prices as defined in the applicable forms of note. After December 23, 2030, the 2031 Term Notes are redeemable at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus any accrued and unpaid interest up to, but excluding, the redemption date.

Interest expense recognized on the Term Notes was \$4 million and \$9 million during Q3 2021 and YTD 2021, respectively, which included amortization of debt discounts and issuance costs.

Summary of Convertible Debt Obligations

<i>In millions</i>	October 3, 2021	January 3, 2021
Principal amount of 2023 Convertible Senior Notes outstanding	\$ 750	\$ 750
Principal amount of 2021 Convertible Senior Notes outstanding	—	517
Unamortized discount of liability component of convertible senior notes	(56)	(83)
Net carrying amount of liability component of convertible senior notes	694	1,184
Less: current portion	—	(511)
Convertible senior notes, non-current	\$ 694	\$ 673
Carrying value of equity component of convertible senior notes, net of debt issuance costs	\$ 126	\$ 213
Fair value of convertible senior notes outstanding (Level 2)	\$ 869	\$ 1,595
Weighted-average remaining amortization period of discount on the liability component of convertible senior notes	1.9 years	2.4 years

Interest expense recognized on the Convertible Senior Notes, which included amortization of debt discounts and issuance costs, was \$7 million and \$28 million during Q3 2021 and YTD 2021, respectively, and \$11 million and \$33 million during Q3 2020 and YTD 2020, respectively.

0% Convertible Senior Notes due 2023 (2023 Convertible Notes)

In August 2018, we issued \$750 million aggregate principal amount of convertible senior notes due 2023 (2023 Convertible Notes). The 2023 Convertible Notes mature on August 15, 2023, and the implied estimated effective rate of the liability component of the notes was 3.7%, assuming no conversion option.

The 2023 Convertible Notes will be convertible into cash, shares of our common stock or a combination of cash and shares of our common stock, at our election, based on an initial conversion rate, subject to adjustment, of 2.1845 shares of common stock per \$1,000 principal amount of notes (which represents an initial conversion price of approximately \$457.77 per share of common stock), only in the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on September 30, 2018 (and only during such calendar quarter), if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price in effect on each applicable trading day; (2) during the five business day period after any 10 consecutive trading day period (the “measurement period”) in which the trading price per \$1,000 principal amount of 2023 Convertible Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate on each such trading day; (3) if we call any or all of the notes for redemption, at any time prior to the close of business on the scheduled trading day immediately preceding the redemption date; or (4) upon the occurrence of specified corporate events described in the indenture. Regardless of the foregoing circumstances, the holders may convert their notes on or after May 15, 2023 until August 11, 2023.

We may redeem for cash all or any portion of the 2023 Convertible Notes, at our option, on or after August 20, 2021 if the last reported sale price of our common stock has been at least 130% of the conversion price then in effect (currently \$595.10) for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including, the trading day immediately preceding the date on which we provide notice of redemption at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus any accrued and unpaid special interest to, but excluding, the redemption date.

The 2023 Convertible Notes were not convertible as of October 3, 2021 and had no dilutive impact during YTD 2021. If the notes were converted as of October 3, 2021, the if-converted value would not exceed the principal amount.

0.5% Convertible Senior Notes due 2021 (2021 Convertible Notes)

In June 2014, we issued \$517 million aggregate principal amount of convertible senior notes due 2021 (2021 Convertible Notes). The implied estimated effective rate of the liability component of the notes was 3.5%, assuming no conversion option. The 2021 Convertible Notes were convertible into cash, shares of common stock, or a combination of cash and shares of common stock, at our election, based on conversion rates as defined in the indenture. The 2021 Convertible Notes matured on June 15, 2021, by which time the principal had been converted and was repaid in cash. The excess of the conversion value over the principal amount was paid in shares of common stock.

The following table summarizes information about the conversions during YTD 2021:

<i>In millions</i>	2021 Notes	
Cash paid for principal of notes converted	\$	517
Conversion value over principal amount, paid in shares of common stock	\$	313
Number of shares of common stock issued upon conversion		0.7
Loss on extinguishment of debt	\$	1

Credit Agreement

On March 8, 2021, we entered into a credit agreement (the Credit Agreement), which provides us with a \$750 million senior unsecured five-year revolving credit facility, including a \$40 million sublimit for swingline borrowings and a \$50 million sublimit for letters of credit (the Credit Facility). The proceeds of the loans under the Credit Facility may be used to finance working capital needs and for general corporate purposes.

Any loans under the Credit Facility will have a variable interest rate based on either the eurocurrency rate or the alternate base rate, plus an applicable spread that varies with the Company's debt rating. The Credit Agreement includes an option for us to elect to increase the commitments under the Credit Facility or to enter into one or more tranches of term loans in the aggregate principal amount of up to \$250 million, subject to the consent of the lenders providing the additional commitments or term loans, as applicable, and certain other conditions.

The Credit Agreement contains financial and operating covenants. Pursuant to the Credit Agreement, we are required to maintain a ratio of total debt to annual earnings before interest, taxes, depreciation and amortization (EBITDA), calculated based on the four consecutive fiscal quarters ending with the most recent fiscal quarter, of not greater than 3.50 to 1.00 as of the end of each fiscal quarter. Upon the consummation of any Qualified Acquisition (as defined in the Credit Agreement) and us providing notice to the Administrative Agent, the ratio increases to 4.00 to 1.00 for the fiscal quarter in which the acquisition is consummated and the three consecutive fiscal quarters thereafter. The operating covenants include, among other things, limitations on (i) the incurrence of indebtedness by our subsidiaries, (ii) liens on our and our subsidiaries assets, and (iii) certain fundamental changes and the disposition of assets by us and our subsidiaries. The Credit Agreement contains other customary covenants, representations and warranties, and events of default.

The Credit Facility matures, and all amounts outstanding thereunder become due and payable in full, on March 8, 2026, subject to two one-year extensions at our option, the consent of the extending lenders and certain other conditions. We may prepay amounts borrowed and terminate commitments under the Credit Facility at any time without premium or penalty.

As of October 3, 2021, there were no borrowings outstanding under the Credit Facility, and we were in compliance with all financial and operating covenants.

Bridge Facility

In advance of the acquisition of GRAIL, we obtained a bridge facility commitment letter from Goldman Sachs Bank USA for a 364-day senior unsecured bridge loan facility, in an aggregate principal amount of \$1 billion. The bridge facility commitment letter was subject to certain conditions, including consummation of the acquisition pursuant to the GRAIL Merger Agreement. On March 23, 2021, we terminated the bridge facility commitment letter in conjunction with the issuance of the 2023 and 2031 Term Notes.

6. STOCKHOLDERS' EQUITY

As of October 3, 2021, approximately 3.4 million shares remained available for future grants under the 2015 Stock Plan.

Restricted Stock

Restricted stock activity was as follows:

<i>Units in thousands</i>	Restricted Stock Units (RSU) ⁽¹⁾	Performance Stock Units (PSU) ⁽²⁾	Weighted-Average Grant Date Fair Value per Share	
			RSU	PSU
Outstanding at January 3, 2021	1,721	—	\$ 313.35	—
Awarded	183	424	\$ 464.17	\$ 475.77
Vested	(92)	—	\$ 274.12	—
Cancelled	(206)	(34)	\$ 316.92	\$ 475.77
Outstanding at October 3, 2021	1,606	390	\$ 332.36	\$ 475.77

⁽¹⁾ In connection with the GRAIL acquisition, replacement awards of 59,000 RSUs were awarded to GRAIL employees.

⁽²⁾ The number of units reflect the estimated number of shares to be issued at the end of the performance period. Awarded units are presented net of performance adjustments.

Stock Options

Stock option activity was as follows:

<i>Units in thousands</i>	Options	Weighted-Average Exercise Price	Performance Stock Options ⁽¹⁾	Weighted-Average Exercise Price
Outstanding at January 3, 2021	10	\$ 59.11	—	—
Granted	—	—	48	\$ 86.73
Exercised	(2)	\$ 20.06	(1)	\$ 83.02
Outstanding at October 3, 2021	8	\$ 65.58	47	\$ 86.89

⁽¹⁾ In connection with the GRAIL acquisition, we issued performance stock options. The number of units reflect awards that have been granted and for which it is assumed to be probable that the underlying performance goals will be achieved.

As of October 3, 2021, all outstanding options were exercisable and no outstanding performance stock options were exercisable.

Employee Stock Purchase Plan

The price at which common stock is purchased under the Employee Stock Purchase Plan (ESPP) is equal to 85% of the fair market value of the common stock on the first day of the offering period or purchase date, whichever is lower. During YTD 2021, approximately 0.2 million shares were issued under the ESPP. As of October 3, 2021, there were approximately 13.1 million shares available for issuance under the ESPP.

Share Repurchases

On February 5, 2020, our Board of Directors authorized a new share repurchase program, which supersedes all prior and available repurchase authorizations, to repurchase \$750 million of outstanding common stock. The repurchases may be completed under a 10b5-1 plan or at management's discretion. We did not repurchase any shares during YTD 2021. Authorizations to repurchase approximately \$15 million of our common stock remained available as of October 3, 2021.

Share-based Compensation

Share-based compensation expense reported in our condensed consolidated statements of income was as follows:

<i>In millions</i>	Q3 2021	Q3 2020	YTD 2021	YTD 2020
Cost of product revenue	\$ 7	\$ 6	\$ 22	\$ 13
Cost of service and other revenue	1	1	3	3
Research and development	193	21	243	48
Selling, general and administrative	496	33	576	52
Share-based compensation expense before taxes	697	61	844	116
Related income tax benefits	(29)	(12)	(57)	(27)
Share-based compensation expense, net of taxes	\$ 668	\$ 49	\$ 787	\$ 89

In connection with the acquisition of GRAIL, we recognized share-based compensation expense of \$615 million in Q3 2021 related to the fair value of accelerated equity awards attributable to the post-combination period, of which \$167 million was recorded in research and development expense and \$448 million in selling, general and administrative expense. We also recognized \$6 million of expense in Q3 2021 related to the replacement awards.

In February 2021, we modified the metrics and reduced the maximum potential payouts for our performance stock units granted in 2019 and 2020, which vest at the end of the three-year periods ended January 2, 2022 and January 1, 2023, respectively. The modifications affected 52 employees with units granted in 2019, which resulted in total incremental share-based compensation cost of approximately \$41 million, and 72 employees with units granted in 2020, which resulted in total incremental share-based compensation cost of approximately \$65 million.

The assumptions used for the specified reporting periods and the resulting estimates of weighted-average fair value per share for stock purchased under the ESPP during YTD 2021 were as follows:

	Employee Stock Purchase Rights
Risk-free interest rate	0.06% - 0.12%
Expected volatility	37% - 47%
Expected term	0.5 - 1.0 year
Expected dividends	0 %
Weighted-average grant-date fair value per share	\$ 134.47

As of October 3, 2021, approximately \$511 million of total unrecognized compensation cost related to restricted stock, performance stock options and ESPP shares issued to date was expected to be recognized over a weighted-average period of approximately 2.0 years.

7. SUPPLEMENTAL BALANCE SHEET DETAILS

Accounts Receivable

<i>In millions</i>	October 3, 2021	January 3, 2021
Trade accounts receivable, gross	\$ 607	\$ 491
Allowance for credit losses	(3)	(4)
Total accounts receivable, net	\$ 604	\$ 487

Inventory

<i>In millions</i>	October 3, 2021	January 3, 2021
Raw materials	\$ 89	\$ 106
Work in process	286	244
Finished goods	26	22
Total inventory	<u>\$ 401</u>	<u>\$ 372</u>

Accrued Liabilities

<i>In millions</i>	October 3, 2021	January 3, 2021
Contract liabilities, current portion	\$ 198	\$ 186
Accrued compensation expenses	184	153
Accrued taxes payable	77	68
Operating lease liabilities, current portion	66	51
Contingent consideration liabilities	16	—
Other, including warranties (a)	125	83
Total accrued liabilities	<u>\$ 666</u>	<u>\$ 541</u>

(a) Changes in the reserve for product warranties were as follows:

<i>In millions</i>	Q3 2021	Q3 2020	YTD 2021	YTD 2020
Balance at beginning of period	\$ 16	\$ 10	\$ 13	\$ 14
Additions charged to cost of product revenue	5	6	20	11
Repairs and replacements	(6)	(6)	(18)	(15)
Balance at end of period	<u>\$ 15</u>	<u>\$ 10</u>	<u>\$ 15</u>	<u>\$ 10</u>

We generally provide a one-year warranty on instruments. Additionally, we provide a warranty on consumables through the expiration date, which generally ranges from six to twelve months after the manufacture date. At the time revenue is recognized, an accrual is established for estimated warranty expenses based on historical experience as well as anticipated product performance. We periodically review the warranty reserve for adequacy and adjust the warranty accrual, if necessary, based on actual experience and estimated costs to be incurred. Warranty expense is recorded as a component of cost of product revenue.

Derivative Financial Instruments

We are exposed to foreign exchange rate risks in the normal course of business and use derivative financial instruments to partially offset this exposure. We do not use derivative financial instruments for speculative or trading purposes. All foreign exchange contracts are carried at fair value in other current assets or accrued liabilities on the condensed consolidated balance sheets.

We use foreign exchange forward contracts to manage foreign currency risks related to monetary assets and liabilities denominated in currencies other than the U.S. dollar. These derivative financial instruments have terms of one month or less and are not designated as hedging instruments. Changes in fair value of these derivatives are recognized in other income, net, along with the re-measurement gain or loss on the foreign currency denominated assets or liabilities. As of October 3, 2021, we had foreign exchange forward contracts in place to hedge exposures in the euro, Japanese yen, Australian dollar, Canadian dollar, Singapore dollar, Chinese Yuan Renminbi, and British pound. As of October 3, 2021 and January 3, 2021, the total notional amounts of outstanding forward contracts in place for these foreign currency purchases were \$429 million and \$405 million, respectively.

We also use foreign currency forward contracts to hedge portions of our foreign currency exposure associated with forecasted revenue transactions. These derivative financial instruments have terms up to 24 months and are designated as cash flow hedges. Changes in fair value of our cash flow hedges are recorded as a component of accumulated other comprehensive income and are reclassified to revenue in the same period the underlying hedged transactions are recorded. We regularly review the effectiveness of our cash flow hedges and consider them to be ineffective if it becomes probable that the forecasted transactions will not occur in the identified period. Changes in fair value of the ineffective portions of our cash flow hedges, if any, will be recognized in other income, net. As of October 3, 2021, we had foreign currency forward contracts in place to hedge exposures associated with forecasted revenue transactions denominated in the euro, Japanese yen, Australian dollar, and Canadian dollar. As of October 3, 2021 and January 3, 2021, the total notional amounts of outstanding cash flow hedge contracts in place for these foreign currency purchases were \$421 million and \$305 million, respectively.

8. LEGAL PROCEEDINGS

We are involved in various lawsuits and claims arising in the ordinary course of business, including actions with respect to intellectual property, employment, and contractual matters. In connection with these matters, we assess, on a regular basis, the probability and range of possible loss based on the developments in these matters. A liability is recorded in the consolidated financial statements if it is believed to be probable that a loss has been incurred and the amount of the loss can be reasonably estimated. Because litigation is inherently unpredictable and unfavorable resolutions could occur, assessing contingencies is highly subjective and requires judgments about future events. We regularly review outstanding legal matters to determine the adequacy of the liabilities accrued and related disclosures in consideration of many factors, which include, but are not limited to, past history, scientific and other evidence, and the specifics and status of each matter. We may change our estimates if our assessment of the various factors changes and the amount of ultimate loss may differ from our estimates, resulting in a material effect on our business, financial condition, results of operations, and/or cash flows.

Acquisition of GRAIL

On March 30, 2021, the Federal Trade Commission (the FTC) filed an administrative complaint and a motion for a preliminary injunction in the United States District Court for the District of Columbia. In both actions, the FTC alleged that our acquisition of GRAIL would violate Section 7 of the Clayton Act, as amended, 15 U.S.C. § 18. We filed an answer to the FTC's complaint in federal district court on April 6, 2021, and in the administrative court on April 13, 2021. On April 20, 2021, the United States District Court for the District of Columbia granted our motion to transfer venue to the United States District Court for the Southern District of California. On May 28, 2021, the district court granted the FTC's motion to dismiss the complaint without prejudice. The administrative trial commenced on August 24, 2021, and live testimony concluded on September 24, 2021. Post-trial briefing deadlines have not yet been scheduled. We intend to vigorously defend the FTC action.

On April 19, 2021, the European Commission accepted a request for a referral of the GRAIL acquisition for European Union merger review, submitted by a Member State of the European Union (France), and joined by several other Member States (Belgium, Greece, Iceland, the Netherlands and Norway), under Article 22(1) of Council Regulation (EC) No 139/2004 (the EU Merger Regulation). On April 29, 2021, we filed an action in the General Court of the European Union (the EU General Court) asking for annulment of the European Commission's assertion of jurisdiction to review the acquisition under Article 22 of the EU Merger Regulation, as the acquisition does not meet the jurisdictional criteria under the EU Merger Regulation or under the national merger control laws of any Member State of the European Union. The date of our hearing before the General Court has not yet been set. We intend to vigorously challenge the European Commission's assertion of jurisdiction. See the risk factor "Our acquisition of GRAIL remains subject to ongoing legal and regulatory proceedings in the United States and in the European Union" described in "Risk Factors" for discussion of the risks associated with these proceedings.

BGI Genomics Co. Ltd. and its Affiliates

We are involved in lawsuits against BGI Genomics Co. Ltd (BGI) and its affiliates, including Complete Genomics, Inc. (CGI), in the United States and elsewhere.

On June 27, 2019, we filed suit against BGI in the United States District Court for the Northern District of California, alleging that certain BGI sequencing products infringe our U.S. Patent No. 7,566,537 ('537 patent) and U.S. Patent No. 9,410,200 ('200 patent). BGI has denied our claims and has counterclaimed that our technology infringes U.S. Patent No. 9,944,984 ('984 patent). We deny their allegations. On February 27, 2020, we filed a second patent infringement suit against BGI in the United States District Court for the Northern District of California alleging that BGI sequencing products infringed U.S. Patent 7,771,973 ('973 patent), U.S. Patent 7,541,444 ('444 patent), and U.S. Patent 10,480,025 ('025 patent). On June 15, 2020, the Court granted our motions requesting preliminary injunctions against BGI, finding that our patents were likely valid and infringed by BGI's chemistries. The injunction prohibits the sale of BGI's sequencers and sequencing reagents in the US. On December 9, 2020, BGI filed a motion to amend its answer to our second suit to include allegations that the '444 and '937 patents are unenforceable under the doctrine of inequitable conduct; we deny BGI's allegations. As of April 12, 2021, BGI is seeking approximately \$54 million in alleged damages and an ongoing royalty of 3.6% on sales of the accused products by us in the United States until the '984 patent expires on June 13, 2026. We deny that we owe any damages or ongoing royalty. On August 27, 2021, and September 9, 2021, the Court issued its decisions on the summary judgment motions: (i) the Court granted our motion for summary judgment that we do not infringe BGI's '984 patent; (ii) the Court granted our motion for summary judgment that our '444 and '973 patents are not unenforceable; (iii) the Court granted our motion for summary judgment that BGI's standard MPS products infringe all of our patents-in-suit: (iv) the Court granted our motion for summary judgment that BGI's "Cool MPS" sequencing products infringe the '973 and '444 patents, and granted BGI's motion for summary judgment that BGI's "Cool MPS" sequencing products do not infringe the '025 patent; and (v) the Court denied BGI's motion for summary judgment that our '973 patent is invalid for lack of written description and enablement. Trial is scheduled to begin November 15, 2021, on the remaining issues, including BGI's allegation that our patents are invalid for obviousness, and our claims against BGI for damages and willful infringement.

On January 11, 2021, Complete Genomics, Inc., BGI Americas Corp., and MGI Americas, Inc. also filed a complaint in the United States District Court for the Northern District of California alleging the Company and its subsidiary Illumina Cambridge Ltd. violated federal antitrust and state unfair competition laws. CGI and these affiliates allege that the Company fraudulently withheld a prior art reference that was material to patentability for the '444 and '973 patents. They also allege that our infringement claims of the '025 against BGI's "CoolMPS" chemistry were objectively baseless. The Company denies the allegations in the complaint. On March 30, 2021, the Court stayed the antitrust case pending resolution of the underlying patent infringement suit taking place in the same court.

On May 28, 2019, CGI filed suit against us in the United States District Court for the District of Delaware alleging that our two-channel sequencing systems, including the NovaSeq, NextSeq, and MiniSeq systems, infringe certain claims of U.S. Patent No. 9,222,132. We have denied CGI's allegations and have counterclaimed for infringement by CGI, BGI Americas Corp., and MGI Americas, Inc. of U.S. Patent No. 9,303,290, U.S. Patent No. 9,217,178, and U.S. Patent No. 9,970,055. On August 15, 2019, CGI filed a motion to dismiss our counterclaims. On August 29, 2019, we filed our Opposition to the Motion to Dismiss. The Court denied and granted the motion in part, denying the motion as to our claims for inducing infringement and granting it for contributory infringement. The Court gave us leave to file an amended complaint to attempt to cure the alleged deficiencies as to contributory infringement. On July 1, 2020, CGI amended its complaint to add claims of infringement of U.S. Patent No. 10,662,473 by our two-channel sequencing systems. We deny these allegations. As of May 12, 2021, CGI is seeking \$225 million in alleged past damages and an average ongoing royalty of 5.5% on sales of the accused two-channel sequencing instruments and chemistry in the U.S. until the patents-in-suit expire on January 28, 2029. We deny that we owe any damages or ongoing royalty. On October 22, 2021, pursuant to the Court's local rules, the Company sought leave to file a motion for summary judgment of non-infringement of the CGI patents-in-suit. CGI sought leave to file a motion for summary judgment against the Company's invalidity defense based on prior invention. We are awaiting decisions by the Court. Trial is scheduled to begin April 18, 2022.

We will continue to pursue our claims against BGI and CGI, and vigorously defend against BGI's and CGI's claims. We currently cannot estimate any possible loss or range of loss that may result from BGI's and CGI's claims against us.

9. INCOME TAXES

Our effective tax rate may vary from the U.S. federal statutory tax rate due to the change in the mix of earnings in tax jurisdictions with different statutory rates, benefits related to tax credits, and the tax impact of non-deductible expenses and other permanent differences between income before income taxes and taxable income.

The effective tax rates for Q3 2021 and YTD 2021 were 24.7% and 18.6%, respectively. The variance from the U.S. federal statutory tax rate of 21% in Q3 2021 was primarily attributable to discrete tax expense related to GRAIL Continuation Payments and prior year tax adjustments. Due to the acquisition of GRAIL, the tax treatment of the GRAIL Continuation Payments changed from what was recorded in prior quarters, which resulted in a discrete tax expense being recorded for Q3 2021. The variance from the U.S. federal statutory tax rate of 21% in Q3 2021 was also attributable to the mix of earnings in jurisdictions with lower statutory tax rates than the U.S. federal statutory tax rate, such as in Singapore and the United Kingdom.

In YTD 2021, the variance from the U.S. federal statutory tax rate of 21% was primarily attributable to the mix of earnings in jurisdictions with lower statutory tax rates than the U.S. federal statutory tax rate, such as in Singapore and the United Kingdom. This was partially offset by the discrete tax expense on certain foreign subsidiary earnings that are no longer indefinitely reinvested, and discrete tax expense due to prior year tax adjustments.

10. SEGMENT INFORMATION

We have two reportable segments, Core Illumina and GRAIL, as described below. We report segment information based on the management approach, which designates the internal reporting used by the Chief Operating Decision Maker ("CODM") for making decisions and assessing performance as the source of our reportable segments. The CODM allocates resources and assesses the performance of each operating segment using information about its revenue and income (loss) from operations. We do not allocate expenses between segments.

On August 18, 2021, we acquired GRAIL in a business combination and it operates as a separate reportable segment. We have included the results of operations of GRAIL in our condensed consolidated statements of operations from the date of acquisition. See note "[4. Business Combinations](#)" for further details. Core Illumina sells products and provides services to GRAIL, and vice versa, in accordance with contractual agreements between the entities.

Core Illumina:

Core Illumina's products and services serve customers in the research, clinical and applied markets, and enable the adoption of a variety of genomic solutions. Core Illumina includes all of our operations, excluding the results of GRAIL.

GRAIL:

GRAIL is a healthcare company focused on early detection of multiple cancers.

The following table presents the operating performance of each reportable segment:

<i>In millions</i>	Q3 2021	Q3 2020	YTD 2021	YTD 2020
Revenue:				
Core Illumina	\$ 1,106	\$ 794	\$ 3,325	\$ 2,286
GRAIL	2	—	2	—
Consolidated revenue	<u>\$ 1,108</u>	<u>\$ 794</u>	<u>\$ 3,327</u>	<u>\$ 2,286</u>
Depreciation and amortization:				
Core Illumina	\$ 51	\$ 46	\$ 148	\$ 137
GRAIL	14	—	14	—
Consolidated depreciation and amortization	<u>\$ 65</u>	<u>\$ 46</u>	<u>\$ 162</u>	<u>\$ 137</u>
Income (loss) from operations:				
Core Illumina	\$ 205	\$ 162	\$ 586	\$ 447
GRAIL	(750)	—	(750)	—
Consolidated (loss) income from operations	<u>\$ (545)</u>	<u>\$ 162</u>	<u>\$ (164)</u>	<u>\$ 447</u>

Other income, net relates to Core Illumina and we do not allocate income taxes to our segments.

The following table presents the total assets of each reportable segment:

<i>In millions</i>	October 3, 2021	January 3, 2021
Core Illumina	\$ 5,794	\$ 7,585
GRAIL	9,270	—
Elimination of intersegment assets	(1)	—
Consolidated total assets	<u>\$ 15,063</u>	<u>\$ 7,585</u>

The following table presents net long-lived assets, consisting of property and equipment and operating lease right-of-use assets, by region:

<i>In millions</i>	October 3, 2021	January 3, 2021
United States	\$ 1,300	\$ 1,134
Singapore	204	150
United Kingdom	138	141
Other countries	43	29
Total net long-lived assets	<u>\$ 1,685</u>	<u>\$ 1,454</u>

MANAGEMENT'S DISCUSSION & ANALYSIS

Our Management's Discussion and Analysis (MD&A) will help readers understand our results of operations, financial condition, and cash flow. It is provided in addition to the accompanying condensed consolidated financial statements and notes. This MD&A is organized as follows:

- *Management's Overview and Outlook.* High level discussion of our operating results and significant known trends that affect our business.
- *Results of Operations.* Detailed discussion of our revenues and expenses.
- *Liquidity and Capital Resources.* Discussion of key aspects of our condensed consolidated statements of cash flows, changes in our financial position, and our financial commitments.
- *Critical Accounting Policies and Estimates.* Discussion of significant changes since our most recent Annual Report on Form [10-K](#) that we believe are important to understanding the assumptions and judgments underlying our condensed consolidated financial statements.
- *Recent Accounting Pronouncements.* Summary of recent accounting pronouncements applicable to our condensed consolidated financial statements.
- *Off-Balance Sheet Arrangements.* We have no off-balance sheet arrangements.
- *Quantitative and Qualitative Disclosure About Market Risk.* Discussion of our financial instruments' exposure to market risk.

Our discussion of our results of operations, financial condition, and cash flow for Q3 2020 and YTD 2020 can be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations" within our filing of [Form 10-Q](#) for the fiscal quarter ended September 27, 2020.

This MD&A discussion contains forward-looking statements that involve risks and uncertainties. See "[Consideration Regarding Forward-Looking Statements](#)" preceding the Condensed Consolidated Financial Statements section of this report for additional factors relating to such statements. This MD&A should be read in conjunction with our condensed consolidated financial statements and accompanying notes included in this report and our Annual Report on Form [10-K](#) for the fiscal year ended January 3, 2021. Operating results are not necessarily indicative of results that may occur in future periods.

MANAGEMENT'S OVERVIEW AND OUTLOOK

This overview and outlook provides a high-level discussion of our operating results and significant known trends that affect our business. We believe that an understanding of these trends is important to understanding our financial results for the periods being reported herein as well as our future financial performance. This summary is not intended to be exhaustive, nor is it intended to be a substitute for the detailed discussion and analysis provided elsewhere in this report.

About Illumina

Our focus on innovation has established us as the global leader in DNA sequencing and array-based technologies, serving customers in the research, clinical and applied markets. Our products are used for applications in the life sciences, oncology, reproductive health, agriculture and other emerging segments.

Our customers include leading genomic research centers, academic institutions, government laboratories, and hospitals, as well as pharmaceutical, biotechnology, commercial molecular diagnostic laboratories, and consumer genomics companies.

Our comprehensive line of products addresses the scale of experimentation and breadth of functional analysis to advance disease research, drug development, and the development of molecular tests. This portfolio of leading-edge sequencing and array-based solutions addresses a range of genomic complexity and throughput, enabling researchers and clinical practitioners to select the best solution for their scientific challenge.

On August 18, 2021, we completed our acquisition of GRAIL, a healthcare company focused on life-saving early detection of multiple cancers. GRAIL's Galleri blood test detects more than 50 different cancers before they are symptomatic. We believe our acquisition of GRAIL will accelerate the adoption of next-generation sequencing based early multi-cancer detection tests, enhance our position in Clinical Genomics, and increase our directly accessible total addressable market. The results of operations of GRAIL have been included in our condensed consolidated financial statements from the date of acquisition. The acquisition is subject to ongoing legal proceedings and pending the European Commission's ongoing merger review. We will hold GRAIL as a separate company during the European Commission's ongoing merger review. See note "[4. Business Combinations](#)" and note "[8. Legal Proceedings](#)" for further details.

Our financial results have been, and will continue to be, impacted by several significant trends, which are described below. While these trends are important to understanding and evaluating our financial results, this discussion should be read in conjunction with our condensed consolidated financial statements and the notes thereto within the Condensed Consolidated Financial Statements section of this report, and the other transactions, events, and trends discussed in "[Risk Factors](#)" within the Other Key Information section of this report.

Financial Overview

Beginning in 2020, the COVID-19 pandemic and international efforts to control its spread have significantly curtailed the movement of people, goods, and services worldwide, including in the regions in which we sell our products and services and conduct our business operations. We expect the COVID-19 pandemic to continue to impact our sales and results of operations in 2021, the size and duration of which is significantly uncertain.

Financial highlights for YTD 2021 included the following:

- Revenue increased 46% in YTD 2021 to \$3,327 million compared to \$2,286 million in YTD 2020 primarily due to growth in sequencing consumables and instruments, as our customers experience a broader recovery from the COVID-19 pandemic, as well as increases in service and other revenue. We expect our revenue to grow in 2021 compared to 2020.
- Gross profit as a percentage of revenue (gross margin) was 70.2% in YTD 2021 compared to 68.8% in YTD 2020. The increase in gross margin was driven primarily by higher revenue, which generated increased fixed cost leverage, partially offset by less favorable product mix. Our gross margin depends on many factors, including: market conditions that may impact our pricing; sales mix changes among consumables, instruments, services, and development and licensing revenue; product mix changes between established products and new products; excess and obsolete inventories; royalties; our cost structure for manufacturing operations relative to volume; freight costs; and product support obligations.
- (Loss) income from operations as a percentage of revenue was (5.0)% in YTD 2021 compared to 19.6% in YTD 2020. The decrease was primarily due to share-based compensation expense recorded in Q3 2021 related to the acceleration of outstanding equity awards as part of the GRAIL acquisition and an increase in performance-based compensation. We expect our operating expenses to continue to grow on an absolute basis in 2021.
- Our effective tax rate was 18.6% in YTD 2021 compared to 28.4% in YTD 2020. In YTD 2021, the variance from the U.S. federal statutory tax rate of 21% was primarily attributable by the mix of earnings in jurisdictions with lower statutory tax rates than the U.S. federal statutory tax rate, such as in Singapore and the United Kingdom. This was partially offset by the discrete tax expense on certain foreign subsidiary earnings that are no longer indefinitely reinvested, and discrete tax expense due to prior year tax adjustments.
- We ended Q3 2021 with cash, cash equivalents, and short-term investments totaling \$1.3 billion as of October 3, 2021, of which approximately \$532 million was held by our foreign subsidiaries.

RESULTS OF OPERATIONS

To enhance comparability, the following table sets forth unaudited condensed consolidated statement of operations data for the specified reporting periods, stated as a percentage of total revenue⁽¹⁾.

	Q3 2021	Q3 2020	YTD 2021	YTD 2020
Revenue:				
Product revenue	88.3 %	85.1 %	87.3 %	83.3 %
Service and other revenue	11.7	14.9	12.7	16.7
Total revenue	100.0	100.0	100.0	100.0
Cost of revenue:				
Cost of product revenue	23.8	26.4	23.5	23.4
Cost of service and other revenue	5.1	6.5	5.4	6.9
Amortization of acquired intangible assets	1.6	0.9	0.9	0.9
Total cost of revenue	30.5	33.8	29.8	31.2
Gross profit	69.5	66.2	70.2	68.8
Operating expense:				
Research and development	39.4	21.6	25.1	21.1
Selling, general and administrative	79.3	24.2	50.1	28.1
Total operating expense	118.7	45.8	75.2	49.2
(Loss) income from operations	(49.2)	20.4	(5.0)	19.6
Other income (expense):				
Interest income	—	0.6	—	1.1
Interest expense	(1.3)	(1.5)	(1.5)	(1.4)
Other income, net	88.4	7.5	30.4	5.1
Total other income, net	87.1	6.6	28.9	4.8
Income before income taxes	37.9	27.0	23.9	24.4
Provision for income taxes	9.3	4.5	4.4	6.9
Net income	28.6 %	22.5 %	19.5 %	17.5 %

⁽¹⁾ Percentages may not recalculate due to rounding.

Revenue

Dollars in millions	Q3 2021	Q3 2020	Change	% Change	YTD 2021	YTD 2020	Change	% Change
Consumables	\$ 794	\$ 562	\$ 232	41 %	\$ 2,347	\$ 1,618	\$ 729	45 %
Instruments	184	114	70	61	556	286	270	94
Total product revenue	978	676	302	45	2,903	1,904	999	52
Service and other revenue	130	118	12	10	424	382	42	11
Total revenue	\$ 1,108	\$ 794	\$ 314	40 %	\$ 3,327	\$ 2,286	\$ 1,041	46 %

Service and other revenue primarily consists of revenue generated from genotyping and sequencing services, instrument service contracts, and development and licensing agreements, as well as cancer detection services related to the GRAIL business, which totaled approximately \$2 million in Q3 2021 and YTD 2021.

The increases in consumables revenue in Q3 2021 and YTD 2021 were primarily due to increases in sequencing consumables revenue of \$223 million and \$683 million, respectively, driven primarily by growth in the instrument installed base, as our customers experience a broader recovery from the COVID-19 pandemic. Instruments revenue increased in Q3 2021 and YTD 2021 primarily due to increases in sequencing instruments revenue of \$71 million and \$268 million, respectively, which were driven primarily by increased shipments of our NovaSeq and NextSeq instruments. Service and other revenue increased in Q3 2021, primarily due to increased revenue from extended maintenance service contracts and sequencing services. Service and other revenue increased in YTD 2021, primarily due to increased revenue from extended maintenance service contracts, a patent litigation settlement in Q2 2021, and sequencing services, partially offset by a decrease in development and licensing agreements.

Gross Margin

<i>Dollars in millions</i>	Q3 2021	Q3 2020	Change	% Change	YTD 2021	YTD 2020	Change	% Change
Gross profit:								
Core Illumina	\$ 781	\$ 526	\$ 255	48 %	\$ 2,348	\$ 1,573	\$ 775	49 %
GRAIL	(11)	—	(11)	100	(11)	—	(11)	100
Total gross profit	<u>\$ 770</u>	<u>\$ 526</u>	<u>\$ 244</u>	46 %	<u>\$ 2,337</u>	<u>\$ 1,573</u>	<u>\$ 764</u>	49 %
Gross margin:								
Core Illumina	70.7 %	66.2 %			70.6 %	68.8 %		
GRAIL	*	—			*	—		
Consolidated gross margin	<u>69.5 %</u>	<u>66.2 %</u>			<u>70.2 %</u>	<u>68.8 %</u>		

* Not meaningful.

Core Illumina gross margin increases in Q3 2021 and YTD 2021 were driven primarily by higher revenue, which generated increased fixed cost leverage, partially offset by less favorable product mix. The increase in YTD 2021 was also driven by increased revenue from a patent litigation settlement in Q2 2021.

GRAIL gross margin, for the period subsequent to the acquisition, primarily included amortization of intangible assets of \$12 million.

Operating Expense

<i>Dollars in millions</i>	Q3 2021	Q3 2020	Change	% Change	YTD 2021	YTD 2020	Change	% Change
Research and development:								
Core Illumina	\$ 212	\$ 172	\$ 40	23 %	\$ 611	\$ 483	\$ 128	27 %
GRAIL	224	—	224	100	224	—	224	100
Total research and development	<u>\$ 436</u>	<u>\$ 172</u>	<u>\$ 264</u>	153 %	<u>\$ 835</u>	<u>\$ 483</u>	<u>\$ 352</u>	73 %
Selling, general and administrative:								
Core Illumina	\$ 365	\$ 192	\$ 173	90 %	\$ 1,152	\$ 643	\$ 509	79 %
GRAIL	514	—	514	100	514	—	514	100
Total selling, general and administrative	<u>879</u>	<u>192</u>	<u>687</u>	358	<u>1,666</u>	<u>643</u>	<u>1,023</u>	159
Total operating expense	<u>\$ 1,315</u>	<u>\$ 364</u>	<u>\$ 951</u>	261 %	<u>\$ 2,501</u>	<u>\$ 1,126</u>	<u>\$ 1,375</u>	122 %

Core Illumina R&D expense increased by \$40 million, or 23%, in Q3 2021 and by \$128 million, or 27%, in YTD 2021 primarily due to increases in headcount, as we continue to invest in the research and development of new products and enhancements to existing products, and an increase in performance-based compensation.

GRAIL R&D expense, for the period subsequent to the acquisition, consisted primarily of \$167 million of share-based compensation expense related to the acceleration of outstanding equity awards as part of the acquisition, as well as other compensation costs related to the acquisition, and expenses related to headcount and clinical trials.

Core Illumina SG&A expense increased by \$173 million, or 90%, in Q3 2021 primarily due to expenses related to our acquisition of GRAIL, including a \$35 million Continuation Payment paid to GRAIL prior to the close of the acquisition, and increases in headcount, performance-based compensation, and outside services. Core Illumina SG&A expense increased by \$509 million, or 79%, in YTD 2021, primarily due to expenses related to our acquisition of GRAIL, including \$245 million in Continuation Payments paid to GRAIL prior to the close of the acquisition, and increases in headcount, performance-based compensation, and outside services, partially offset by expenses for fees and other payments to PacBio of \$92 million in Q1 2020.

GRAIL SG&A expense, for the period subsequent to the acquisition, consisted primarily of \$448 million of share-based compensation expense related to the acceleration of outstanding equity awards as part of the acquisition, as well as other compensation and transaction costs related to the acquisition, and expenses related to headcount.

Other Income, Net

<i>Dollars in millions</i>	Q3 2021	Q3 2020	Change	% Change	YTD 2021	YTD 2020	Change	% Change
Interest income	\$ —	\$ 5	\$ (5)	(100)%	\$ —	\$ 26	\$ (26)	(100)%
Interest expense	(14)	(11)	(3)	27	(48)	(33)	(15)	45
Other income, net	979	59	920	1,559	1,010	117	893	763
Total other income, net	\$ 965	\$ 53	\$ 912	1,721 %	\$ 962	\$ 110	\$ 852	775 %

Total other income, net relates to the Core Illumina segment. Interest income decreased in Q3 2021 and YTD 2021 as a result of selling all of our available-for-sale debt securities in Q1 2021. Interest expense consists primarily of accretion of discount on our convertible senior notes. The increases in Q3 2021 and YTD 2021 relate to accrued interest on our Term Notes. The increase in YTD 2021 interest expense also relates to amortization of debt issuance costs on our Bridge Facility, which we terminated in Q1 2021. The increases in other income, net, in Q3 2021 and YTD 2021 were primarily due to the gain of \$900 million from our previously held investment in GRAIL as part of the acquisition, fair value adjustments to our Helix contingent value right, and a \$26 million gain recorded on our derivative assets related to the terminated PacBio acquisition in Q1 2021. The increase in YTD 2021 was partially offset by lower unrealized gains on marketable equity securities compared to YTD 2020.

Provision for Income Taxes

<i>Dollars in millions</i>	Q3 2021	Q3 2020	Change	% Change	YTD 2021	YTD 2020	Change	% Change
Income before income taxes	\$ 420	\$ 215	\$ 205	95 %	\$ 798	\$ 557	\$ 241	43 %
Provision for income taxes	103	36	67	186	148	158	(10)	(6)
Net income	\$ 317	\$ 179	\$ 138	77 %	\$ 650	\$ 399	\$ 251	63 %
Effective tax rate	24.7 %	16.8 %			18.6 %	28.4 %		

Our effective tax rate was 24.7% in Q3 2021 compared to 16.8% in Q3 2020. The variance from the U.S. federal statutory tax rate of 21% in Q3 2021 was primarily attributable to discrete tax expense related to GRAIL Continuation Payments and prior year tax adjustments. Due to the acquisition of GRAIL, the tax treatment of the GRAIL Continuation Payments changed from what was recorded in prior quarters, which resulted in a discrete tax expense being recorded for Q3 2021. The variance from the U.S. federal statutory tax rate of 21% in Q3 2021 was also attributable to the mix of earnings in jurisdictions with lower statutory tax rates than the U.S. federal statutory tax rate, such as in Singapore and the United Kingdom. In Q3 2020, the variance from the U.S. federal statutory tax rate of 21% was primarily attributable to the mix of earnings in jurisdictions with lower statutory tax rates than the U.S. federal statutory tax rate, such as in Singapore and the United Kingdom, and discrete tax benefits due to prior year tax adjustments and uncertain tax positions.

Our effective tax rate was 18.6% in YTD 2021 compared to 28.4% in YTD 2020. In YTD 2021, the variance from the U.S. federal statutory tax rate of 21% was primarily attributable to the mix of earnings in jurisdictions with lower statutory tax rates than the U.S. federal statutory tax rate, such as in Singapore and the United Kingdom. This was partially offset by the discrete tax expense on certain foreign subsidiary earnings that are no longer indefinitely reinvested, and discrete tax expense due to prior year tax adjustments. In YTD 2020, the variance from the U.S. federal statutory tax rate of 21% was primarily attributable to discrete tax expense related to the valuation allowance recorded against the deferred tax asset for California research and development credits and the finalization of the Altera court case which determined stock-based compensation must be included in intercompany cost sharing payments. This was partially offset by the mix of earnings in jurisdictions with lower statutory tax rates than the U.S. federal statutory tax rate, such as in Singapore and the United Kingdom, discrete tax benefits related to the derivative assets recorded as a result of the terminated PacBio acquisition, and tax benefits related to share-based compensation.

Our future effective tax rate may vary from the U.S. federal statutory tax rate due to the mix of earnings in tax jurisdictions with different statutory tax rates and the other factors discussed in the risk factor “We are subject to risks related to taxation in multiple jurisdictions” described in “Risk Factors” within the Business and Market Information section of our Annual Report on Form [10-K](#) for the fiscal year ended January 3, 2021.

LIQUIDITY AND CAPITAL RESOURCES

At October 3, 2021, we had approximately \$1.1 billion in cash and cash equivalents, of which approximately \$532 million was held by our foreign subsidiaries. Cash and cash equivalents decreased by \$0.7 billion from January 3, 2021, due to the factors described in the “Cash Flow Summary” below. Our primary source of liquidity, other than our holdings of cash, cash equivalents and investments, has been cash flows from operations and, from time to time, issuances of debt. Our ability to generate cash from operations provides us with the financial flexibility we need to meet operating, investing, and financing needs.

Historically, we have liquidated our short-term investments and/or issued debt and equity securities to finance our business needs as a supplement to cash provided by operating activities. During YTD 2021, we sold all of our available-for-sale debt securities and a portion of our marketable equity securities to fund the GRAIL acquisition. As of October 3, 2021, we had \$185 million remaining in short-term investments.

On August 18, 2021, we acquired GRAIL for total cash and other consideration of \$9.8 billion, which included cash of \$2.9 billion and \$762 million in fair value of contingent consideration in the form of a contingent value right. As of October 3, 2021, the fair value of the contingent consideration was \$754 million. The cash consideration was funded using existing cash of both Illumina and GRAIL, including the \$1 billion in capital raised in Q1 2021 through the issuance of term debt. The contingent value rights entitle the holders to receive future payments representing a pro rata portion of certain revenues each year for a 12-year period. This will reflect a 2.5% payment right to the first \$1 billion of revenue each year for 12 years. Revenue above \$1 billion each year will be subject to a 9% contingent payment right during this same period. Prior to the acquisition, we were required to make monthly Continuation Payments to GRAIL of \$35 million through the earlier of the consummation of the acquisition or termination of the GRAIL Merger Agreement, subject to certain exceptions. We made a Continuation Payment to GRAIL totaling \$35 million in Q3 2021. Subsequent to the acquisition, we did not make any additional monthly payments.

On March 23, 2021, we issued term notes due 2023 with an aggregate principal amount of \$500 million and term notes due 2031 with an aggregate principal amount of \$500 million. The net proceeds from the issuance were \$992 million. The 2023 Term Notes and the 2031 Term Notes accrue interest at a rate of 0.550% and 2.550% per annum, respectively, payable semi-annually on March 23 and September 23 of each year. The 2023 Term Notes mature on March 23, 2023 and the 2031 Term Notes mature on March 23, 2031. We may redeem for cash all or any portion of the Term Notes, at our option, at any time prior to maturity.

On March 8, 2021, we obtained a Credit Facility, which provides us with a \$750 million senior unsecured five-year revolving credit facility, including a \$40 million sublimit for swingline borrowings and a \$50 million sublimit for letters of credit. The Credit Facility matures, and all amounts outstanding thereunder become due and payable in full, on March 8, 2026, subject to two one-year extensions at our option and the consent of the extending lenders and certain other conditions. As of October 3, 2021, there were no borrowings outstanding under the Credit Facility.

Our 2021 Convertible Notes matured on June 15, 2021, by which time the \$517 million in principal had been converted and was repaid in cash. The excess of the conversion value over the principal amount was paid in shares of common stock. Our convertible senior notes due in 2023 were not convertible as of October 3, 2021.

We anticipate that our current cash, cash equivalents, and short-term investments, together with cash provided by operating activities and available borrowing capacity under the Credit Facility, are sufficient to fund our near-term capital and operating needs for at least the next 12 months. Operating needs include the planned costs to operate our business, including amounts required to fund working capital and capital expenditures. Our primary short-term needs for capital, which are subject to change, include:

- support of commercialization efforts related to our current and future products;
- acquisitions of equipment and other fixed assets for use in our current and future manufacturing and research and development facilities;
- the continued advancement of research and development efforts;
- potential strategic acquisitions and investments;
- repayment of debt obligations; and
- the expansion needs of our facilities, including costs of leasing and building out additional facilities.

On February 5, 2020, our Board of Directors authorized a new share repurchase program, which supersedes all prior and available repurchase authorizations, to repurchase \$750 million of outstanding common stock. The repurchases may be completed under a 10b5-1 plan or at management's discretion. Authorizations to repurchase \$15 million of our common stock remained available as of October 3, 2021. We do not intend to make any share repurchases during fiscal year 2021.

We had \$23 million and up to \$122 million, respectively, remaining in our capital commitments to two venture capital investment funds as of October 3, 2021 that are callable through April 2026 and July 2029, respectively.

We expect that our revenue and the resulting operating income, as well as the status of each of our new product development programs, will significantly impact our cash management decisions.

Our future capital requirements and the adequacy of our available funds will depend on many factors, including:

- our ability to successfully commercialize and further develop our technologies and create innovative products in our markets;
- scientific progress in our research and development programs and the magnitude of those programs;
- competing technological and market developments; and
- the need to enter into collaborations with other companies or acquire other companies or technologies to enhance or complement our product and service offerings.

Cash Flow Summary*In millions*

	YTD 2021	YTD 2020
Net cash provided by operating activities	\$ 263	\$ 674
Net cash used in investing activities	(1,069)	(520)
Net cash provided by (used in) financing activities	78	(435)
Effect of exchange rate changes on cash and cash equivalents	(2)	—
Net decrease in cash and cash equivalents	\$ (730)	\$ (281)

Operating Activities

Net cash provided by operating activities in YTD 2021 primarily consisted of net income of \$650 million less net adjustments of \$220 million and net changes in operating assets and liabilities of \$167 million. The primary adjustments to net income included a gain on our previously held investment in GRAIL of \$900 million, deferred income taxes of \$81 million, a gain on our Helix contingent value right of \$30 million, and a gain on derivative assets related to a terminated acquisition of \$26 million, partially offset by share-based compensation of \$656 million, depreciation and amortization expenses of \$162 million, and accretion of debt discount on convertible senior notes of \$26 million. Cash flow impact from changes in net operating assets and liabilities were primarily driven by increases in accounts receivable, other assets, prepaid expenses, and inventory and a decrease in accounts payable, partially offset by an increase in accrued liabilities.

Investing Activities

Net cash used in investing activities totaled \$1,069 million in YTD 2021. We paid net \$2,444 million for acquisitions, invested \$138 million in capital expenditures, primarily associated with our investment in facilities, purchased \$77 million of available-for-sale debt securities, and purchased \$44 million of strategic investments during the period. We received \$1,362 million related to maturities and sales of our available-for-sale debt securities during the period, \$220 million for sales of strategic investments and \$52 million from PacBio for repayment of Continuation Advances.

Financing Activities

Net cash provided by financing activities totaled \$78 million in YTD 2021. We received \$988 million in net proceeds from the issuance of debt and \$59 million in proceeds from the sale of shares under our employee stock purchase plan and the issuance of common stock through the exercise of stock options. We made payments on our convertible senior notes due in 2021 of \$517 million and used \$452 million to pay taxes related to net share settlement of equity awards, of which \$419 million was for taxes paid for the common stock issued related to the GRAIL acquisition.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In preparing our condensed consolidated financial statements, we make estimates, assumptions and judgments that can have a significant impact on our net revenue, operating income and net income, as well as on the value of certain assets and liabilities on our balance sheet. We believe that the estimates, assumptions and judgments involved in the accounting policies described in "Critical Accounting Policies and Estimates" within the Management's Discussion & Analysis section of our Annual Report on Form [10-K](#) for the fiscal year ended January 3, 2021 have the greatest potential impact on our financial statements, so we consider them to be our critical accounting policies and estimates. Though the impact of the COVID-19 pandemic to our business and operating results presents additional uncertainty, we continue to use the best information available to inform our critical accounting estimates. For our policy on business combinations, see the significant accounting policies under note "[1. Organization and Significant Accounting Policies](#)". There were no other material changes to our critical accounting policies and estimates during YTD 2021.

RECENT ACCOUNTING PRONOUNCEMENTS

For a summary of recent accounting pronouncements applicable to our condensed consolidated financial statements, see note “[1. Organization and Significant Accounting Policies](#)” within the Condensed Consolidated Financial Statements section of this report, which is incorporated herein by reference.

OFF-BALANCE SHEET ARRANGEMENTS

We do not participate in any transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. During YTD 2021, we were not involved in any “off-balance sheet arrangements” within the meaning of the rules of the Securities and Exchange Commission.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

There were no substantial changes to our market risks in YTD 2021, when compared to the disclosures in “Quantitative and Qualitative Disclosures about Market Risk” within the Management’s Discussion & Analysis section of our Annual Report on Form [10-K](#) for the fiscal year ended January 3, 2021.

OTHER KEY INFORMATION

CONTROLS AND PROCEDURES

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

Based on management’s evaluation (under the supervision and with the participation of our chief executive officer (CEO) and chief financial officer (CFO)), as of the end of the period covered by this report, our CEO and CFO concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)), are effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

During Q3 2021, we continued to monitor and evaluate the design and operating effectiveness of key controls, including the impact of the COVID-19 pandemic on our internal control environment. There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that materially affected or are reasonably likely to materially affect internal control over financial reporting.

LEGAL PROCEEDINGS

See discussion of legal proceedings in note “[8. Legal Proceedings](#)” in the Condensed Consolidated Financial Statements section of this report, which is incorporated herein by reference.

RISK FACTORS

Our business is subject to various risks, including those described in “Risk Factors” within the Business and Market Information Section of our Annual Report on Form [10-K](#) for the fiscal year ended January 3, 2021, which we strongly encourage you to review. In addition to the risk factors disclosed in our Form [10-K](#), the issues raised in the following risk factors could adversely affect our operating results and stock price:

Our acquisition of GRAIL remains subject to ongoing legal and regulatory proceedings in the United States and in the European Union. Adverse decisions by the EU General Court, the European Commission, the FTC and/or other governmental or regulatory authorities and/or other adverse consequences resulting from our decision to proceed with the completion of the acquisition, could result in significant financial penalties, operational restrictions, increased costs or loss of revenues or require us to divest all or a portion of the assets or equity interests of GRAIL on terms that are materially worse than the terms on which we acquired GRAIL, any or all of which, individually or in the aggregate, could have a material adverse effect on our business, financial condition and results of operation.

As previously disclosed, on March 30, 2021, the U.S. Federal Trade Commission (the FTC) filed an administrative complaint alleging that our acquisition of GRAIL (the Acquisition) would violate Section 7 of the Clayton Act, as amended, 15 U.S.C. § 18. We filed an answer to the FTC's complaint in the administrative court on April 13, 2021, and the administrative trial commenced on August 24, 2021. At the effective time of the mergers, no legal prohibition on the consummation of the Acquisition was in effect in the United States. We intend to vigorously defend against the FTC's action.

As previously disclosed, on April 19, 2021, the European Commission accepted a request for referral of the Acquisition (the Referral) for European Union merger review under Article 22(1) of Council Regulation (EC) No 139/2004 (the EU Merger Regulation), which had been submitted by a Member State of the European Union. The European Commission had previously notified us asserting that as a result of the Referral, pursuant to Article 22(4) of the EU Merger Regulation, we were prohibited from implementing the Acquisition (i) until the European Commission clears the Acquisition under the EU Merger Regulation or (ii) until the European Commission refuses the Referral, and therefore the European Commission's acceptance of the Referral continued the purported standstill on the completion of the Acquisition until such time as the European Commission completes its review and approves the Acquisition. On April 29, 2021, we filed an action in the General Court of the European Union (the EU General Court) asking for annulment of the European Commission's decision asserting jurisdiction to review the Acquisition under Article 22 of the EU Merger Regulation, as the Acquisition does not meet the jurisdictional criteria under the EU Merger Regulation or under the national merger control laws of any Member State of the European Union. The date of the hearing before the EU General Court has not yet been set. We intend to vigorously challenge the European Commission's assertion of jurisdiction to review the Acquisition.

As previously disclosed, on July 22, 2021, the European Commission announced it had initiated a Phase II review of the Acquisition. The duration of the Phase II review cannot be foreseen with certainty. As of the completion of the Acquisition, the European Commission's purported standstill on such completion, the validity and appropriateness of which we are challenging, had not been suspended or overturned. We continue to work with the European Commission on its review and had voluntarily offered to enter into a hold separate arrangement with the European Commission with respect to GRAIL and its operations pending the resolution of the action in the EU General Court and/or completion of the European Commission's review. On October 29, 2021, the European Commission adopted an order imposing interim measures (the Interim Measures Order), which provided that (i) we ensure that Illumina and GRAIL will continue to operate as independent legal entities that transact at arms' length, no integration activity will take place, the day-to-day operation of GRAIL will remain the sole responsibility of GRAIL's management and our management will have no involvement in or influence over GRAIL, (ii) we take certain supportive measures to preserve GRAIL's viability, marketability and competitiveness, including with respect to the provision of resources to GRAIL and the retention and/or replacement of key personnel of GRAIL, (iii) subject to limited exceptions, we implement all necessary measures to ensure that Illumina does not obtain any confidential information relating to GRAIL during the hold separate period and vice versa and (iv) we *appoint an independent firm as monitoring trustee to monitor our compliance with the Interim Measures Order. Such hold separate arrangement, and our obligations pursuant thereto, may be burdensome to implement and administer, and will likely require us to incur additional costs and/or liabilities, any or all of which could result in loss of revenue and other adverse effects on our business, financial condition and results of operations. Further, our failure to comply with the terms of the Interim Measures Order may result in the European Commission seeking to impose fines or other penalties on us.

As a result of our decision to proceed with the completion of the Acquisition during the pendency of the European Commission's review, the European Commission will likely seek to impose a fine on us pursuant to Article 14(2)(b) of the EU Merger Regulation of up to 10% of our consolidated annual revenues. In addition, the European Commission, the FTC and/or other governmental or regulatory authorities may seek to impose other fines, penalties, remedies or restrictions. We intend to vigorously defend against any such fines, penalties, remedies or restrictions, but we cannot predict the scope or severity thereof or the outcome of any related proceedings. We also cannot predict what other adverse consequences to, among other things, our reputation, our relationships with governmental or regulatory authorities or our ability to successfully complete future acquisitions and/or divestitures may result from our decision to proceed with the completion of the Acquisition. We will hold the assets or equity interests of GRAIL separate for some period of time, and such delay in integration may materially and adversely affect the synergies and other benefits we expect to achieve as a result of the Acquisition and could result in additional costs or liabilities, loss of revenue and other adverse effects on our business, financial condition and results of operations.

SHARE REPURCHASES AND SALES

Purchases of Equity Securities by the Issuer

None during the quarterly period ended October 3, 2021.

Unregistered Sales of Equity Securities

None during the quarterly period ended October 3, 2021.

EXHIBITS

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File Number	Exhibit	Filing Date	
4.1	Contingent Value Rights Agreement by and among Illumina, Inc., Computeshare Trust Company, N.A., as Trustee and Shareholder Representative Services LLC dated as of August 18, 2021	8-K	001-35406	4.1	8/18/2021	
10.1+	Form of Insurance Matters Agreement					X
31.1	Certification of Francis A. deSouza pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
31.2	Certification of Sam A. Samad pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
32.1	Certification of Francis A. deSouza pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
32.2	Certification of Sam A. Samad pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document					X
101.SCH	XBRL Taxonomy Extension Schema					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase					X
101.LAB	XBRL Taxonomy Extension Label Linkbase					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase					X
104	Cover Page Interactive Data File - formatted in Inline XBRL and included as Exhibit 101					X

+ Management contract or corporate plan or arrangement

* Certain schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule or exhibit will be furnished supplementally to the SEC upon request.

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SIGNATURES

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

ILLUMINA, INC.
(registrant)

Date: November 4, 2021

/s/ SAM A. SAMAD

Sam A. Samad
Senior Vice President and Chief Financial Officer

INSURANCE MATTERS AGREEMENT

THIS INSURANCE MATTERS AGREEMENT (the “Agreement”) is made and entered into by and between Illumina, Inc., a Delaware corporation (the “Company”), and the Directors and Officers, as defined below (each, an “Indemnatee,” collectively, the “Indemnitees”). This Agreement shall be effective as of the 18th day of August, 2021 (the “Effective Date”).

WITNESSETH THAT:

WHEREAS, each Indemnatee performs a valuable service for the Company;

WHEREAS, the board of directors of the Company has adopted a Certificate of Incorporation and Bylaws (the “Bylaws”) which provide that the Company shall indemnify, *inter alia*, Directors and Officers, in each case to the fullest extent permitted by the Delaware General Corporation Law, as amended (“Delaware Law”);

WHEREAS, in recognition of each Indemnatee’s need for protection against personal liability in order to enhance such Indemnatee’s continued service to the Company in an effective manner, including the need for assurance that such Indemnatee will be protected to the greatest extent possible by the benefits of Directors and Officers Liability Insurance (“D&O Insurance”) obtained and to be obtained by the Company; and in order to induce such Indemnatee to continue to provide services to the Company as a member of the board of directors of the Company or as an employee thereof (as applicable), the Company wishes to provide in this Agreement, among other things, (a) for the indemnification of Expenses (as defined below) arising from Insurance Matters (as defined below) to any Indemnatee to the fullest extent (whether partial or complete) permitted by law and as set forth in this Agreement; (b) to the extent provided herein, for the continued coverage of any Indemnatee under the Company’s D&O Insurance in connection with any and all claims against any of them arising out of or related to the Acquisition and/or any determinations or decisions in connection with regulatory approvals, rulings or other action or non- action sought in connection with the Acquisition (“Acquisition-Related Claims”); and (c) to the extent reasonably requested by an Indemnatee, the Company’s cooperation in Insurance Matters; and

WHEREAS, in order to induce each Indemnatee to provide or continue to provide services to the Company, the Company has determined and agreed to enter into this Agreement for the benefit of each Indemnatee, which shall be effective as of the Effective Date.

NOW, THEREFORE, in view of the considerations set forth above the Company and the Indemnitees hereby agree as follows:

1. Indemnity of the Indemnitees. The Company hereby agrees to hold harmless and indemnify each Indemnatee in connection with Insurance Matters as provided in this Agreement. The Company will timely pay or reimburse the Indemnitees, as the case may be, all Expenses arising from the Indemnitees’ efforts to secure and enforce their rights to, and satisfy their reporting, cooperation and other obligations with respect to, D&O

Insurance for Acquisition- Related Claims. Such Expenses will include but not be limited to the costs of the following:

- (a) Retaining and consulting with insurance coverage counsel (“D&O Coverage Counsel”) regarding such rights and obligations;
- (b) Instituting or defending litigation or other proceedings to enforce such rights; and
- (c) Conducting legal review of the terms and provisions of any actual or proposed program of D&O Insurance that may cover Acquisition-Related Claims and negotiating such terms on behalf of the Indemnitees.

2. Company’s Obligations in Connection with Impending D&O Insurance. The Company will take, and will ensure that all possible actions are taken, at its expense, to ensure coverage for Directors and Officers for Acquisition-Related Claims under the D&O Insurance that the Company is seeking to place as of the Effective Date (the “Impending D&O Insurance”), including the following:

- (a) The Company will pay in full all premiums on the Impending D&O Insurance prior to the making of any decision by the Company to complete the Acquisition, and the terms of the Impending D&O Insurance shall provide that it is non-cancellable (except that the Company may, but need not, reserve a right to cancel some or all of the Impending D&O Insurance with the unanimous written consent of the Directors and Officers).
- (b) The Company will promptly transmit all communications from insurers of the Impending D&O Insurance in connection with Acquisition-Related Claims to D&O Coverage Counsel and otherwise cooperate as may be necessary with the Directors and Officers to secure coverage for them for Acquisition-Related Claims to the greatest extent possible under the Impending D&O Insurance. The Company will provide all Directors and Officers with all information related to the Acquisition-Related Claims.
- (c) The Company will assist and cooperate with the Directors and Officers in connection with Insurance Matters, including with respect to discovery and informal information requests.
- (d) The Company will inform D&O Coverage Counsel about any claims under the Impending D&O Insurance other than Insurance Matters that may affect the limits or availability of such insurance for Acquisition-Related Claims.

3. Company’s Obligations in Connection with Future Placements of D&O Insurance. In the event that the Company is unable to procure Impending D&O Insurance that includes, in the reasonable opinion of D&O Coverage Counsel, coverage for any and all potential

Acquisition-Related Claims that is substantially of the scope, limits and cost anticipated by the Directors and Officers as of the Effective Date, the Company will take the following steps with respect to subsequent placements, renewals or extensions of D&O Insurance ("Future D&O Insurance"):

- (a) The Company will continuously maintain and procure coverage for the Directors and Officers substantially of the scope, limits and cost anticipated by the Directors and Officers as of the Effective Date through the purchase of Future D&O Insurance and pay premiums in full on Future D&O Insurance. The Company will not cancel Future D&O Insurance once placed (except with the unanimous written consent of the Directors and Officers), and to the greatest extent possible the Company will ensure adequate D&O Insurance coverage for potential or actual Acquisition-Related Claims to the extent not already covered under existing D&O Insurance, regardless of expense.
 - (b) The Company will provide reasonable opportunity to comment on and right to approve the wording of Future D&O Insurance to the Directors and Officers prior to the Company's purchase of such insurance. The Company will fulfill all obligations in connection with Future D&O Insurance that correspond to its obligations set forth in Section 2(b), (c) and (d) above with respect to the Impending D&O Insurance.
- 4. Other Obligations of the Company. The Company will assist and cooperate with the Directors and Officers in connection with any Acquisition-Related Claims (except to the extent that the Company is adverse to the Indemnitee(s) requesting such assistance or cooperation in such Acquisition-Related Claim and with respect to such assistance or cooperation), including with respect to discovery and informal information requests.
 - 5. Procedures and Presumptions for Determination of Entitlement to Indemnification. To obtain indemnification under this Agreement, an Indemnitee shall submit to the Company a written request setting forth the request by giving notice as provided in Section 17 below.
 - 6. Remedies of the Indemnitees. In the event of non-performance of this Agreement by the Company, in addition to any other remedies available to the Indemnitees, the Company will indemnify and hold harmless each Indemnitee for its Expenses arising from enforcement of their rights under this Agreement.
 - 7. Limitation. The Company shall provide the indemnification of each Indemnitee provided here to the fullest extent authorized or permitted by the provisions of the Delaware Law, as such may be amended from time to time, Article VII of the Certificate of Incorporation and Sections 6.1 and 6.2 of the Bylaws, as such Certificate of Incorporation and Bylaws are in effect on the date hereof and as such may be amended from time to time to enhance the rights of the Indemnitees.

8. No Restrictions. Nothing in this Agreement shall be deemed to restrict Indemnitee from acquiring at his or her own expense any other insurance policy in respect to any Insurance Matters.
9. Non-Exclusivity; Survival of Rights; Insurance; Subrogation.
- (a) The rights of indemnification as provided by this Agreement shall not be deemed exclusive of any other rights to which an Indemnitee may at any time be entitled under applicable law, the Certificate of Incorporation of the Company, the Bylaws, any agreement, a vote of stockholders, a resolution of directors or otherwise. No amendment, alteration or repeal of this Agreement or of any provision hereof shall limit or restrict any right of any Indemnitee under this Agreement in respect of any action taken or omitted by such Indemnitee in such Indemnitee's Corporate Status prior to such amendment, alteration or repeal. To the extent that a change in the Delaware Law, whether by statute or judicial decision, permits greater indemnification than would be afforded currently under the Bylaws and this Agreement, it is the intent of the parties hereto that each Indemnitee shall enjoy by this Agreement the greater benefits so afforded by such change. No right or remedy herein conferred is intended to be exclusive of any other right or remedy, and every other right and remedy shall be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other right or remedy.
 - (b) In the event of any payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of any Indemnitee, who shall execute all papers required and take all action necessary to secure such rights, including execution of such documents as are necessary to enable the Company to bring suit to enforce such rights; provided, however, that in no event shall the Company be subrogated to the rights of an Indemnitee against any other Indemnitee or any Indemnitee's estate, spouse, heirs, executors or personal or legal representatives; nor the rights of an Indemnitee under any D&O Insurance or under any insurance procured other than by the Company for the benefit of an Indemnitee.
 - (c) The Company shall not be liable under this Agreement to make any payment of amounts otherwise indemnifiable hereunder to any Indemnitee if and to the extent that such Indemnitee has otherwise actually received such payment under any insurance policy, contract, agreement or otherwise.
10. Duration of Agreement. All agreements and obligations of the Company contained herein shall continue during the period any Indemnitee is a Director and Officer and shall continue thereafter so long as any Indemnitee shall be subject to any Acquisition-Related Claim or have an interest in any Insurance Matter by reason of such Indemnitee's Corporate Status, whether or not such Indemnitee is acting or serving in any such capacity at the time any liability or expense is incurred for which indemnification can be provided under this Agreement.

11. Security. To the extent requested by an Indemnitee and approved by the board of directors of the Company, the Company may at any time and from time to time provide security to such Indemnitee for the Company's obligations hereunder through an irrevocable bank line of credit, funded trust or other collateral. Any such security, once provided to such Indemnitee, may not be revoked or released without the prior written consent of such Indemnitee, which consent may not be unreasonably withheld.

12. Enforcement.

- (a) The Company expressly confirms and agrees that it has entered into this Agreement and assumes the obligations imposed on it hereby in order to induce each Indemnitee to serve as a director, officer, employee or agent of the Company, and the Company acknowledges that each Indemnitee is relying upon this Agreement in serving as a director, officer, employee or agent of the Company.
- (b) This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior agreements and understandings, oral, written and implied, between the parties hereto with respect to the subject matter hereof.

13. Definitions. For purposes of this Agreement:

- (a) "Acquisition" means the Company's acquisition of Grail, Inc..
- (b) "Claim" includes any threatened, pending or completed action, suit, arbitration, alternate dispute resolution mechanism, investigation, inquiry, administrative hearing or any other actual, threatened or completed proceeding or claim, whether brought by or in the right of the Company or otherwise and whether civil, criminal, administrative or investigative, in which any Indemnitee was, is or will be involved as a party or otherwise, by reason of the fact that such Indemnitee is or was a director, officer, employee or agent of the Company, by reason of any action taken by such Indemnitee or of any inaction on such Indemnitee's part while acting as a director, officer, employee or agent of the Company, or by reason of the fact that such Indemnitee is or was serving at the request of the Company as a director, officer, employee, agent or fiduciary of another corporation, partnership, joint venture, trust or other enterprise; in each case whether or not such Indemnitee is acting or serving in any such capacity at the time any liability or expense is incurred for which indemnification can be provided under this Agreement; including one pending on or before the date of this Agreement, but excluding one initiated by an Indemnitee pursuant to this Agreement to enforce such Indemnitee's rights under this Agreement.
- (c) "Corporate Status" describes the status, either prior or subsequent to the date of this agreement, of a person who is or was a director, officer, employee, agent or fiduciary of the Company or of any other corporation, partnership, joint venture,

trust, employee benefit plan or other enterprise that such person is or was serving at the express written request of the Company.

- (d) “Directors and Officers” means all duly appointed directors of the Company, and all duly appointed officers of Company within the meaning of Rule 16a-1(f) of the Securities and Exchange Commission under the Securities Exchange Act of 1934, in each case only if serving in such capacity at any time during the period that any actions are taken by Company with respect to the Acquisition.
- (e) “Expenses” shall include all reasonable attorneys’ fees, retainers, court costs, transcript costs, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees and all other disbursements or expenses of the types customarily incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating, participating, or being or preparing to be a witness, in a Claim, including the reasonable out-of-pocket costs of the Indemnitees.
- (f) “including,” regardless of whether capitalized, means including but not limited to.
- (g) “Insurance Matters” means any advice, question, dispute, inquiry, demand or Claim under or regarding D&O Insurance with respect to actual or potential Acquisition-Related Claims.

14. Severability. If any provision or provisions of this Agreement shall be held by a court of competent jurisdiction to be invalid, void, illegal or otherwise unenforceable for any reason whatsoever: (a) the validity, legality and enforceability of the remaining provisions of this Agreement (including without limitation, each portion of any section of this Agreement containing any such provision held to be invalid, illegal or unenforceable that is not itself invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby and shall remain enforceable to the fullest extent permitted by law; and (b) to the fullest extent possible, the provisions of this Agreement (including, without limitation, each portion of any section of this Agreement containing any such provision held to be invalid, illegal or unenforceable that is not itself invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested thereby. Without limiting the generality of the foregoing, this Agreement is intended to confer upon each Indemnatee indemnification rights to the fullest extent permitted by applicable laws. In the event any provision hereof conflicts with any applicable law, such provision shall be deemed modified, consistent with the aforementioned intent, to the extent necessary to resolve such conflict.
15. Modification and Waiver. No supplement, modification, termination or amendment of this Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.
16. Notice By the Indemnitees. Each Indemnatee agrees promptly to notify the Company in writing upon being served with or otherwise receiving any summons, citation, subpoena,

complaint, indictment, information or other document relating to any Claim or matter which may be subject to indemnification covered hereunder. The failure to so notify the Company shall not relieve the Company of any obligation which it may have to such Indemnitee under this Agreement or otherwise unless and only to the extent that such failure or delay materially prejudices the Company.

17. Notices. All notices, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given if (i) delivered by hand and receipted for by the party to whom said notice or other communication shall have been directed, or (ii) mailed by certified or registered mail with postage prepaid, on the third business day after the date on which it is so mailed:

(a) If to an Indemnitee, (i) care of D&O Coverage Counsel, if any, at the address provided by such Indemnitee for such counsel by written notice, and (ii) to the address for such Indemnitee most recently on record with the Secretary of the Company.

(b) If to the Company, to:

Illumina, Inc.
5200 Illumina Way
San Diego, California 92122
Attn: General Counsel

or to such other address as may have been furnished to the Indemnitees by the Company or to the Company by the Indemnitees, as the case may be.

18. Identical Counterparts. This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to be an original but all of which together shall constitute one and the same Agreement. Only one such counterpart signed by the party against whom enforceability is sought needs to be produced to evidence the existence of this Agreement.

19. Headings. The headings of the paragraphs of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction thereof.

20. Governing Law. The parties agree that this Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of Delaware without application of the conflict of laws principles thereof.

[Signatures Follow]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on and as of the day and year first above written.

ILLUMINA, INC.

By: Name:

Title: INDEMNITEE

Name:

Address:

[Additional Signature Pages May Be Attached As Necessary]

[SIGNATURE PAGE TO INSURANCE MATTERS AGREEMENT]

CERTIFICATION OF FRANCIS A. DESOUZA PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Francis A. deSouza, certify that:

- 1 I have reviewed this Quarterly Report on Form 10-Q of Illumina, Inc.;
- 2 Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3 Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4 The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5 The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 4, 2021

By: /s/ FRANCIS A. DESOUZA
 Francis A. deSouza
 President and Chief Executive Officer

CERTIFICATION OF SAM A. SAMAD PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Sam A. Samad, certify that:

- 1 I have reviewed this Quarterly Report on Form 10-Q of Illumina, Inc.;
- 2 Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3 Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4 The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5 The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 4, 2021

By: /s/ SAM A. SAMAD
 Sam A. Samad
 Senior Vice President and Chief Financial Officer

**CERTIFICATION OF FRANCIS A. DESOUZA PURSUANT TO 18 U.S.C. SECTION
1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-
OXLEY ACT OF 2002**

In connection with the Quarterly Report of Illumina, Inc. (the "Company") on Form 10-Q for the quarter ended October 3, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Francis A. deSouza, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 4, 2021

By: /s/ FRANCIS A. DESOUZA
Francis A. deSouza
President and Chief Executive Officer

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

**CERTIFICATION OF SAM A. SAMAD PURSUANT TO 18 U.S.C.
SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Illumina, Inc. (the "Company") on Form 10-Q for the quarter ended October 3, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Sam A. Samad, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 4, 2021

By: /s/ SAM A. SAMAD
Sam A. Samad
Senior Vice President and Chief Financial Officer

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