

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 July 3, 2016

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**

(Address of principal executive offices)

92122

(Zip Code)

(858) 202-4500

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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 July 22, 2016, there were 146.6 million shares of the registrant's common stock outstanding.

ILLUMINA, INC.
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	July 3, 2016	January 3, 2016
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 951,662	\$ 768,770
Short-term investments	473,594	617,450
Accounts receivable, net	372,480	385,529
Inventory	311,364	270,777
Prepaid expenses and other current assets	33,921	54,297
Total current assets	2,143,021	2,096,823
Property and equipment, net	511,354	342,694
Goodwill	775,995	752,629
Intangible assets, net	268,469	273,621
Deferred tax assets	186,462	134,515
Other assets	99,789	87,465
Total assets	\$ 3,985,090	\$ 3,687,747
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 250,670	\$ 148,721
Accrued liabilities	330,326	386,844
Long-term debt, current portion	511	74,929
Total current liabilities	581,507	610,494
Long-term debt	1,031,370	1,015,649
Other long-term liabilities	198,568	180,505
Redeemable noncontrolling interests	33,733	32,546
Stockholders' equity:		
Common stock	1,878	1,859
Additional paid-in capital	2,664,865	2,497,501
Accumulated other comprehensive income	2,318	36
Retained earnings	1,232,764	1,022,765
Treasury stock, at cost	(1,846,054)	(1,673,608)
Total Illumina stockholders' equity	2,055,771	1,848,553
Noncontrolling interests	84,141	—
Total stockholders' equity	2,139,912	1,848,553
Total liabilities and stockholders' equity	\$ 3,985,090	\$ 3,687,747

See accompanying notes to the condensed consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	July 3, 2016	June 28, 2015	July 3, 2016	June 28, 2015
Revenue:				
Product revenue	\$ 509,922	\$ 462,760	\$ 992,672	\$ 921,887
Service and other revenue	90,202	76,618	179,215	156,056
Total revenue	600,124	539,378	1,171,887	1,077,943
Cost of revenue:				
Cost of product revenue	125,107	119,459	250,433	239,083
Cost of service and other revenue	40,663	32,170	79,550	64,699
Amortization of acquired intangible assets	10,549	11,384	21,045	22,769
Total cost of revenue	176,319	163,013	351,028	326,551
Gross profit	423,805	376,365	820,859	751,392
Operating expense:				
Research and development	124,589	96,182	248,583	187,954
Selling, general and administrative	148,535	124,441	297,768	240,758
Legal contingencies	(11,490)	—	(9,490)	—
Headquarter relocation	302	1,480	684	2,179
Acquisition related expense (gain), net	—	2,329	—	(7,558)
Total operating expense	261,936	224,432	537,545	423,333
Income from operations	161,869	151,933	283,314	328,059
Other income (expense):				
Interest income	3,403	1,344	4,627	3,037
Interest expense	(8,147)	(11,205)	(16,672)	(22,369)
Cost-method investment gain, net	—	—	—	12,582
Other (expense) income, net	(150)	(900)	1,302	(2,091)
Total other expense, net	(4,894)	(10,761)	(10,743)	(8,841)
Income before income taxes	156,975	141,172	272,571	319,218
Provision for income taxes	40,581	38,925	68,958	80,313
Consolidated net income	116,394	102,247	203,613	238,905
Add: Net loss attributable to noncontrolling interests	4,018	—	6,386	—
Net income attributable to Illumina stockholders	\$ 120,412	\$ 102,247	\$ 209,999	\$ 238,905
Net income attributable to Illumina stockholders for earnings per share	\$ 121,971	\$ 102,247	\$ 211,558	\$ 238,905
Earnings per share attributable to Illumina stockholders:				
Basic	\$ 0.83	\$ 0.71	\$ 1.44	\$ 1.66
Diluted	\$ 0.82	\$ 0.69	\$ 1.43	\$ 1.61
Shares used in computing earnings per common share:				
Basic	146,778	144,220	146,822	143,996
Diluted	147,889	148,969	148,123	148,826

See accompanying notes to the condensed consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	July 3, 2016	June 28, 2015	July 3, 2016	June 28, 2015
Consolidated net income	\$ 116,394	\$ 102,247	\$ 203,613	\$ 238,905
Unrealized gain (loss) on available-for-sale securities, net of deferred tax	336	(1,735)	2,282	1,679
Total consolidated comprehensive income	116,730	100,512	205,895	240,584
Add: Comprehensive loss attributable to noncontrolling interests	4,018	—	6,386	—
Comprehensive income attributable to Illumina stockholders	\$ 120,748	\$ 100,512	\$ 212,281	\$ 240,584

See accompanying notes to the condensed consolidated financial statements.

ILLUMINA, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)
(In thousands)

	Illumina Stockholders						Total Stockholders' Equity
	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Retained Earnings	Treasury Stock	Noncontrolling Interests	
Balance as of January 3, 2016	\$ 1,859	\$2,497,501	\$ 36	\$1,022,765	\$(1,673,608)	\$ —	\$ 1,848,553
Net income (loss)	—	—	—	209,999	—	(1,115)	208,884
Unrealized gain on available-for-sale securities, net of deferred tax	—	—	2,282	—	—	—	2,282
Issuance of common stock, net of repurchases	19	26,592	—	—	(172,792)	—	(146,181)
Tax impact from the conversion of convertible notes	—	36	—	—	—	—	36
Share-based compensation	—	67,421	—	—	—	—	67,421
Net incremental tax benefit related to share-based compensation	—	83,690	—	—	—	—	83,690
Vesting of non-redeemable equity awards	—	(13)	—	—	—	13	—
Vesting of redeemable equity awards	—	(1,031)	—	—	—	—	(1,031)
Adjustment to the carrying value of redeemable noncontrolling interests	—	(5,426)	—	—	—	—	(5,426)
Issuance of subsidiary shares in business combination	—	2,102	—	—	—	196	2,298
Issuance of treasury stock	—	3,554	—	—	346	—	3,900
Contributions from noncontrolling interest owners	—	—	—	—	—	80,000	80,000
Proceeds from early exercise of equity awards from a subsidiary	—	—	—	—	—	5,047	5,047
Tax impact of deemed dividend from GRAIL	—	(9,561)	—	—	—	—	(9,561)
Balance as of July 3, 2016	<u>\$ 1,878</u>	<u>\$2,664,865</u>	<u>\$ 2,318</u>	<u>\$1,232,764</u>	<u>\$(1,846,054)</u>	<u>\$ 84,141</u>	<u>\$ 2,139,912</u>

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended	
	July 3, 2016	June 28, 2015
Cash flows from operating activities:		
Consolidated net income	\$ 203,613	\$ 238,905
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	42,429	34,204
Amortization of intangible assets	25,143	26,598
Share-based compensation expense	67,262	64,875
Accretion of debt discount	15,009	20,376
Incremental tax benefit related to share-based compensation	(84,220)	(106,162)
Deferred income tax expense	27,829	80,581
Cost-method investment gain, net	—	(12,582)
Change in fair value of contingent consideration	—	(7,558)
Other	3,431	3,604
Changes in operating assets and liabilities:		
Accounts receivable	13,490	(75,189)
Inventory	(40,586)	(32,526)
Prepaid expenses and other current assets	5,245	(1,382)
Other assets	(5,822)	(3,346)
Accounts payable	7,649	30,718
Accrued liabilities	(31,273)	(24,437)
Other long-term liabilities	7,586	1,545
Net cash provided by operating activities	256,785	238,224
Cash flows from investing activities:		
Purchases of available-for-sale securities	(302,547)	(578,425)
Sales of available-for-sale securities	335,299	263,447
Maturities of available-for-sale securities	112,675	95,612
Net cash paid for acquisitions	(17,841)	—
Net (purchases of) sales proceeds from strategic investments	(6,371)	926
Purchases of property and equipment	(121,231)	(77,902)
Cash paid for intangible assets	—	(275)
Net cash used in investing activities	(16)	(296,617)
Cash flows from financing activities:		
Payments on financing obligations	(71,572)	(8,664)
Payments on acquisition related contingent consideration liability	(29,200)	—
Proceeds from issuance of debt	2,042	—
Incremental tax benefit related to share-based compensation	84,220	106,162
Common stock repurchases	(100,000)	(34,753)
Taxes paid related to net share settlement of equity awards	(72,792)	(89,982)
Proceeds from issuance of common stock	26,561	42,513
Proceeds from early exercise of equity awards from a subsidiary	5,047	—
Contributions from noncontrolling interest owners	80,000	—
Net cash (used in) provided by financing activities	(75,694)	15,276
Effect of exchange rate changes on cash and cash equivalents	1,817	(1,980)
Net increase (decrease) in cash and cash equivalents	182,892	(45,097)
Cash and cash equivalents at beginning of period	768,770	636,154
Cash and cash equivalents at end of period	\$ 951,662	\$ 591,057

See accompanying notes to the 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. Basis of Presentation and Summary of Significant Accounting Policies

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 Company’s audited consolidated financial statements and footnotes included in the Company’s Annual Report on Form 10-K for the fiscal year ended January 3, 2016, from which the 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. Actual results could differ from those estimates.

The unaudited condensed consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries, majority-owned or controlled companies, and variable interest entities (VIEs) for which the Company is the primary beneficiary. All intercompany transactions and balances have been eliminated in consolidation. In management’s opinion, the accompanying financial statements reflect all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation of the results for the interim periods presented.

The Company evaluates its ownership, contractual and other interests in entities that are not wholly-owned by the Company to determine if these entities are VIEs, and, if so, whether the Company is the primary beneficiary of the VIE. In determining whether the Company is the primary beneficiary of a VIE and is therefore required to consolidate the VIE, the Company applies a qualitative approach that determines whether it has both (1) the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance and (2) the obligation to absorb losses of, or the rights to receive benefits from, the VIE that could potentially be significant to that VIE. The Company continuously assesses whether it is the primary beneficiary of a VIE as changes to existing relationships or future transactions may result in the consolidation or deconsolidation, as the case may be. The Company has not provided financial or other support during the periods presented to its VIEs that it was not previously contractually required to provide.

The equity method is used to account for investments in which the Company has the ability to exercise significant influence, but not control, over the investee. Such investments are recorded within other assets, and the share of net income or losses of equity investments is recognized on a one quarter lag in other (income)/expense.

Segment Information

The Company is organized into three operating segments for purposes of recording and reporting its financial results. Two of the operating segments relate to the Company’s consolidated variable interest entities and are immaterial to the financial statements as a whole for all periods presented. Accordingly, the financial results for all operating segments have been reported on an aggregate basis as one reportable segment.

Fiscal Year

The Company’s fiscal year consists of 52 or 53 weeks ending the Sunday closest to December 31, with quarters of 13 or 14 weeks ending the Sunday closest to March 31, June 30, September 30, and December 31. The three and six months ended July 3, 2016 and June 28, 2015 were both 13 weeks.

Reclassifications

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

Significant Accounting Policies

During the three and six months ended July 3, 2016, there have been no changes to the Company's significant accounting policies as described in the Annual Report on Form 10-K for the fiscal year ended January 3, 2016.

Recent Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board issued Accounting Standard Update (ASU) 2016-09, *Compensation - Stock Compensation (Topic 718)*. The new standard requires income tax effects of stock compensation awards to be recognized in the income statement when the awards vest or are settled. The new standard also allows the Company to repurchase more of an employee's shares for tax withholding purposes without triggering liability accounting and to make a policy election to account for forfeitures as they occur. ASU 2016-09 will be effective for the Company beginning in the first quarter of 2017. The Company is currently evaluating the impact of ASU 2016-09 on its consolidated financial statements.

In February 2016, the Financial Accounting Standards Board issued ASU 2016-02, *Leases (Topic 842)*. The new standard requires lessees to recognize most leases on their balance sheets as lease liabilities with corresponding right-of-use assets and eliminates certain real estate-specific provisions. ASU 2016-02 will be effective for the Company beginning in the first quarter of 2019. ASU 2016-02 will be adopted on a modified retrospective transition basis for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company is currently evaluating the impact of ASU 2016-02 on its consolidated financial statements.

In May 2014, the Financial Accounting Standards Board issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The new standard is based on the principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 will be effective for the Company beginning in the first quarter of 2018 and allows for a full retrospective or a modified retrospective adoption approach. The Company is currently evaluating the impact of ASU 2014-09 on its consolidated financial statements.

Earnings per Share

Basic earnings per share attributable to Illumina stockholders is computed based on the weighted average number of common shares outstanding during the period. Diluted earnings per share attributable to Illumina stockholders 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, equity awards, and warrants. Convertible senior notes have a dilutive impact when the average market price of the Company's common stock exceeds the applicable conversion price of the respective notes. Potentially dilutive common shares from equity awards and warrants are determined using the average share price for each period under the treasury stock method. In addition, the following amounts are assumed to be used to repurchase shares: proceeds from exercise of equity awards and warrants; the average amount of unrecognized compensation expense for equity awards; and estimated tax benefits that will be recorded in additional paid-in capital when expenses related to equity awards become deductible. In loss periods, basic net loss per share and diluted net loss per share are identical because the otherwise dilutive potential common shares become anti-dilutive and are therefore excluded.

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

	Three Months Ended		Six Months Ended	
	July 3, 2016	June 28, 2015	July 3, 2016	June 28, 2015
Weighted average shares outstanding	146,778	144,220	146,822	143,996
Effect of potentially dilutive common shares from:				
Convertible senior notes	—	2,194	120	2,185
Equity awards	1,111	2,555	1,181	2,645
Weighted average shares used in calculating diluted earnings per share	147,889	148,969	148,123	148,826
Potentially dilutive shares excluded from calculation due to anti-dilutive effect	699	4	839	3

2. Balance Sheet Account Details

Short-Term Investments

The following is a summary of short-term investments (in thousands):

	July 3, 2016				January 3, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:								
Debt securities in government sponsored entities	\$ 18,141	\$ —	\$ (28)	\$ 18,113	\$ 14,634	\$ —	\$ (8)	\$ 14,626
Corporate debt securities	325,037	793	(76)	325,754	422,177	44	(1,127)	421,094
U.S. Treasury securities	129,265	462	—	129,727	182,144	3	(417)	181,730
Total available-for-sale securities	\$ 472,443	\$ 1,255	\$ (104)	\$ 473,594	\$ 618,955	\$ 47	\$ (1,552)	\$ 617,450

Realized gains and losses are determined based on the specific identification method and are reported in interest income.

Contractual maturities of available-for-sale debt securities as of July 3, 2016 were as follows (in thousands):

	Estimated Fair Value
Due within one year	\$ 160,661
After one but within five years	312,933
Total	\$ 473,594

The Company has the ability, if necessary, to liquidate any of its cash equivalents and short-term investments in order to meet its liquidity needs in the next 12 months. Accordingly, those investments with contractual maturities greater than one year from the date of purchase nonetheless are classified as short-term on the accompanying condensed consolidated balance sheets.

Strategic Investments

As of July 3, 2016 and January 3, 2016, the aggregate carrying amounts of the Company's cost-method investments in non-publicly traded companies included in other assets were \$56.9 million and \$56.6 million, respectively. Revenue recognized from transactions with such companies was \$16.5 million and \$29.6 million, respectively, for the three and six months ended July 3, 2016 and \$14.1 million and \$31.3 million, respectively, for the three and six months ended June 28, 2015.

During the six months ended June 28, 2015, the Company recognized a gain on a disposition of a cost-method investment of \$15.1 million. The Company's cost-method investments are assessed for impairment quarterly. The Company determines that it is not practicable to estimate the fair value of its cost-method investments on a regular basis and does not reassess the fair value of cost-method investments if there are no identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investments. No material impairment loss was recorded during the three and six months ended July 3, 2016 or June 28, 2015.

On April 14, 2016, the Company announced that it has committed to invest \$100.0 million in a new venture capital investment fund (the Fund). The capital commitment is callable over ten years, and up to \$40.0 million can be drawn down during the first year. The Company's investment in the Fund is accounted for as an equity method investment. During the six months ended July 3, 2016, the Company transferred \$3.2 million of its cost-method investments to the Fund and contributed \$3.1 million in cash.

Inventory

Inventory consists of the following (in thousands):

	July 3, 2016	January 3, 2016
Raw materials	\$ 102,413	\$ 97,740
Work in process	168,105	138,322
Finished goods	40,846	34,715
Total inventory	<u>\$ 311,364</u>	<u>\$ 270,777</u>

Property and Equipment

Property and equipment, net consists of the following (in thousands):

	July 3, 2016	January 3, 2016
Leasehold improvements	\$ 191,384	\$ 178,019
Machinery and equipment	250,412	224,158
Computer hardware and software	149,071	136,550
Furniture and fixtures	20,387	18,539
Building	7,670	7,670
Construction in progress	194,237	44,501
Total property and equipment, gross	<u>813,161</u>	<u>609,437</u>
Accumulated depreciation	(301,807)	(266,743)
Total property and equipment, net	<u>\$ 511,354</u>	<u>\$ 342,694</u>

Property and equipment, net included accrued expenditures of \$106.2 million for the six months ended July 3, 2016, which includes \$84.9 million in construction in progress recorded under build-to-suit lease accounting. Accrued capital expenditures were excluded from the condensed consolidated statements of cash flows. Accrued capital expenditures were immaterial for the six months ended June 28, 2015.

Goodwill

The Company tests the carrying value of goodwill in accordance with accounting rules on impairment of goodwill, which require the Company to estimate the fair value of the reporting unit annually, or when impairment indicators exist, and compare

such amounts to their respective carrying values to determine if an impairment is required. The Company performed its annual assessment for goodwill impairment in the second quarter of 2016, noting no impairment.

Changes in the Company's goodwill balance during the six months ended July 3, 2016 are as follows (in thousands):

	Goodwill
Balance as of January 3, 2016	\$ 752,629
Current period acquisitions	23,366
Balance as of July 3, 2016	<u>\$ 775,995</u>

In January 2016, the Company closed two acquisitions consisting of \$17.8 million in upfront cash payments, equity instruments, and certain contingent consideration provisions.

Derivatives

The Company is exposed to foreign exchange rate risks in the normal course of business. The Company enters into foreign exchange contracts to manage foreign currency risks related to monetary assets and liabilities that are denominated in currencies other than the U.S. dollar. These foreign exchange contracts are carried at fair value in other assets or other liabilities and are not designated as hedging instruments. Changes in the value of the derivative are recognized in other expense, net, along with the remeasurement gain or loss on the foreign currency denominated assets or liabilities.

As of July 3, 2016, the Company had foreign exchange forward contracts in place to hedge exposures in the euro, Japanese yen, and Australian dollar. As of July 3, 2016 and January 3, 2016, the total notional amounts of outstanding forward contracts in place for foreign currency purchases were \$45.8 million and \$61.3 million, respectively.

Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	July 3, 2016	January 3, 2016
Accrued compensation expenses	\$ 112,824	\$ 120,662
Deferred revenue, current portion	110,497	96,654
Accrued taxes payable	40,158	44,159
Customer deposits	8,388	20,901
Acquisition related contingent liability, current portion	6,529	35,000
Other	51,930	69,468
Total accrued liabilities	<u>\$ 330,326</u>	<u>\$ 386,844</u>

Warranties

The Company generally provides a one-year warranty on instruments. Additionally, the Company provides 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, the Company establishes an accrual for estimated warranty expenses based on historical experience as well as anticipated product performance. The Company periodically reviews its warranty reserve for adequacy and adjusts 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.

Changes in the Company's reserve for product warranties during the three and six months ended July 3, 2016 and June 28, 2015 are as follows (in thousands):

	Three Months Ended		Six Months Ended	
	July 3, 2016	June 28, 2015	July 3, 2016	June 28, 2015
Balance at beginning of period	\$ 15,820	\$ 15,991	\$ 16,717	\$ 15,616
Additions charged to cost of product revenue	6,672	6,924	13,323	13,821
Repairs and replacements	(6,813)	(6,550)	(14,361)	(13,072)
Balance at end of period	\$ 15,679	\$ 16,365	\$ 15,679	\$ 16,365

Leases

Changes in the Company's facility exit obligation related to its former headquarters lease during the three and six months ended July 3, 2016 and June 28, 2015 are as follows (in thousands):

	Three Months Ended		Six Months Ended	
	July 3, 2016	June 28, 2015	July 3, 2016	June 28, 2015
Balance at beginning of period	\$ 21,362	\$ 36,819	\$ 22,160	\$ 37,700
Adjustment to facility exit obligation	(26)	657	21	657
Accretion of interest expense	328	729	663	1,336
Cash payments	(1,107)	(1,528)	(2,287)	(3,016)
Balance at end of period	\$ 20,557	\$ 36,677	\$ 20,557	\$ 36,677

During the six months ended July 3, 2016, the Company entered into an agreement to sublease its office building in San Francisco, California. The Company will receive \$51.2 million in minimum lease payments during the initial term of approximately eight years.

On April 5, 2016, the Company entered into a lease agreement for certain office buildings being constructed in San Diego, California. Minimum lease payments during the initial term of ten years are estimated to be \$127.4 million. The Company evaluated its involvement during the construction period, which includes certain indemnification obligations related to the construction. As a result, the Company is considered the owner of the construction project for accounting purposes only under build-to-suit lease accounting. As of July 3, 2016, the Company recorded \$65.0 million in project construction costs incurred by the landlord as construction in progress and a corresponding amount in accounts payable, which were excluded from the consolidated statements of cash flow. Once the landlord completes the construction of each of the buildings, the Company will evaluate the lease in order to determine whether or not it meets the criteria for "sale-leaseback" treatment.

Investments in Consolidated Variable Interest Entities

GRAIL, Inc.

In January 2016, the Company obtained a majority equity ownership interest in GRAIL, Inc. (GRAIL), a company formed with unrelated third party investors to pursue the development and commercialization of a blood test for asymptomatic cancer screening. The Company determined that GRAIL is a variable interest entity as the entity lacks sufficient equity to finance its activities without additional support. Additionally, the Company determined that it has (a) control of the entity's Board of Directors, which has unilateral power over the activities that most significantly impact the economic performance of GRAIL and (b) the obligation to absorb losses of and the right to receive benefits from GRAIL that are potentially significant to GRAIL. As a result, the Company is deemed to be the primary beneficiary of GRAIL and is required to consolidate GRAIL. On a fully diluted basis, the Company holds a 52% equity ownership interest in GRAIL as of July 3, 2016.

During the three months ended April 3, 2016, GRAIL completed its Series A convertible preferred stock financing, raising \$120.0 million, of which the Company invested \$40.0 million. Additionally, the Company and GRAIL executed a long-term supply agreement in which the Company contributed certain perpetual licenses, employees, and discounted supply terms in exchange for 112.5 million shares of GRAIL's Class B Common Stock. Such contributions are recorded at their historical basis as they remain within the control of the Company. The \$80.0 million received by GRAIL from unrelated third party investors

upon issuance of its Series A convertible preferred stock is classified as noncontrolling interests in stockholders' equity on the Company's consolidated balance sheet.

During the three months ended July 3, 2016, GRAIL authorized for issuance 97.5 million shares of Series A-1 convertible preferred stock, all of which were issued to Illumina in exchange for 97.5 million shares of Illumina's Class B Common Stock on June 23, 2016. As a result of the exchange, Illumina recorded a \$9.5 million deemed dividend net of tax of \$9.6 million through equity, which was eliminated in consolidation. Additionally, \$1.6 million was added to net income attributable to Illumina stockholders for purposes of calculating Illumina's consolidated earnings per share, which represents the deemed dividend, net of Illumina's portion of the losses incurred by GRAIL's common shareholders resulting from the exchange. For the three and six months ended July 3, 2016, the Company absorbed 90% of GRAIL's losses based upon its proportional ownership of GRAIL's common stock. Beginning July 4, 2016, the Company will absorb approximately 50% of GRAIL's losses based upon its proportional ownership of GRAIL's common stock subsequent to the exchange.

In accordance with GRAIL's Equity Incentive Plan, the Company may be required to redeem certain vested stock awards in cash at the then approximate fair market value. The fair value of the redeemable noncontrolling interests is considered a Level 3 instrument. Such redemption right is exercisable at the option of the holder of the awards after February 28, 2021, provided that an initial public offering of GRAIL has not been completed. As the redemption provision is outside of the control of the Company, the redeemable noncontrolling interests in GRAIL are classified outside of stockholders' equity on the accompanying condensed consolidated balance sheets. The balance of the redeemable noncontrolling interests is reported at the greater of its carrying value after receiving its allocation of GRAIL's profits and losses or its estimated redemption value at each reporting date.

The assets and liabilities of GRAIL other than cash and cash equivalents are not significant to the Company's financial position as of July 3, 2016 and have an immaterial impact on the Company's condensed consolidated statements of income and cash flows for the three and six months ended July 3, 2016.

Helix Holdings I, LLC

In July 2015, the Company obtained a 50% voting equity ownership interest in Helix Holdings I, LLC (Helix), a limited liability company formed with unrelated third party investors to pursue the development and commercialization of a marketplace for consumer genomics. The Company determined that Helix is a variable interest entity as the holder of the at-risk equity investments as a group lack the power to direct the activities of Helix that most significantly impact Helix's economic performance. Additionally, the Company determined that it has (a) unilateral power over one of the activities that most significantly impacts the economic performance of Helix through its contractual arrangements and no one individual party has unilateral power over the remaining significant activities of Helix and (b) the obligation to absorb losses of and the right to receive benefits from Helix that are potentially significant to Helix. As a result, the Company is deemed to be the primary beneficiary of Helix and is required to consolidate Helix.

As contractually committed, the Company contributed certain perpetual licenses, instruments, intangibles, initial laboratory setup, and discounted supply terms in exchange for voting equity interests in Helix. Such contributions are recorded at their historical basis as they remain within the control of the Company. Helix is financed through cash contributions made by the third party investors in exchange for voting equity interests in Helix.

Certain noncontrolling Helix investors may require the Company to redeem all noncontrolling interests in cash at the then approximate fair market value. The fair value of the redeemable noncontrolling interests is considered a Level 3 instrument. Such redemption right is exercisable at the option of certain noncontrolling interest holders after January 1, 2021, provided that a bona fide pursuit of the sale of Helix has occurred and an initial public offering of Helix has not been completed.

As the contingent redemption is outside of the control of Illumina, the redeemable noncontrolling interests in Helix are classified outside of stockholders' equity on the consolidated balance sheet. The balance of the redeemable noncontrolling interests is reported at the greater of its carrying value after receiving its allocation of Helix's profits and losses or its estimated redemption value at each reporting date. As of July 3, 2016, the noncontrolling shareholders and Illumina each held 50% of Helix's outstanding voting equity interests.

The assets and liabilities of Helix are not significant to the Company's financial position as of July 3, 2016. Helix has an immaterial impact on the Company's condensed consolidated statements of income and cash flows for the three and six months ended July 3, 2016.

As of July 3, 2016, the accompanying condensed consolidated balance sheet includes \$123.6 million of cash and cash equivalents attributable to GRAIL and Helix that will be used to settle their respective obligations and will not be available to settle obligations of the Company.

Redeemable Noncontrolling Interests

The activity of the redeemable noncontrolling interests during the six months ended July 3, 2016 is as follows (in thousands):

	Redeemable Noncontrolling Interests
Balance as of January 3, 2016	\$ 32,546
Vesting of redeemable equity awards	1,031
Net loss attributable to noncontrolling interests	(5,270)
Adjustment up to the redemption value	5,426
Balance as of July 3, 2016	\$ 33,733

3. Fair Value Measurements

The following table presents the Company's hierarchy for assets and liabilities measured at fair value on a recurring basis as of July 3, 2016 and January 3, 2016 (in thousands):

	July 3, 2016				January 3, 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Money market funds (cash equivalents)	\$ 682,706	\$ —	\$ —	\$ 682,706	\$ 391,246	\$ —	\$ —	\$ 391,246
Debt securities in government-sponsored entities	—	18,113	—	18,113	—	14,626	—	14,626
Corporate debt securities	—	325,754	—	325,754	—	421,094	—	421,094
U.S. Treasury securities	129,727	—	—	129,727	181,730	—	—	181,730
Deferred compensation plan assets	—	29,778	—	29,778	—	26,245	—	26,245
Total assets measured at fair value	\$ 812,433	\$ 373,645	\$ —	\$ 1,186,078	\$ 572,976	\$ 461,965	\$ —	\$ 1,034,941
Liabilities:								
Acquisition related contingent consideration liabilities	\$ —	\$ —	\$ 5,300	\$ 5,300	\$ —	\$ —	\$ 35,000	\$ 35,000
Deferred compensation liability	—	27,791	—	27,791	—	24,925	—	24,925
Total liabilities measured at fair value	\$ —	\$ 27,791	\$ 5,300	\$ 33,091	\$ —	\$ 24,925	\$ 35,000	\$ 59,925

The Company holds available-for-sale securities that consist of highly liquid, investment grade debt securities. The Company considers information provided by the Company's investment accounting and reporting service provider in the measurement of fair value of its 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. The Company's 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. The Company performs control procedures to corroborate the fair value of its holdings, including comparing valuations obtained from its investment service provider to valuations reported by the Company's asset custodians, validation of pricing sources and models, and review of key model inputs if necessary.

As a result of an acquisition completed in January 2016, the Company recorded \$5.3 million in contingent consideration liabilities, the majority of which are payable within 12 months after the acquisition date. The Company reassesses the fair value of any contingent consideration liabilities on a quarterly basis using the income approach. Assumptions used to estimate the acquisition date fair value of the contingent consideration include discount rates ranging from 4% to 6% and the probability of achieving certain milestones. This fair value measurement of the contingent consideration is based on significant inputs not observed in the market and thus represents a Level 3 measurement. Level 3 instruments are valued based on unobservable inputs that are supported by little or no market activity and reflect the Company's own assumptions in measuring fair value.

Changes in estimated fair value of contingent consideration liabilities during the six months ended July 3, 2016 are as follows (in thousands):

	Contingent Consideration Liability (Level 3 Measurement)
Balance as of January 3, 2016	\$ 35,000
Additional liability recorded as a result of a current period acquisition	5,300
Cash payments	(35,000)
Balance as of July 3, 2016	<u>\$ 5,300</u>

4. Debt

Convertible Senior Notes

As of July 3, 2016, the Company had outstanding \$632.5 million in principal amount of 0% convertible senior notes due June 15, 2019 (2019 Notes) and \$517.5 million in principal amount of 0.5% convertible senior notes due June 15, 2021 (2021 Notes).

0% Convertible Senior Notes due 2019 and 0.5% Convertible Senior Notes due 2021

In June 2014, the Company issued \$632.5 million aggregate principal amount of 2019 Notes and \$517.5 million aggregate principal amount of 2021 Notes. The Company used the net proceeds plus cash on hand to repurchase a portion of the outstanding 2016 Notes in privately negotiated transactions concurrently with the issuance of the 2019 and 2021 Notes. The 2019 and 2021 Notes' mature on June 15, 2019 and June 15, 2021, respectively, and the implied estimated effective rates of the liability components of the Notes were 2.9% and 3.5%, respectively, assuming no conversion.

Both the 2019 and 2021 Notes will be convertible into cash, shares of common stock, or a combination of cash and shares of common stock, at the Company's election, based on an initial conversion rate, subject to adjustment, of 3.9318 shares per \$1,000 principal amount of the notes (which represents an initial conversion price of approximately \$254.34 per share), only in the following circumstances and to the following extent: (1) during the five business-day period after any 10 consecutive trading day period (the measurement period) in which the trading price per 2019 and 2021 Note for each day of such measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such day; (2) during any calendar quarter (and only during that quarter) after the calendar quarter ending September 30, 2014, if the last reported sale price of the Company's common stock for 20 or more trading days in the period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 130% of the applicable conversion price in effect on the last trading day of the immediately preceding calendar quarter; (3) upon the occurrence of specified events described in the indenture for the 2019 and 2021 Notes; and (4) at any time on or after March 15, 2019 for the 2019 Notes, or March 15, 2021 for the 2021 Notes, through the second scheduled trading day immediately preceding the maturity date.

Neither the 2019 nor the 2021 Notes were convertible as of July 3, 2016 and had no dilutive impact during the three and six months ended July 3, 2016. If the 2019 and 2021 Notes were converted as of July 3, 2016, the if-converted value would not exceed the principal amount.

0.25% Convertible Senior Notes due 2016

In 2011, the Company issued \$920.0 million aggregate principal amount of 0.25% convertible senior notes due 2016 (2016 Notes) with a maturity date of March 15, 2016. The effective rate of the liability component was estimated to be 4.5%. Based upon meeting the stock trading price conversion requirement during the three months ended March 30, 2014, the 2016 Notes became convertible on April 1, 2014 through, and including, March 11, 2016. All notes were converted by March 11, 2016.

During the six months ended July 3, 2016, the Company recorded a loss on extinguishment of debt calculated as the difference between the estimated fair value of the debt and the carrying value of the notes as of the settlement date. To measure the fair value of the converted notes as of the settlement date, the applicable interest rate was estimated using Level 2 observable inputs and applied to the converted notes using the same methodology as in the issuance date valuation. The loss recorded on extinguishment of debt for the six months ended July 3, 2016 was immaterial.

The following table summarizes information about the conversion of the 2016 Notes during the six months ended July 3, 2016 (in thousands):

	2016 Notes
Cash paid for principal of notes converted	\$ 75,543
Conversion value over principal amount paid in shares of common stock	\$ 63,753
Number of shares of common stock issued upon conversion	409

Summary of Convertible Senior Notes

The following table summarizes information about the equity and liability components of all convertible senior notes outstanding as of the period reported (dollars in thousands). The fair values of the respective notes outstanding were measured based on quoted market prices, and is a Level 2 measurement.

	July 3, 2016	January 3, 2016
Principal amount of convertible notes outstanding	\$ 1,150,000	\$ 1,225,547
Unamortized discount of liability component	(120,077)	(134,969)
Net carrying amount of liability component	1,029,923	1,090,578
Less: current portion	—	(74,929)
Long-term debt	\$ 1,029,923	\$ 1,015,649
Carrying value of equity component, net of debt issuance cost	\$ 161,237	\$ 213,811
Fair value of outstanding notes	\$ 1,135,147	\$ 1,456,451
Weighted-average remaining amortization period of discount on the liability component	4.1 years	4.6 years

Other

As of July 3, 2016, the accompanying condensed consolidated balance sheets include \$0.5 million and \$1.5 million in current and long-term debt, respectively, related to an outstanding line of credit held by Helix.

5. Share-based Compensation Expense

Share-based compensation expense for all stock awards consists of the following (in thousands):

	Three Months Ended		Six Months Ended	
	July 3, 2016	June 28, 2015	July 3, 2016	June 28, 2015
Cost of product revenue	\$ 1,958	\$ 2,113	\$ 4,150	\$ 4,445
Cost of service and other revenue	421	466	853	745
Research and development	10,693	10,747	21,374	22,054
Selling, general and administrative	18,898	19,631	40,885	37,631
Share-based compensation expense before taxes	31,970	32,957	67,262	64,875
Related income tax benefits	(7,667)	(9,315)	(15,478)	(18,428)
Share-based compensation expense, net of taxes	\$ 24,303	\$ 23,642	\$ 51,784	\$ 46,447

The assumptions used for the specified reporting periods and the resulting estimates of weighted-average fair value per share for stock purchased under the Employee Stock Purchase Plan (ESPP) during the six months ended July 3, 2016 are as follows:

	Employee Stock Purchase Rights
Risk-free interest rate	0.47%
Expected volatility	40% - 44%
Expected term	0.5 - 1.0 year
Expected dividends	0%
Weighted-average fair value per share	\$ 47.77

As of July 3, 2016, approximately \$226.0 million of unrecognized compensation cost related to stock options, restricted stock, and ESPP shares granted to date is expected to be recognized over a weighted-average period of approximately 2.0 years.

6. Stockholders' Equity

As of July 3, 2016, approximately 7.6 million shares remained available for future grants under the 2015 Stock Plan and the 2005 Solexa Equity Plan.

Restricted Stock

The Company's restricted stock activity and related information for the six months ended July 3, 2016 is as follows (units in thousands):

	Restricted Stock Awards (RSA)	Restricted Stock Units (RSU)	Performance Stock Units (PSU)(1)	Weighted-Average Grant-Date Fair Value per Share		
				RSA	RSU	PSU
Outstanding at January 3, 2016	21	2,206	583	\$ 47.93	\$ 131.80	\$ 169.41
Awarded	22	121	12	\$ 179.00	\$ 154.96	\$ 164.66
Vested	—	(321)	—	\$ —	\$ 82.91	—
Cancelled	—	(153)	(97)	\$ —	\$ 135.36	\$ 163.06
Outstanding at July 3, 2016	43	1,853	498	\$ 114.59	\$ 141.46	\$ 170.54

(1) The number of units reflect the estimated number of shares to be issued at the end of the performance period.

Stock Options

The Company's stock option activity under all stock option plans during the six months ended July 3, 2016 is as follows:

	Options (in thousands)	Weighted-Average Exercise Price
Outstanding at January 3, 2016	1,599	\$ 41.95
Exercised	(331)	\$ 30.14
Cancelled	(2)	\$ 48.36
Outstanding at July 3, 2016	1,266	\$ 45.04

At July 3, 2016, outstanding options to purchase 1.3 million shares were exercisable with a weighted-average exercise price per share of \$45.09.

Employee Stock Purchase Plan

The price at which common stock is purchased under the 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 the six months ended July 3, 2016, approximately 0.1 million shares were issued under the ESPP. As of July 3, 2016, there were approximately 14.4 million shares available for issuance under the ESPP.

Share Repurchases

On May 1, 2015, the Company's Board of Directors authorized \$150.0 million of repurchases under a Rule 10b5-1 plan. In addition, on October 29, 2015, the Company's Board of Directors authorized a new discretionary share repurchase program of \$250.0 million. During the six months ended July 3, 2016, the Company repurchased approximately 0.7 million shares for \$100.0 million in aggregate. Authorizations to repurchase up to an additional \$156.1 million of the Company's common stock remained available as of July 3, 2016.

7. Income Taxes

The Company's 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 the three and six months ended July 3, 2016 was 25.9% and 25.3%, respectively. For the three and six months ended July 3, 2016, the variance from the U.S. federal statutory tax rate of 35% 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.

8. Legal Proceedings

The Company is 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, the Company assesses, on a regular basis, the probability and range of possible loss based on the developments in these matters. A liability is recorded in the 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 results could occur, assessing contingencies is highly subjective and requires judgments about future events. The Company regularly reviews outstanding legal matters to determine the adequacy of the liabilities accrued and related disclosures. The amount of ultimate loss may differ from these estimates. Each matter presents its own unique circumstances, and prior litigation does not necessarily provide a reliable basis on which to predict the outcome, or range of outcomes, in any individual proceeding. Because of the uncertainties related to the occurrence, amount, and range of loss on any pending litigation or claim, the Company is currently unable to predict their ultimate outcome, and, with respect to any pending litigation or claim where no liability has been accrued, to make a meaningful estimate of the reasonably possible loss or range of loss that could result from an unfavorable outcome. In the event that opposing litigants or claims ultimately succeed at trial and any subsequent appeals on their claims, any potential loss or charges in excess of any established accruals, individually or in the aggregate, could have a material adverse effect on the Company's business, financial condition, results of operations, and/or cash flows in the period in which the unfavorable outcome occurs or becomes probable, and potentially in future periods.

On July 1, 2016, the Company entered into a Settlement and License Agreement with Enzo Life Sciences, Inc. (Enzo) that settled all claims in the litigation. Pursuant to the terms of the Settlement and License Agreement, the Company paid Enzo a one-time payment of \$21.0 million for release of past damages claimed and a fully paid-up non-exclusive license to U.S. Patent No. 7,064,197. None of the parties made any admission of liability in entering into the Settlement and License Agreement. The Company allocated the \$21.0 million settlement on a relative fair value basis, resulting in \$11.5 million capitalized as an intangible asset and a corresponding gain recorded in legal contingencies for the value of the license, which will be amortized over a period of 7 years on a straight-line basis, and the remaining \$9.5 million related to past damages claimed. The fair value of the license and past damages was estimated using a discounted cash flow model, and is considered to be a Level 3 measurement. The \$21.0 million settlement liability is included in accounts payable as of July 3, 2016 .

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

Our Management's Discussion and Analysis of Financial Condition and Results of Operations (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:

- *Business 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 statements of cash flows, changes in our financial position, and our financial commitments.
- *Off-Balance Sheet Arrangements* . We have no off-balance sheet arrangements.
- *Critical Accounting Policies and Estimates* . Discussion of significant changes since our most recent Annual Report on Form 10-K we believe are important to understanding the assumptions and judgments underlying our financial statements.
- *Recent Accounting Pronouncements* . Summary of recent accounting pronouncements applicable to our condensed consolidated financial statements.

This MD&A discussion contains forward-looking statements that involve risks and uncertainties. Please see "Consideration Regarding Forward-Looking Statements" at the end of this MD&A section 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, 2016 . Operating results are not necessarily indicative of results that may occur in future periods.

Business 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 Quarterly Report on Form 10-Q.

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 market segments.

Our portfolio of integrated systems, consumables, and analysis tools is designed to accelerate and simplify genetic analysis. This portfolio addresses a range of genomic complexity, price points, and throughput, enabling customers to select the best solution for their research or clinical challenge.

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 in Item 1, Part I of this report, and the other transactions, events, and trends discussed in “Risk Factors” in Item 1A, Part II of this report and Item 1A of our Annual Report on Form 10-K for the fiscal year ended January 3, 2016 .

Next-Generation Sequencing

Next-generation sequencing has become an essential technology in our markets, and our portfolio of sequencing platforms represents a family of systems that are designed to meet the workflow, output, and accuracy demands of a full range of sequencing applications. We believe that the expanding sequencing market, along with an increase in the number of samples available and enhancements in our sequencing portfolio, will continue to drive demand for our next-generation sequencing technologies. As a result, we believe that our sequencing consumables revenue will continue to grow in future periods.

Arrays

As a complement to next-generation sequencing, we believe arrays offer a less expensive, faster, and highly accurate technology for use when genetic content is already known. The information content of arrays is fixed and reproducible, providing a repeatable, standardized technology to read out subsets of nucleotide bases within the overall genome. We believe that our customers will migrate certain array studies to sequencing. However, we expect that demand from customers in reproductive health, agriculture, and applied markets will partially mitigate this decline. Demand in the array market has trended toward lower complexity arrays that can be used on larger numbers of samples, resulting in a lower selling price per sample. We believe that our innovation in array products supports the lower selling price.

Financial Overview

Financial results for the first half of 2016 include the following:

- Net revenue increased 8.7% during the first half of 2016 to \$1,171.9 million compared to the first half of 2015 due to the growth in sales of our sequencing consumables and services. This result was driven by the strength of our Americas and Asia Pacific regions partially offset by a weaker performance in Europe. Our growth in Europe has declined and we are taking steps to improve our execution to deliver on the market opportunity we believe exists within the region.
- Gross profit as a percentage of revenue (gross margin) was 70.0% in the first half of 2016 compared to 69.7% in the first half of 2015 . Gross margins in the first half of 2016 increased primarily due to a greater mix of sequencing consumables, partially offset by a decline in service margin. Our gross margin in future periods will depend on several factors, including: market conditions that may impact our pricing power; sales mix changes among consumables, instruments, and services; product mix changes between established products and new products in new markets; royalties; our cost structure for manufacturing operations; and product support obligations.
- Income from operations decreased \$44.7 million in the first half of 2016 compared to the first half of 2015 despite higher gross profit due to the increase in research and development and selling, general and administrative expenses, which we expect will continue to grow.
- Our effective tax rate was 25.3% in the first half of 2016 , compared to 25.2% in the first half of 2015 . The variance from the U.S. federal statutory tax rate of 35% 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. 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” in Part I Item 1A of our Annual Report on Form 10-K for the fiscal year ended January 3, 2016 . We anticipate that our effective tax rate will trend lower than the U.S. federal statutory tax rate in the future due to the portion of our earnings that will be subject to lower statutory tax rates.
- Cash, cash equivalents, and short-term investments were \$1.4 billion as of July 3, 2016 .

Results of Operations

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

	Q2 2016	Q2 2015	YTD 2016	YTD 2015
Revenue:				
Product revenue	85.0 %	85.8 %	84.7 %	85.5 %
Service and other revenue	15.0	14.2	15.3	14.5
Total revenue	100.0	100.0	100.0	100.0
Cost of revenue:				
Cost of product revenue	20.8	22.1	21.4	22.2
Cost of service and other revenue	6.8	6.0	6.8	6.0
Amortization of acquired intangible assets	1.8	2.1	1.8	2.1
Total cost of revenue	29.4	30.2	30.0	30.3
Gross profit	70.6	69.8	70.0	69.7
Operating expense:				
Research and development	20.8	17.8	21.2	17.4
Selling, general and administrative	24.8	23.1	25.4	22.3
Legal contingencies	(2.0)	—	(0.8)	—
Headquarter relocation	—	0.3	0.1	0.2
Acquisition related expense (gain), net	—	0.4	—	(0.7)
Total operating expense	43.6	41.6	45.9	39.2
Income from operations	27.0	28.2	24.1	30.5
Other income (expense):				
Interest income	0.6	0.2	0.4	0.3
Interest expense	(1.4)	(2.0)	(1.4)	(2.1)
Cost-method investment gain, net	—	—	—	1.2
Other (expense) income, net	—	(0.2)	0.1	(0.2)
Total other expense, net	(0.8)	(2.0)	(0.9)	(0.8)
Income before income taxes	26.2	26.2	23.2	29.7
Provision for income taxes	6.8	7.2	5.8	7.5
Consolidated net income	19.4	19.0	17.4	22.2
Add: Net loss attributable to noncontrolling interests	0.7	—	0.5	—
Net income attributable to Illumina stockholders	20.1 %	19.0 %	17.9 %	22.2 %

Our fiscal year consists of 52 or 53 weeks ending the Sunday closest to December 31, with quarters of 13 or 14 weeks ending the Sunday closest to March 31, June 30, September 30, and December 31. The three and six month periods ended July 3, 2016 and June 28, 2015 were both 13 weeks.

Revenue

(Dollars in thousands)	Q2 2016	Q2 2015	Change	% Change	YTD 2016	YTD 2015	Change	% Change
Product revenue	\$ 509,922	\$ 462,760	\$ 47,162	10%	\$ 992,672	\$ 921,887	\$ 70,785	8%
Service and other revenue	90,202	76,618	13,584	18	179,215	156,056	23,159	15
Total revenue	\$ 600,124	\$ 539,378	\$ 60,746	11%	\$ 1,171,887	\$ 1,077,943	\$ 93,944	9%

Product revenue consists primarily of revenue from the sale of consumables and instruments. Service and other revenue consists primarily of sequencing and genotyping service revenue as well as instrument service contract revenue.

QTD 2016 vs. QTD 2015

Revenue increased \$60.7 million , or 11% , to \$600.1 million in Q2 2016 compared to \$539.4 million in Q2 2015 .

Consumables revenue increased \$76.1 million , or 25% , to \$379.4 million in Q2 2016 compared to \$303.3 million in Q2 2015 , driven primarily by growth in sequencing and microarray consumables.

Instrument revenue decreased \$29.7 million , or 19% , to \$125.6 million in Q2 2016 compared to \$155.3 million in Q2 2015 , primarily due to lower shipments of our high-throughput platforms.

Service and other revenue increased \$13.6 million , or 18% , to \$90.2 million in Q2 2016 compared to \$76.6 million in Q2 2015 , driven by revenue from genotyping services and extended maintenance service contracts associated with a larger sequencing installed base.

YTD 2016 vs. YTD 2015

Revenue increased \$93.9 million , or 9% , to \$1,171.9 million in the first half of 2016 compared to \$1,077.9 million in the first half of 2015 .

Consumables revenue increased \$128.4 million , or 21% , to \$740.1 million in the first half of 2016 compared to \$611.7 million in the first half of 2015 , driven by growth in the sequencing instrument installed base.

Instrument revenue decreased \$58.5 million , or 19% , to \$243.2 million in the first half of 2016 compared to \$301.7 million in the first half of 2015 , primarily due to lower shipments of our high-throughput platforms.

Service and other revenue increased \$23.2 million , or 15% , to \$179.2 million in the first half of 2016 compared to \$156.1 million in the first half of 2015 , driven by revenue from genotyping services and extended instrument service contracts associated with a larger sequencing installed base.

Gross Margin

(Dollars in thousands)	Q2 2016	Q2 2015	Change	% Change	YTD 2016	YTD 2015	Change	% Change
Gross profit	\$ 423,805	\$ 376,365	\$ 47,440	13%	\$ 820,859	\$ 751,392	\$ 69,467	9%
Gross margin	70.6%	69.8%			70.0%	69.7%		

QTD 2016 vs. QTD 2015

Gross margin increased to 70.6% in Q2 2016 from 69.8% in Q2 2015 . Gross margin increased primarily due to a greater mix of sequencing consumables, partially offset by a decline in service margin.

YTD 2016 vs. YTD 2015

Gross margin increased to 70.0% in the first half of 2016 compared to 69.7% in the first half of 2015 , primarily due to a greater mix of sequencing consumables, partially offset by a decline in service margin.

Operating Expense

(Dollars in thousands)	Q2 2016	Q2 2015	Change	% Change	YTD 2016	YTD 2015	Change	% Change
Research and development	\$ 124,589	\$ 96,182	\$ 28,407	30 %	\$ 248,583	\$ 187,954	\$ 60,629	32 %
Selling, general and administrative	148,535	124,441	24,094	19	297,768	240,758	57,010	24
Legal contingencies	(11,490)	—	(11,490)	100	(9,490)	—	(9,490)	100
Headquarter relocation	302	1,480	(1,178)	(80)	684	2,179	(1,495)	(69)
Acquisition related expense (gain), net	—	2,329	(2,329)	(100)	—	(7,558)	7,558	(100)
Total operating expense	<u>\$ 261,936</u>	<u>\$ 224,432</u>	<u>\$ 37,504</u>	17 %	<u>\$ 537,545</u>	<u>\$ 423,333</u>	<u>\$ 114,212</u>	27 %

QTD 2016 vs. QTD 2015

Research and development expense increased by \$28.4 million , or 30% , in Q2 2016 from Q2 2015 , primarily due to increased headcount and related expenses as we continue to invest in the development of products as well as enhancements to existing products. Additionally, we incurred approximately \$8.7 million in costs attributable to GRAIL and Helix in Q2 2016.

Selling, general and administrative expense increased by \$24.1 million , or 19% , in Q2 2016 from Q2 2015 , primarily driven by increased headcount and facilities investment to support our continued growth and scale our operations, as well as outside services. Additionally, we incurred approximately \$6.8 million in costs attributable to GRAIL and Helix in Q2 2016.

Legal contingencies in Q2 2016 represent a reversal of previously recorded expense related to the settlement of patent litigation.

YTD 2016 vs. YTD 2015

Research and development expense increased by \$60.6 million , or 32% , in the first half of 2016 compared to the first half of 2015 , primarily due to increased headcount and outside services as we continue to invest in the development of new products as well as enhancements to existing products. Additionally, we incurred approximately \$14.1 million in costs attributable to GRAIL and Helix in the first half of 2016.

Selling, general and administrative expense increased by \$57.0 million , or 24% , in the first half of 2016 compared to the first half of 2015 , primarily due to increased headcount and facilities investment to support our continued growth and scale our operations, as well as outside services. Additionally, we incurred approximately \$9.9 million in costs attributable to GRAIL and Helix in the first half of 2016.

Legal contingencies in the first half of 2016 represent a reversal of previously recorded expense related to the settlement of patent litigation.

Acquisition related gain, net, in the first half of 2015 consisted of changes in fair value of contingent consideration and transaction related costs. The changes in the fair value of contingent consideration were primarily due to changes in the estimated payments.

Other Income (Expense), Net

(Dollars in thousands)	Q2 2016	Q2 2015	Change	% Change	YTD 2016	YTD 2015	Change	% Change
Interest income	\$ 3,403	\$ 1,344	\$ 2,059	153 %	\$ 4,627	\$ 3,037	\$ 1,590	52 %
Interest expense	(8,147)	(11,205)	3,058	(27)	(16,672)	(22,369)	5,697	(25)
Cost-method investment gain, net	—	—	—	—	—	12,582	(12,582)	(100)
Other (expense) income, net	(150)	(900)	750	(83)	1,302	(2,091)	3,393	(162)
Total other expense, net	<u>\$ (4,894)</u>	<u>\$ (10,761)</u>	<u>\$ 5,867</u>	(55)%	<u>\$ (10,743)</u>	<u>\$ (8,841)</u>	<u>\$ (1,902)</u>	22 %

QTD 2016 vs. QTD 2015

Interest expense consisted primarily of accretion of discount on our convertible senior notes. The decrease in interest expense in Q2 2016 compared to Q2 2015 was due to a lower outstanding principal balance on the 2016 Notes, which matured in March 2016.

YTD 2016 vs. YTD 2015

Interest expense consisted primarily of accretion of discount on our convertible senior notes. The decrease in interest expense in the first half of 2016 compared to the first half of 2015 was due to a lower outstanding principal balance on the 2016 Notes, which matured in March 2016.

Cost-method investment gain, net , during the first half of 2015 consisted primarily of a gain on the sale of a cost-method investment.

Other (expense) income, net , in the first half of 2016 and the first half of 2015 primarily consisted of net foreign exchange gains and losses.

Provision for Income Taxes

(Dollars in thousands)	Q2 2016	Q2 2015	Change	% Change	YTD 2016	YTD 2015	Change	% Change
Income before income taxes	\$ 156,975	\$ 141,172	\$ 15,803	11%	\$ 272,571	\$ 319,218	\$ (46,647)	(15)%
Provision for income taxes	40,581	38,925	1,656	4	68,958	80,313	(11,355)	(14)
Consolidated net income	\$ 116,394	\$ 102,247	\$ 14,147	14%	\$ 203,613	\$ 238,905	\$ (35,292)	(15)%
Effective tax rate	25.9%	27.6%			25.3%	25.2%		

QTD 2016 vs. QTD 2015

Our effective tax rate was 25.9% for Q2 2016 compared to 27.6% in Q2 2015 . For both of these periods, the variance from the U.S. federal statutory tax rate of 35% 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 Singapore and the United Kingdom.

YTD 2016 vs. YTD 2015

Our effective tax rate was 25.3% in the first half of 2016 , compared to 25.2% in the first half of 2015 . For both of these periods, the variance from the U.S. federal statutory tax rate of 35% 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 Singapore and the United Kingdom. For the first half of 2015 , the decrease from the U.S. federal statutory tax rate also resulted from the reversal of a valuation allowance related to research and development tax credits, which was recorded as a discrete item.

Liquidity and Capital Resources

At July 3, 2016 , we had approximately \$951.7 million in cash and cash equivalents, of which approximately \$449.8 million were held by our foreign subsidiaries. Cash and cash equivalents held by GRAIL and Helix as of July 3, 2016 were \$123.6 million . Cash and cash equivalents increased by \$182.9 million from January 3, 2016 , 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. Our ability to generate cash from operations provides us with the financial flexibility we need to meet operating, investing, and financing needs. It is our intention to indefinitely reinvest all current and future foreign earnings in foreign subsidiaries.

Historically, we have liquidated our short-term investments or issued debt and equity securities to finance our business needs as a supplement to cash provided by operating activities. As of July 3, 2016 , we had \$473.6 million in short-term investments. Short-term investments held by our foreign subsidiaries as of July 3, 2016 were approximately \$202.4 million .

Our short-term investments include marketable securities consisting of U.S. government-sponsored entities, corporate debt securities, and U.S. Treasury securities.

During the first half of 2016, \$75.5 million in principal of the 2016 Notes were converted. The 2016 Notes became convertible on April 1, 2014 through, and including, March 11, 2016. All 2016 Notes were converted by March 11, 2016. The convertible senior notes due 2019 and 2021 were not convertible as of July 3, 2016.

We anticipate that our current cash, cash equivalents and short-term investments, together with cash provided by operating activities 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, including expansion of our direct sales force and field support resources both in the United States and abroad;
- 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;
- potential early repayment of debt obligations as a result of conversions;
- the expansion needs of our facilities, including costs of leasing and building out additional facilities; and
- repurchases of our outstanding common stock.

As of July 3, 2016, \$156.1 million remains under authorized stock repurchase programs.

Certain noncontrolling Helix investors may require Illumina to redeem all noncontrolling interests in cash at the then approximate fair market value. Such redemption right is exercisable at the option of certain noncontrolling interest holders after January 1, 2021, provided that a bona fide pursuit of the sale of Helix has occurred and an initial public offering of Helix has not been completed. The fair value of the redeemable noncontrolling interests related to Helix as of July 3, 2016 was \$32.7 million.

On April 14, 2016, we announced our commitment to invest \$100.0 million in a new venture capital investment fund established by Nicholas Naclerio, Ph.D., our former Senior Vice President, Corporate and Venture Development. The capital commitment is callable over ten years, and up to \$40.0 million can be drawn down during the first year. During the three months ended July 3, 2016, the Company transferred \$3.2 million of its cost-method investments to the Fund and contributed \$3.1 million in cash.

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 thousands)	YTD 2016	YTD 2015
Net cash provided by operating activities	\$ 256,785	\$ 238,224
Net cash used in investing activities	(16)	(296,617)
Net cash (used in) provided by financing activities	(75,694)	15,276
Effect of exchange rate changes on cash and cash equivalents	1,817	(1,980)
Net increase (decrease) in cash and cash equivalents	<u>\$ 182,892</u>	<u>\$ (45,097)</u>

Operating Activities

Net cash provided by operating activities in the first half of 2016 consisted of net income of \$203.6 million plus net adjustments of \$96.9 million partially offset by net changes in operating assets and liabilities of \$43.7 million . The primary non-cash expenses added back to net income included depreciation and amortization expenses of \$67.6 million , share-based compensation of \$67.3 million , deferred income tax of \$27.8 million , and accretion of debt discount of \$15.0 million . These non-cash add-backs were partially offset by \$84.2 million in incremental tax benefit related to share-based compensation. Cash flow impact from changes in net operating assets included increases in inventory and other assets, and a decrease in accrued liabilities, partially offset by increases in accounts payable and other long term liabilities, and decreases in accounts receivable and prepaid expenses.

Net cash provided by operating activities in the first half of 2015 consisted of net income of \$238.9 million plus net adjustments of \$103.9 million partially offset by net changes in operating assets and liabilities of \$104.6 million . The primary non-cash expenses added back to net income included deferred income taxes of \$80.6 million , share-based compensation of \$64.9 million , depreciation and amortization expenses of \$60.8 million , and accretion of debt discount of \$20.4 million . These non-cash add-backs were partially offset by \$106.2 million in incremental tax benefit related to share-based compensation, \$12.6 million in cost-method investment gain, net and \$7.6 million in change in fair value of contingent consideration. Cash flow impact from changes in net operating assets included increases in accounts receivable and inventory, and a decrease in accrued liabilities, partially offset by an increase in accounts payable.

Investing Activities

Net cash used in investing activities were nominal for the first half of 2016 . We purchased \$302.5 million of available-for-sale securities and \$448.0 million of our available-for-sale securities matured or were sold during the period. We also paid net cash of \$17.8 million for acquisitions and invested \$121.2 million in capital expenditures primarily associated with facilities and the purchase of manufacturing, research and development equipment.

Net cash used in investing activities totaled \$296.6 million for the first half of 2015 . We purchased \$578.4 million of available-for-sale securities and \$359.1 million of our available-for-sale securities matured or were sold during the period. We invested \$77.9 million in capital expenditures primarily associated with facilities and information technology equipment and systems primarily related to our enterprise resource planning implementation.

Financing Activities

Net cash used in financing activities totaled \$75.7 million for the first half of 2016 . We used \$72.8 million to pay taxes related to net share settlement of equity awards and \$29.2 million to pay acquisition related contingent consideration. We used \$71.6 million to repay financing obligations. We received \$84.2 million in incremental tax benefit related to share-based compensation, \$26.6 million in proceeds from issuance of common stock through the exercise of stock options and the sale of shares under our employee stock purchase plan, \$2.0 million in proceeds from issuance of debt related to an outstanding line of credit held by Helix, and \$5.0 million in proceeds from early exercises of equity awards from a subsidiary. Contributions from noncontrolling owners were \$80.0 million .

Net cash used in financing activities totaled \$15.3 million for the first half of 2015 . We used \$90.0 million to pay taxes related to net share settlement of equity awards and \$34.8 million to repurchase our common stock. We received \$106.2 million in incremental tax benefit related to share-based compensation and \$42.5 million in proceeds from issuance of common stock through the exercise of stock options and under our employee stock purchase plan.

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 the first half of 2016, we were not involved in any “off-balance sheet arrangements” within the meaning of the rules of the Securities and Exchange Commission.

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 Management’s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of our Annual Report on Form 10-K for the fiscal year ended January 3, 2016 have the greatest potential impact on our financial statements, so we consider them to be our critical accounting policies and estimates. There were no material changes to our critical accounting policies and estimates during the first half of 2016.

Recent Accounting Pronouncements

For summary of recent accounting pronouncements applicable to our condensed consolidated financial statements, see note “1. Summary of Significant Accounting Policies” in Part I, Item 1, Notes to Condensed Consolidated Financial Statements, which is incorporated herein by reference.

Consideration Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties, such as statements of our plans, strategies, objectives, expectations, intentions, and adequacy of resources. Words such as “anticipate,” “believe,” “continue,” “estimate,” “expect,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” or similar words or phrases, or the negatives of these words, may identify forward-looking statements, but the absence of these words does not necessarily mean that a statement is not forward looking. Examples of forward-looking statements include, among others, statements regarding the integration of our acquired technologies with our existing technology, the commercial launch of new products, the entry into new business segments or markets, and the duration which our existing cash and other resources is expected to fund our operating activities.

Forward-looking statements are subject to known and unknown risks and uncertainties and are based on potentially inaccurate assumptions that could cause actual results to differ materially from those expected or implied by the forward-looking statements. Among the important factors that could cause actual results to differ materially from those in any forward-looking statements include the following:

- our ability to develop and commercialize our instruments and consumables, to deploy new products, services, and applications, and expand the markets for our technology platforms;
- our ability to manufacture robust instrumentation and consumables;
- our ability to identify and integrate acquired technologies, products, or businesses successfully;
- our expectations and beliefs regarding prospects and growth for the business and its markets;
- 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 Item 1A of our Annual Report on Form 10-K for the fiscal year ended January 3, 2016, 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 update these forward-looking statements, to review or confirm analysts' expectations, or to provide interim reports or updates on the progress of the current financial quarter. Accordingly, you should not unduly rely on these forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There were no substantial changes to our market risks in the six months ended July 3, 2016, when compared to the disclosures in Item 7A of our Annual Report on Form 10-K for the fiscal year ended January 3, 2016.

Item 4. Controls and Procedures.

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

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 Q2 2016, we continued to monitor and evaluate the operating effectiveness of key controls related to process enhancements arising out of our enterprise resource planning system implementation in 2015. 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.

PART II — OTHER INFORMATION**Item 1. 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 assesses, on a regular basis, the probability and range of possible loss based on the developments in these matters. A liability is recorded in the 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 results 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. The amount of ultimate loss may differ from these estimates. Each matter presents its own unique circumstances, and prior litigation does not necessarily provide a reliable basis on which to predict the outcome, or range of outcomes, in any individual proceeding. Because of the uncertainties related to the occurrence, amount, and range of loss on any pending litigation or claim, we are currently unable to predict their ultimate outcome, and, with respect to any pending litigation or claim where no liability has been accrued, to make a meaningful estimate of the reasonably possible loss or range of loss that could result from an unfavorable outcome. In the event that opposing litigants or claims ultimately succeed at trial and any subsequent appeals on their claims, any potential loss or charges in excess of any established accruals, individually or in the aggregate, could have a material adverse effect on our business, financial condition, results of operations, and/or cash flows in the period in which the unfavorable outcome occurs or becomes probable, and potentially in future periods.

Item 1A. Risk Factors.

Our business is subject to various risks, including those described in Item 1A of our Annual Report on Form 10-K for the fiscal year ended January 3, 2016, which we strongly encourage you to review. There have been no material changes from the risk factors disclosed in Item 1A of our Form 10-K.

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

None during the quarterly period ended July 3, 2016.

Purchases of Equity Securities by the Issuer

On May 1, 2015, the Company's Board of Directors (the "Board") authorized \$150.0 million of repurchases under a Rule 10b5-1 plan. In addition, on October 29, 2015, the Company's Board authorized a new discretionary share repurchase program of \$250.0 million. The following table summarizes shares repurchased pursuant to these programs during the three months ended July 3, 2016.

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Programs
April 4, 2016 - May 1, 2016	—	—	—	\$ 256,110,853
May 2, 2016 - May 29, 2016	713,712	\$ 140.09	713,712	\$ 156,126,803
May 30, 2016 - July 3, 2016	—	\$ —	—	\$ 156,126,803
Total	713,712	\$ 140.09	713,712	\$ 156,126,803

(1) All shares purchased during the three months ended July 3, 2016, were made in open-market transactions.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Amendments to Bylaws.

On July 28, 2016, the Board of the Company adopted the Amended and Restated Bylaws of the Company (the “Amended and Restated Bylaws”). Sections 2.1 and 2.8 have been amended to address matters related to stockholder meetings held by means of remote communication. Sections 2.13 and 2.14 have been amended to clarify the notice periods for stockholder director nominations and stockholder proposals. Section 6.4 has been added to explicitly provide for the right of advancement in indemnification proceedings. The foregoing description of the Amended and Restated Bylaws is qualified in its entirety by reference to the full text of the Amended and Restated Bylaws, a copy of which is attached as Exhibit 3.1 hereto and incorporated herein by reference.

Item 6. Exhibits.

Exhibit Number	Description of Document
3.1	Bylaws of Illumina, Inc., Amended and Restated as of July 28, 2016.
31.1	Certification of Francis A. deSouza pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Marc A. Stapley pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
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.
32.2	Certification of Marc A. Stapley pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase

SIGNATURES

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

ILLUMINA, INC.
(registrant)

Date: August 1, 2016

/s/ M ARC A. S TAPLEY

Marc A. Stapley
Executive Vice President, Chief Administrative Officer and Chief Financial
Officer

BYLAWS

OF

ILLUMINA, INC.

*Amended and Restated
as of July 28, 2016*

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BYLAWS

OF

ILLUMINA, INC.

ARTICLE I

CORPORATE OFFICES

1.1

REGISTERED OFFICE

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

1.2

OTHER OFFICES

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

ARTICLE II

MEETINGS OF STOCKHOLDERS

2.1

PLACE OF MEETINGS

Meetings of stockholders shall be held at any place, within or outside the State of Delaware, designated by the board of directors. The board of directors may, in its sole discretion, determine that the meeting shall not be held at any place but may instead be held by means of remote communication as authorized by Section 211 of the Delaware General Corporation Law, as amended. In the absence of any such designation, stockholders' meetings shall be held at the registered office of the corporation.

2.2

ANNUAL MEETING

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

2.3

SPECIAL MEETING

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

2.4

NOTICE OF STOCKHOLDERS' MEETINGS

All notices of meetings with stockholders shall be in writing and shall be sent or otherwise given in accordance with Section 2.5 of these bylaws not less than 10 nor more than 60 days before the date of the meeting to each stockholder entitled to vote at such meeting. The notice shall specify the place, date, and hour of the meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called. Business transacted at a special meeting of stockholders shall be confined to the purpose or purposes of the meeting specified in the notice of meeting (or supplement or amendment thereto) given by or at the direction of the board of directors. Stockholders may not make nominations for directors or bring any business before a special meeting of stockholders.

2.5

MANNER OF GIVING NOTICE; AFFIDAVIT OF NOTICE

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

2.6

QUORUM

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

2.7

ADJOURNED MEETING; NOTICE

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

2.8

VOTING; PARTICIPATION

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

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

If authorized by the board of directors, and subject to such guidelines and procedures as the board of directors may adopt, stockholders and proxy holders not physically present at a meeting of stockholders may, by means of remote communication, participate in the meeting and be deemed present in person and vote at the meeting, whether such meeting is to be held at a designated place or solely by means of remote communication; provided that (a) the corporation shall implement reasonable measures to verify that each person deemed present and permitted to vote at the meeting by means of remote communication is a stockholder or proxy holder, (b) the corporation shall implement reasonable measures to provide such stockholders and proxy holders a reasonable opportunity to participate in the meeting and to vote on matters submitted to the stockholders, including an opportunity to read or hear the proceedings of the meeting substantially concurrently with such proceedings, and (c) if any stockholder or proxy holder votes or takes other action at the meeting by means of remote communication, a record of such vote or other action shall be maintained by the corporation.

2.9

WAIVER OF NOTICE

Whenever notice is required to be given under any provision of the General Corporation Law of Delaware or of the certificate of incorporation or these bylaws, a written waiver thereof, signed by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the

transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders need be specified in any written waiver of notice unless so required by the certificate of incorporation or these bylaws.

2.10 RECORD DATE FOR STOCKHOLDER NOTICE; VOTING; GIVING CONSENTS

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

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

- (a) The record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held.
- (b) The record date for determining stockholders entitled to express consent to corporate action in writing without a meeting, when no prior action by the board of directors is necessary, shall be the day on which the first written consent is expressed.
- (c) The record date for determining stockholders for any other purpose shall be at the close of business on the day on which the board of directors adopts the resolution relating thereto.

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

2.11

PROXIES

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

2.12

LIST OF STOCKHOLDERS ENTITLED TO VOTE

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

2.13

NOMINATIONS FOR DIRECTORS

Nominations of persons for election to the board of directors of the corporation may be made only (i) by the board of directors at any meeting of stockholders and (ii) at an annual meeting of stockholders, by any stockholder of the corporation who is entitled to vote for the election of directors and who has complied with the procedures established by this Section 2.13. For a nomination to be properly brought before an annual meeting by a stockholder, the stockholder intending to make the nomination or bring other business before a meeting of shareholders, as the case may be (the "Proponent") must have given timely and proper notice thereof in writing to the secretary of the corporation, in accordance with, and containing all information and the completed questionnaire provided for in, this Section 2.13.

To be timely, a Proponent's notice must be delivered to or mailed to the secretary of the corporation and received at the principal executive offices of the corporation prior to the close of business not less than 90 nor more than 120 days prior to the first anniversary of the preceding year's annual meeting of stockholders; provided, however, in the event the date of the annual meeting is advanced more than 30 days prior to such anniversary date or delayed more than 60 days after such anniversary date, then to be timely

such notice must be received by the corporation not later than the close of business on the later of the 90th day prior to the date of the meeting or the 10th day following the date of Public Disclosure (defined below) of the date of the annual meeting. In no event shall any adjournment or postponement of an annual meeting of stockholders or announcement thereof commence a new time period or extend any time period for the giving of a Proponent's notice as required by this Section 2.13.

A Proponent's notice to the secretary shall set forth: (a) as to each person the Proponent proposes to nominate for election as a director at the annual meeting, (i) the name, age, business address, residence address and telephone number of such nominee and the name, business address and residence address of any Nominee Associated Persons (defined below), (ii) the principal occupation or employment of such nominee, (iii) the class and number of shares of stock of the corporation that are owned (beneficially and of record) by or on behalf of such nominee and by or on behalf of any Nominee Associated Person as of the date of the Proponent's notice, (iv) a description of such nominee's qualifications to be a director and (v) a statement as to whether such nominee would be an independent director, and the basis therefor, under the listing standards of the Nasdaq Global Market and the corporation's Corporate Governance Guidelines and (b) as to the Proponent and any Stockholder Associated Person (defined below) on whose behalf the nomination is being made, (i) the name and address of the Proponent, and any holder of record of the Proponent's shares of stock, as they appear on the corporation's books, and of any Stockholder Associated Person, (ii) the class and number of shares of stock of the corporation that are owned (beneficially and of record) by or on behalf of the Proponent and by or on behalf of any Stockholder Associated Person as of the date of the Proponent's notice, the date such shares were acquired and the investment intent with respect thereto, (iii) a representation and agreement that the Proponent will notify the corporation in writing of the class and number of shares of stock of the corporation that are owned (beneficially and of record) by or on behalf of the Proponent and by or on behalf of any Stockholder Associated Person as of the record date for the meeting, not later than the close of business on the third business day following the later of the record date or the date of Public Disclosure of the record date, (iv) a description of all purchases and sales of, or other transactions involving in any way, shares of stock of the corporation by or on behalf of the Proponent and by or on behalf of any Stockholder Associated Person during the twenty-four month period prior to the date of the Proponent's notice, including the date of the transactions, the class and number of shares and the consideration (without regard to whether such shares were or were not owned by the Proponent or any such person), (v) a description of any agreement, arrangement or understanding, including any Derivative Instrument (defined below), that has been entered into or is in effect as of the date of the Proponent's notice, by or on behalf of the Proponent, any Stockholder Associated Person, any nominee or any Nominee Associated Person, the effect or intent of which agreement, arrangement or understanding is to mitigate loss to, manage risk or benefit of stock price changes for, or increase or decrease the voting power of, the Proponent, any Stockholder Associated Person, any nominee or any Nominee Associated Person with respect to the corporation's securities, (vi) a representation and agreement that the Proponent will notify the corporation in writing of any such agreement, arrangement or understanding, including any Derivative Instrument, that has been entered into or is in effect as of the record date for the meeting, not later than the close of business on the third business day following the later of the record date or the date of Public Disclosure of the record date, (vii) a description of any other agreement, arrangement or understanding that has been entered into or is in effect as of the date of the Proponent's notice, between or among the Proponent, any Stockholder Associated Person, any nominee, any Nominee Associated Person or any other person, and that relates to such nomination or such nominee's service as a director of the corporation, (viii) a representation and agreement that the Proponent will notify the corporation in writing of any agreement, arrangement or understanding of the type described in clause (vii) above that has been entered into or is in effect as of the record date for the meeting, not later than the close of business on the third business day following the later of the record date or the date of Public Disclosure of the record date, (ix) a representation that the Proponent is the holder of record or beneficial owner of shares of stock of the corporation entitled to vote for the election of directors at the annual meeting and intends to appear in person or by proxy at the meeting to nominate any such nominee and (x) a representation as to whether the Proponent intends to deliver a proxy statement and/or form of proxy to stockholders and/or otherwise to solicit proxies from stockholders in support of such nomination.

The Proponent's notice shall also include a completed questionnaire (in the form provided by the secretary of the corporation upon request by the Proponent) signed by such nominee with respect to information of the type required by the corporation's questionnaires for directors and officers of the corporation in connection with the annual meeting of stockholders and various reports to the Securities and Exchange Commission. The questionnaire shall also include a representation and agreement that such nominee (i) is not and will not become a party to (A) any agreement, arrangement or understanding with, and has not given any commitment or assurance to, any person or entity as to how such nominee, if elected as a director of the corporation, will act or vote on any issue or question (a "Voting Commitment") that has not been, or will not be within three business days thereafter, disclosed to the corporation or (B) any Voting Commitment that could limit or interfere with the nominee's ability to comply, if elected as a director of the corporation, with such nominee's fiduciary duties under applicable law, (ii) is not and will not become a party to any agreement, arrangement or understanding with any person or entity other than the corporation with respect to any direct or indirect compensation, reimbursement or indemnification in connection with service or action as a director of the corporation that has not been, or will not be within three business days thereafter, disclosed to the corporation and (iii) in such nominee's individual capacity and on behalf of any person or entity on whose behalf the nomination is being made, would be in compliance, if elected as a director of the corporation, and will comply, with applicable law and all applicable corporate governance, code of conduct and ethics, conflict of interest, corporate opportunities, confidentiality and stock ownership and trading policies and guidelines of the corporation.

No person proposed to be nominated by a stockholder shall be eligible for election as a director of the corporation unless such person is nominated in accordance with the procedures set forth in this Section 2.13. If the Proponent intending to nominate a person for election as a director of the corporation at an annual meeting pursuant to this Section 2.13 does not give timely and proper notice

thereof in writing to the secretary of the corporation, in accordance with, and containing all information and the completed questionnaire provided for in, this Section 2.13, or if the Proponent (or a qualified representative of the Proponent) does not appear at the meeting to nominate such person for election as a director of the corporation, then, in any such case, such proposed nomination shall not be made, notwithstanding the fact that proxies in respect of such nomination may have been solicited or obtained. The chairman of the meeting shall, if the facts warrant, determine that the nomination was not properly made in accordance with the provisions of this Section 2.13, and, if the chairman should so determine, he or she shall declare to the meeting that such nomination was not properly made and shall be disregarded.

For purposes of these Bylaws:

" *Derivative Instrument* " means any option, warrant, convertible security, stock appreciation right, swap or similar right with an exercise or conversion privilege or a settlement payment or mechanism at a price related to any class or series of shares of stock of the corporation or with a value derived in whole or in part from the value of any class or series of shares of stock of the corporation, whether or not such instrument or right shall be subject to settlement in the underlying class or series of shares of stock of the corporation or otherwise directly or indirectly owned and any other direct or indirect opportunity to profit or share in any profit derived from any increase or decrease in the value of shares of stock of the corporation.

" *Nominee Associated Person* " of any nominee for election as a director means (i) any affiliate or associate (as such terms are defined for purposes of the Exchange Act) of the nominee and any other person acting in concert with any of the foregoing, (ii) any beneficial owner of shares of stock of the corporation owned of record or beneficially by such nominee and (iii) any person controlling, controlled by or under common control with such Nominee Associated Person.

" *Public Disclosure* " means disclosure made in a press release reported by Dow Jones News Service, Associated Press or a comparable national news service or in a document filed by the corporation pursuant to Section 13, 14 or 15(d) of the Exchange Act.

" *Stockholder Associated Person* " of any stockholder means (i) any affiliate or associate (as such terms are defined for purposes of the Exchange Act) of the stockholder and any other person acting in concert with any of the foregoing, (ii) any beneficial owner of shares of stock of the corporation owned of record or beneficially by such stockholder and (iii) any person controlling, controlled by or under common control with such Stockholder Associated Person.

2.14

BUSINESS AT MEETINGS OF STOCKHOLDERS

At any meeting of stockholders, only such business shall be transacted as shall have been properly brought before the meeting. To be properly brought before a meeting of stockholders, business must be (a) specified in the notice of meeting (or any supplement or amendment thereto) given by or at the direction of the board of directors, (b) otherwise properly brought before the meeting by or at the direction of the board of directors or (c) in the case of an annual meeting of stockholders, properly brought before the meeting by a stockholder who is entitled to vote and who has complied with the procedures established by this Section 2.14. For business to be properly brought before an annual meeting by a stockholder (other than the nomination of a person for election as a director, which is governed by Section 2.13 of these Bylaws), the Proponent (defined in Section 2.13) must have given timely and proper notice thereof in writing to the secretary of the corporation, in accordance with, and containing all information provided for, in this Section 2.14, and such business must be a proper matter for stockholder action under the General Corporation Law of Delaware.

To be timely, a Proponent's notice must be delivered to or mailed to the secretary of the corporation and received at the principal executive offices of the corporation prior to the close of business not less than 90 nor more than 120 days prior to the first anniversary of the preceding year's annual meeting of stockholders ; provided, however, in the event the date of the annual meeting is advanced more than 30 days prior to such anniversary date or delayed more than 60 days after such anniversary date, then to be timely such notice must be received by the corporation not later than the close of business on the later of the 90th day prior to the date of the meeting or the 10th day following the date of Public Disclosure (defined in Section 2.13) of the date of the annual meeting. In no event shall any adjournment or postponement of an annual meeting of stockholders or announcement thereof commence a new time period or extend any time period for the giving of a Proponent's notice as required by this Section 2.14.

A Proponent's notice to the secretary shall set forth: (a) as to each matter the Proponent proposes to bring before the annual meeting, a description of the business desired to be brought before the annual meeting, the reasons for transacting such business at the meeting and the text of any resolutions to be proposed, and whether the Proponent has communicated with any other stockholder or beneficial owner of shares of stock of the corporation regarding such business and (b) as to the Proponent and any Stockholder Associated Person (defined in Section 2.13) on whose behalf the proposal is being made, (i) the name and address of the Proponent, and any holder of record of the Proponent's shares of stock, as they appear on the corporation's books, and of any Stockholder Associated Person, (ii) the class and number of shares of stock of the corporation that are owned (beneficially and of record) by or on behalf of the Proponent and by or on behalf of any Stockholder Associated Person as of the date of the Proponent's notice, the date such shares were acquired and the investment intent with respect thereto, (iii) a representation and agreement that the Proponent will notify the corporation in writing of the class and number of shares of stock of the corporation that are owned (beneficially and of record) by or on behalf of the Proponent and by or on behalf of any Stockholder Associated Person as of the record date for the meeting, not later than the close of business on the third

business day following the later of the record date or the date of Public Disclosure of the record date, (iv) a description of all purchases and sales of, or other transactions involving in any way, shares of stock of the corporation by or on behalf of the Proponent and by or on behalf of any Stockholder Associated Person during the twenty-four month period prior to the date of the Proponent's notice, including the date of the transactions, the class and number of shares and the consideration (without regard to whether such shares involved were or were not owned by the Proponent or any such person), (v) a description of any agreement, arrangement or understanding, including any Derivative Instrument (defined in Section 2.13), that has been entered into or is in effect as of the date of the Proponent's notice, by or on behalf of the Proponent or any Stockholder Associated Person, the effect or intent of which is to mitigate loss to, manage risk or benefit of stock price changes for, or increase or decrease the voting power of, the Proponent or any Stockholder Associated Person with respect to the corporation's securities, (vi) a representation and agreement that the Proponent will notify the corporation in writing of any such agreement, arrangement or understanding, including any Derivative Instrument, that has been entered into or is in effect as of the record date for the meeting, not later than the close of business on the third business day following the later of the record date or the date of Public Disclosure of the record date, (vii) any material interest of the Proponent or any Stockholder Associated Person in such business, (viii) a description of any other agreement, arrangement or understanding that has been entered into or is in effect as of the date of the Proponent's notice, between or among the Proponent, any Stockholder Associated Person or any other person, and that relates to such business, (ix) a representation and agreement that the Proponent will notify the corporation in writing of any agreement, arrangement or understanding of the type described in clause (viii) above that has been entered into or is in effect as of the record date for the meeting, not later than the close of business on the third business day following the later of the record date or the date of Public Disclosure of the record date, (x) a representation that the Proponent is the holder of record or beneficial owner of shares of stock of the corporation entitled to vote for the election of directors at the annual meeting and intends to appear in person or by proxy at the meeting to propose such business and (xi) a representation as to whether the Proponent intends to deliver a proxy statement and/or form of proxy to stockholders and/or otherwise to solicit proxies from stockholders in support of such proposal.

No business proposed by a stockholder shall be transacted at an annual meeting of stockholders except in accordance with the procedures set forth in this Section 2.14. If the Proponent intending to propose business at an annual meeting pursuant to this Section 2.14 does not give timely and proper notice thereof in writing to the secretary of the corporation, in accordance with, and containing all information provided for in, this Section 2.14, or if the Proponent (or a qualified representative of the Proponent) does not appear at the meeting to present the proposed business, then, in any such case, such business shall not be transacted, notwithstanding the fact that proxies in respect of such business may have been solicited or obtained. The chairman of the meeting shall, if the facts warrant, determine that the business was not properly brought before the meeting in accordance with the provisions of this Section 2.14, and, if the chairman should so determine, he or she shall declare to the meeting that such business was not properly brought before the meeting and shall not be transacted.

The requirements of this Section 2.14 shall apply to any business to be brought before an annual meeting of stockholders by a stockholder (other than the nomination by a stockholder of a person for election as a director, which is governed by Section 2.13 of these Bylaws) without regard to whether such business also is intended to be included in the corporation's proxy statement pursuant to Rule 14a-8 of the Exchange Act or whether such business is presented to stockholders by means of a proxy solicitation by any person other than by or on behalf of the board of directors.

ARTICLE III

DIRECTORS

3.1

POWERS

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

3.2

NUMBER OF DIRECTORS; ELECTION; AND TERM OF OFFICE OF DIRECTORS

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

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

Each director, including a director elected to fill a vacancy, shall hold office until his successor is elected and qualified or until his earlier resignation or removal.

3.3 QUALIFICATION OF DIRECTORS

Directors need not be stockholders unless so required by the certificate of incorporation or these bylaws, wherein other qualifications for directors may be prescribed.

3.4 RESIGNATION AND VACANCIES

Any director may resign at any time upon written notice to the corporation.

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

- (a) Vacancies and newly created directorships resulting from any increase in the authorized number of directors elected by all of the stockholders having the right to vote as a single class may be filled by a majority of the directors then in office, although less than a quorum, or by a sole remaining director. Such directors or director shall have the authority to appoint any newly appointed director to serve as a member of a particular class of directors.
- (b) Whenever the holders of any class or classes of stock or series thereof are entitled to elect one or more directors by the provisions of the certificate of incorporation, vacancies and newly created directorships of such class or classes or series may be filled by a majority of the directors elected by such class or classes or series thereof then in office, or by a sole remaining director so elected. Directors appointed to fill a vacancy of such class or classes or series will be appointed to serve in the same class of directors as the director he or she is being appointed to replace.

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

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

3.5 PLACE OF MEETINGS; MEETINGS BY TELEPHONE

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

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

3.6 FIRST MEETINGS

The first meeting of each newly elected board of directors shall be held at such time and place as shall be fixed by the vote of the stockholders at the annual meeting and no notice of such meeting shall be necessary to the newly elected directors in order legally to constitute the meeting, provided a quorum shall be present. In the event of the failure of the stockholders to fix the time or place of such first meeting of the newly elected board of directors, or in the event such meeting is not held at the time and place so fixed by the stockholders, the meeting may be held at such time and place as shall be specified in a notice given as hereinafter provided for special meetings of the board of directors, or as shall be specified in a written waiver signed by all of the directors.

3.7

REGULAR MEETINGS

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

3.8

SPECIAL MEETINGS; NOTICE

Special meetings of the board may be called by the chairman of the board, or the chief executive officer, on three days' notice to each director if provided either by mail or overnight courier, or on 24 hours' notice if provided either personally, by telephone, or email; special meetings shall be called by the chief executive officer or secretary in like manner and on like notice on the written request of two directors unless the board consists of only one director, in which case special meetings shall be called by the chief executive officer or secretary in like manner and on like notice on the written request of the sole director.

3.9

QUORUM

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

3.10

WAIVER OF NOTICE

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

3.11

ADJOURNED MEETING; NOTICE

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

3.12

BOARD ACTION BY WRITTEN CONSENT WITHOUT A MEETING

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

3.13

FEES AND COMPENSATION OF DIRECTORS

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

3.14

APPROVAL OF LOANS TO OFFICERS

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

or restrict the powers of guaranty or warranty of the corporation at common law or under any statute.

3.15

REMOVAL OF DIRECTORS

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

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

3.16

MAJORITY VOTING

Each director shall be elected by the vote of the majority of the votes cast (meaning the number of shares voted "for" a nominee must exceed the number of shares voted "against" such nominee, with "abstentions" and "broker non-votes" not counted as votes cast either "for" or "against" such director's election) at any meeting for the election of directors at which a quorum is present, *provided*, that in a contested election (meaning that the number of persons properly nominated to serve as directors exceeds the number of directors to be elected), the directors shall be elected by a plurality of the votes of the shares present in person or represented by proxy at such meeting and entitled to vote on the election of directors and recommended for adoption by the board of directors.

ARTICLE IV

COMMITTEES

4.1

COMMITTEES OF DIRECTORS

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

4.2

COMMITTEE MINUTES

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

4.3

MEETINGS AND ACTION OF COMMITTEES

Meetings and actions of committees shall be governed by, and held and taken in accordance with, the provisions of Article III of these bylaws, Section 3.5 (place of meetings and meetings by telephone), Section 3.7 (regular meetings), Section 3.8 (special meetings and notice), Section 3.9 (quorum), Section 3.10 (waiver of notice), Section 3.11 (adjournment and notice of adjournment), and Section 3.12 (action without a meeting), with such changes in the context of those bylaws as are necessary to substitute the committee and its members (including its chairman) for the board of directors and its members (including its chairman); *provided, however*, that the time of regular

meetings of committees may also be called by resolution of the board of directors and that notice of special meetings of committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee. The board of directors may adopt rules for the government of any committee not inconsistent with the provisions of these bylaws.

ARTICLE V

OFFICERS

5.1

OFFICERS

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

5.2

ELECTION OF OFFICERS

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

5.3

SUBORDINATE OFFICERS

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

5.4

REMOVAL AND RESIGNATION OF OFFICERS

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

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

5.5

VACANCIES IN OFFICES

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

5.6

CHAIRMAN OF THE BOARD

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

5.7

CHIEF EXECUTIVE OFFICER

Subject to such supervisory powers, if any, as may be given by the board of directors to the chairman of the board, if there be such an officer, the chief executive officer shall, subject to the control of the board of directors, shall be responsible for corporate policy and strategy and general supervision, direction, and control of the business. He or she shall preside at all meetings of the stockholders and,

in the absence or nonexistence of a chairman of the board, at all meetings of the board of directors. He or she shall have the general powers and duties of management usually vested in the office of chief executive officer of a corporation and shall have such other powers and duties as may be prescribed by the board of directors or these bylaws.

5.8

PRESIDENT

The president shall be the chief operating officer of the corporation, with general responsibility for the management and control of the operations of the corporation. The president shall, when requested, counsel with and advise the other officers of the corporation and shall perform such other duties as such officer may agree with the chief executive officer or as the board of directors may from time to time determine.

5.9

VICE PRESIDENT

Each vice president shall have such powers and perform such duties as may be assigned to him or her from time to time by the chairman of the board, the chief executive officer, or the president.

5.10

SECRETARY

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

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

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

5.11

TREASURER

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

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

5.12

ASSISTANT SECRETARY

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

5.13

ASSISTANT TREASURER

The assistant treasurer, or, if there is more than one, the assistant treasurers, in the order determined by the stockholders or board of directors (or if there be no such determination, then in the order of their election), shall, in the absence of the treasurer or in

the event of his or her inability or refusal to act, perform the duties and exercise the powers of the treasurer and shall perform such other duties and have such other powers as the board of directors or the stockholders may from time to time prescribe.

5.14

AUTHORITY AND DUTIES OF OFFICERS

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

ARTICLE VI

INDEMNITY

6.1

INDEMNIFICATION OF DIRECTORS AND OFFICERS

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

6.2

INDEMNIFICATION OF OTHERS

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

6.3

INSURANCE

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

6.4

ADVANCEMENT

The right to indemnification conferred in the certificate of incorporation and these bylaws shall include the right to be paid by the corporation the expenses incurred in defending any proceeding for which such right to indemnification is applicable in advance of its final disposition (an "Advancement of Expenses"); provided, however, that an Advancement of Expenses incurred by or on behalf of an indemnitee shall be made only upon delivery to the corporation of an undertaking, by or on behalf of such indemnitee, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal that such indemnitee is not entitled to be indemnified for such expenses under this Section 6.4 or otherwise.

ARTICLE VII

RECORDS AND REPORTS

7.1

MAINTENANCE AND INSPECTION OF RECORDS

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

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

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

7.2

INSPECTION BY DIRECTORS

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

7.3

ANNUAL STATEMENT TO STOCKHOLDERS

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

7.4

REPRESENTATION OF SHARES OF OTHER CORPORATIONS

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

ARTICLE VIII

GENERAL MATTERS

8.1

CHECKS

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

8.2

EXECUTION OF CORPORATE CONTRACTS AND INSTRUMENTS

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

8.3

STOCK CERTIFICATES; PARTLY PAID SHARES

The shares of a corporation shall be represented by certificates, provided that the board of directors of the corporation may provide by resolution or resolutions that some or all of any or all classes or series of its stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the corporation. Notwithstanding the adoption of such a resolution by the board of directors, every holder of stock represented by certificates and upon request every holder of uncertificated shares shall be entitled to have a certificate signed by, or in the name of the corporation by the chairman or vice-chairman of the board of directors, or the chief executive officer, president, or vice-president, and by the treasurer or an assistant treasurer, or the secretary or an assistant secretary of such corporation representing the number of shares registered in certificate form. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate has ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if he or she were such officer, transfer agent or registrar at the date of issue.

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

8.4

SPECIAL DESIGNATION ON CERTIFICATES

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

8.5

LOST CERTIFICATES

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

8.6

CONSTRUCTION; DEFINITIONS

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

8.7

DIVIDENDS

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

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

8.8

FISCAL YEAR

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

8.9

SEAL

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

8.10

TRANSFER OF STOCK

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

8.11

STOCK TRANSFER AGREEMENTS

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

8.12

REGISTERED STOCKHOLDERS

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

8.13

SEVERABILITY

If any provision of these bylaws (or any portion, including words or phrases, thereof) or the application of any provision (or any portion, including words or phrases, thereof) to any person or circumstance shall be held invalid, illegal or unenforceable in any respect under applicable law by a court of competent jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provisions hereof (or the remaining portion thereof) or the application of such provision to any other persons or circumstances, which unaffected provisions (or portions thereof) shall remain valid, legal and enforceable to the fullest extent permitted by law.

ARTICLE IX

AMENDMENTS

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

ARTICLE X

DISSOLUTION

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

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

Whenever all the stockholders entitled to vote on a dissolution consent in writing, either in person or by duly authorized attorney, to a dissolution, no meeting of directors or stockholders shall be necessary. The consent shall be filed and shall become effective in accordance with Section 103 of the General Corporation Law of Delaware. Upon such consent's becoming effective in accordance with Section 103 of the General Corporation Law of Delaware, the corporation shall be dissolved. If the consent is signed by an attorney, then the original power of attorney or a photocopy thereof shall be attached to and filed with the consent. The consent filed with the Secretary of State shall have attached to it the affidavit of the secretary or some other officer of the corporation stating that the consent has been signed by or on behalf of all the stockholders entitled to vote on a dissolution; in addition, there shall be attached to the consent a certification by the secretary or some other officer of the corporation setting forth the names and residences of the directors and officers of the corporation.

ARTICLE XI

CUSTODIAN

11.1

APPOINTMENT OF A CUSTODIAN IN CERTAIN CASES

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

- (d) at any meeting held for the election of directors the stockholders are so divided that they have failed to elect successors to directors whose terms have expired or would have expired upon qualification of their successors; or
- (e) the business of the corporation is suffering or is threatened with irreparable injury because the directors are so divided respecting the management of the affairs of the corporation that the required vote for action by the board of directors cannot be obtained and the stockholders are unable to terminate this division; or
- (f) the corporation has abandoned its business and has failed within a reasonable time to take steps to dissolve, liquidate or distribute its assets.

11.2

DUTIES OF CUSTODIAN

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

ARTICLE XII

EXCLUSIVE FORUM FOR ADJUDICATION OF DISPUTES

12.1

FORUM FOR ADJUDICATION OF DISPUTES

Unless the board of directors of the corporation consents in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware (or, if the Court of Chancery does not have jurisdiction, another state court located within the State of Delaware, or, if no state court located within the State of Delaware has jurisdiction, the federal district court for the District of Delaware) shall be the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of the corporation; (ii) any action

asserting a claim for breach of a fiduciary duty owed by any director, officer, employee or agent of the corporation to the corporation or the corporation's stockholders; (iii) any action asserting a claim arising pursuant to any provision of the Delaware General Corporation Law, the certificate of incorporation of the corporation or these bylaws (as any such may be amended from time to time); or (iv) any action asserting a claim governed by the internal affairs doctrine, in each case subject to said court having personal jurisdiction over the indispensable parties named as defendants therein.

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: August 1, 2016

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

CERTIFICATION OF MARC A. STAPLEY PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Marc A. Stapley, certify that:

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

Dated: August 1, 2016

By: /s/ M ARC A. S TAPLEY

Marc A. Stapley

Executive Vice President, Chief Administrative Officer and Chief Financial Officer

**CERTIFICATION OF MARC A. STAPLEY 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 Annual Report of Illumina, Inc. (the "Company") on Form 10-Q for the three months ended July 3, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Marc A. Stapley, Executive Vice President, Chief Administrative Officer, 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: August 1, 2016

By: /s/ M ARC A. S TAPLEY

Marc A. Stapley

Executive Vice President, Chief Administrative Officer 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.