

**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 2, 2023**

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-35406



**Illumina, Inc.**

*(Exact name of registrant as specified in its charter)*

**Delaware**

*(State or other jurisdiction of incorporation or organization)*

**33-0804655**

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

**5200 Illumina Way, San Diego, CA 92122**

*(Address of principal executive offices) (Zip code)*

**(858) 202-4500**

*(Registrant's telephone number, including area code)*

**N/A**

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

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

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

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

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

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

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

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

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

As of August 4, 2023, there were 158.3 million shares of the registrant's common stock outstanding.

**ILLUMINA, INC.**  
**FORM 10-Q**  
**FOR THE FISCAL QUARTER ENDED JULY 2, 2023**  
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## Consideration Regarding Forward-Looking Statements

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

- our expectations as to our future financial performance, results of operations, or other operational results or metrics;
- the benefits that we expect will result from our business activities and certain transactions we have completed, or may complete, such as product introductions, increased revenue, decreased expenses, and avoided expenses and expenditures;
- our expectations of the effect on our financial condition of claims, litigation, contingent liabilities, and governmental investigations, proceedings, and regulations;
- our strategies or expectations for product development, market position, financial results, and reserves;
- our ability to successfully implement cost reduction plans in a timely manner and the possibility that costs associated with our cost reduction plans are greater than we anticipate;
- our expectations regarding the outcome of the legal and regulatory proceedings, including any related appeals, related to our acquisition of GRAIL, Inc. (GRAIL) and other actions that may be taken or pursued by the European Commission, the U.S. Federal Trade Commission (FTC) and/or other governmental or regulatory authorities in connection with such acquisition;
- the interim measures order imposed by the European Commission, the duration and impact of such order on Illumina and GRAIL, and the appointment of a monitoring trustee to monitor our compliance with such order;
- the prohibition decision adopted by the European Commission on September 6, 2022 (the Prohibition Decision), informing us of its decision to prohibit our acquisition of GRAIL, and a Statement of Objections issued by the European Commission on December 5, 2022, informing us of the order it intends to adopt requiring us (among other things) to divest GRAIL (the EC Divestment Decision);
- the opinion and order issued by the FTC on March 31, 2023 (the FTC Order), requiring us to divest GRAIL and to hold GRAIL separate through the completion of the divestiture;
- the Article 14(2)(b) fine imposed by the European Commission on July 12, 2023; and
- other expectations, beliefs, plans, strategies, anticipated developments, and other matters that are not historical facts.

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

- our expectations and beliefs regarding prospects and growth for our business and the markets in which we operate;
- the timing and mix of customer orders among our products and services;

- challenges inherent in developing, manufacturing, and launching new products and services, including expanding manufacturing operations and reliance on third-party suppliers for critical components;
- the impact of recently launched or pre-announced products and services on existing products and services;
- risks and uncertainties regarding the legal and regulatory proceedings, including the failure to obtain or delays in obtaining the required regulatory approvals or clearances including for any potential divestiture of GRAIL, any appeals relating to our acquisition of GRAIL and our ability to achieve the expected benefits of such acquisition and other actions that have been or may be taken or pursued by the European Commission, the FTC and/or other governmental or regulatory authorities in connection with such acquisition;
- the interim measures order and hold separate order imposed by the European Commission, the duration and impact of such orders on Illumina and GRAIL, which impact may include material and adverse effects on benefits we expect to achieve as a result of the acquisition of GRAIL, additional costs or liabilities, loss of revenue and other adverse effects on our business, financial condition and results of operations;
- our compliance with the terms of the interim measures order imposed by the European Commission, which is monitored by an appointed monitoring trustee, and which is burdensome to implement and administer, and the risk that the European Commission could impose or seek to impose additional fines and other penalties for alleged noncompliance with such terms;
- the anticipated EC Divestment Decision requiring us to divest GRAIL, the terms and conditions thereof (including with respect to a divestiture of GRAIL), and the timing of and the risks, costs and business disruptions (including the diversion of management's attention) associated with any such divestiture, the announcement, pendency or implementation thereof or any associated legal or regulatory proceedings or obligations, and other uncertainties related to our compliance (or ability to comply) with the EC Divestment Decision;
- the FTC Order, which may adversely affect us and our business, including current plans and operations, financial condition and results of operations, requiring us to divest GRAIL and to hold GRAIL separate through the completion of the divestiture, the terms and conditions thereof (including with respect to a divestiture of GRAIL), and the timing of and the risks, costs and business disruptions (including the diversion of management's attention) associated with such divestiture and/or any related appeals, the announcement, pendency or implementation thereof or any associated legal or regulatory proceedings or obligations, including any related appeals, and other uncertainties related to our compliance (or ability to comply) with the FTC Order, which may adversely affect us and our business, including current plans and operations, financial condition and results of operations;
- our potential inability to comply with any of the Prohibition Decision, the EC Divestment Decision and the FTC Order, and the risks, costs, potential negative effect on the market price of our common stock and business disruptions associated therewith;
- risks associated with third-party contracts or other agreements containing provisions that might be implicated by any divestiture of GRAIL, including our obligations with respect to contingent value rights (the CVRs) issued by us in connection with the GRAIL acquisition and the risk that we will be unable to fully discharge such obligations in connection with a divestiture of GRAIL, that a divestiture will result in a change in obligor on the CVRs and/or of other consequences related thereto, which may adversely affect us and our business and/or the market value of the CVRs;
- the risk of adverse effects resulting from additional potential litigation associated with the acquisition of GRAIL, such as additional legal, financial advisory, regulatory and other professional services fees;
- the risk of additional litigation arising against us in connection with the GRAIL acquisition;
- 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, COVID-19 pandemic mitigation measures, or armed conflict; and
- other factors detailed in our filings with the Securities and Exchange Commission (SEC), including the risks, uncertainties, and assumptions described in “Risk Factors” within the Business & Market Information section of our Annual Report on Form 10-K for the fiscal year ended January 1, 2023, the “Other Key Information” section of our Quarterly Report on [Form 10-Q](#) for the period ended April 2, 2023, the “Risk Factors” section below, or in information disclosed in public conference calls, the date and time of which are released beforehand.

Any forward-looking statement made by us in this Quarterly Report on Form 10-Q is based only on information currently available to us and speaks only as of the date on which it is made. We undertake no obligation, and do not intend, to publicly update any forward-looking statement, whether written or oral, that may be made from time to time, or to review or confirm analysts’ expectations, or to provide interim reports or updates on the progress of any current financial quarter, in each case whether as a result of new information, future developments, or otherwise.

## CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	July 2, 2023 (Unaudited)	January 1, 2023
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,553	\$ 2,011
Short-term investments	6	26
Accounts receivable, net	741	671
Inventory, net	617	568
Prepaid expenses and other current assets	306	285
Total current assets	3,223	3,561
Property and equipment, net	1,069	1,091
Operating lease right-of-use assets	638	653
Goodwill	3,239	3,239
Intangible assets, net	3,188	3,285
Other assets	417	423
Total assets	\$ 11,774	\$ 12,252
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 244	\$ 293
Accrued liabilities	1,309	1,232
Term notes, current portion	—	500
Convertible senior notes, current portion	750	748
Total current liabilities	2,303	2,773
Operating lease liabilities	726	744
Term notes	1,488	1,487
Other long-term liabilities	702	649
Stockholders' equity:		
Common stock	2	2
Additional paid-in capital	9,397	9,207
Accumulated other comprehensive income	12	3
Retained earnings	911	1,142
Treasury stock, at cost	(3,767)	(3,755)
Total stockholders' equity	6,555	6,599
Total liabilities and stockholders' equity	\$ 11,774	\$ 12,252

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	July 2, 2023	July 3, 2022	July 2, 2023	July 3, 2022
Revenue:				
Product revenue	\$ 1,001	\$ 1,006	\$ 1,923	\$ 2,076
Service and other revenue	175	156	340	310
Total revenue	1,176	1,162	2,263	2,386
Cost of revenue:				
Cost of product revenue	305	286	591	586
Cost of service and other revenue	91	69	190	138
Amortization of acquired intangible assets	48	40	96	79
Total cost of revenue	444	395	877	803
Gross profit	732	767	1,386	1,583
Operating expense:				
Research and development	358	327	699	650
Selling, general and administrative	450	410	824	719
Legal contingency and settlement	12	609	15	609
Total operating expense	820	1,346	1,538	1,978
Loss from operations	(88)	(579)	(152)	(395)
Other income (expense):				
Interest income	17	1	34	1
Interest expense	(19)	(6)	(39)	(12)
Other income (expense), net	1	(53)	(10)	(91)
Total other expense, net	(1)	(58)	(15)	(102)
Loss before income taxes	(89)	(637)	(167)	(497)
Provision (benefit) for income taxes	145	(102)	64	(48)
Net loss	\$ (234)	\$ (535)	\$ (231)	\$ (449)
Loss per share:				
Basic	\$ (1.48)	\$ (3.40)	\$ (1.46)	\$ (2.85)
Diluted	\$ (1.48)	\$ (3.40)	\$ (1.46)	\$ (2.85)
Shares used in computing loss per share:				
Basic	158	157	158	157
Diluted	158	157	158	157

*See accompanying notes to condensed consolidated financial statements.*

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

	Three Months Ended		Six Months Ended	
	July 2, 2023	July 3, 2022	July 2, 2023	July 3, 2022
Net loss	\$ (234)	\$ (535)	\$ (231)	\$ (449)
Unrealized gain on cash flow hedges, net of deferred tax	13	12	9	13
Total comprehensive loss	<u>\$ (221)</u>	<u>\$ (523)</u>	<u>\$ (222)</u>	<u>\$ (436)</u>

*See accompanying notes to condensed consolidated financial statements.*



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

	<b>Common Stock</b>		<b>Additional</b>	<b>Accumulated Other</b>	<b>Retained</b>	<b>Treasury Stock</b>		<b>Total</b>
	<b>Shares</b>	<b>Amount</b>	<b>Paid-In</b>	<b>Comprehensive</b>	<b>Earnings</b>	<b>Shares</b>	<b>Amount</b>	<b>Stockholders'</b>
			<b>Capital</b>	<b>Income</b>				<b>Equity</b>
Balance as of January 2, 2022	197	\$ 2	\$ 8,938	\$ 17	\$ 5,485	(40)	\$ (3,702)	\$ 10,740
Net income	—	—	—	—	86	—	—	86
Unrealized gain on cash flow hedges, net of deferred tax	—	—	—	1	—	—	—	1
Issuance of common stock, net of repurchases	—	—	33	—	—	—	(12)	21
Share-based compensation	—	—	79	—	—	—	—	79
Cumulative-effect adjustment from adoption of ASU 2020-06, net of deferred tax	—	—	(93)	—	61	—	—	(32)
Balance as of April 3, 2022	197	2	8,957	18	5,632	(40)	(3,714)	10,895
Net loss	—	—	—	—	(535)	—	—	(535)
Unrealized gain on cash flow hedges, net of deferred tax	—	—	—	12	—	—	—	12
Issuance of common stock, net of repurchases	—	—	—	—	—	—	(4)	(4)
Share-based compensation	—	—	76	—	—	—	—	76
Balance as of July 3, 2022	197	2	9,033	30	5,097	(40)	(3,718)	10,444
Net loss	—	—	—	—	(3,816)	—	—	(3,816)
Unrealized gain on cash flow hedges, net of deferred tax	—	—	—	9	—	—	—	9
Issuance of common stock, net of repurchases	—	—	30	—	—	—	(2)	28
Share-based compensation	—	—	66	—	—	—	—	66
Balance as of October 2, 2022	197	2	9,129	39	1,281	(40)	(3,720)	6,731
Net loss	—	—	—	—	(139)	—	—	(139)
Unrealized loss on cash flow hedges, net of deferred tax	—	—	—	(36)	—	—	—	(36)
Issuance of common stock, net of repurchases	1	—	—	—	—	—	(35)	(35)
Share-based compensation	—	—	78	—	—	—	—	78
Balance as of January 1, 2023	198	\$ 2	\$ 9,207	\$ 3	\$ 1,142	(40)	\$ (3,755)	\$ 6,599

*See accompanying notes to condensed consolidated financial statements.*

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

	<u>Common Stock</u>		<u>Additional</u>	<u>Accumulated Other</u>	<u>Retained</u>	<u>Treasury Stock</u>		<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-In</u>	<u>Comprehensive</u>	<u>Earnings</u>	<u>Shares</u>	<u>Amount</u>	<u>Stockholders'</u>
			<u>Capital</u>	<u>Income (Loss)</u>				<u>Equity</u>
Balance as of January 1, 2023	198	\$ 2	\$ 9,207	\$ 3	\$ 1,142	(40)	\$ (3,755)	\$ 6,599
Net income	—	—	—	—	3	—	—	3
Unrealized loss on cash flow hedges, net of deferred tax	—	—	—	(4)	—	—	—	(4)
Issuance of common stock, net of repurchases	—	—	37	—	—	—	(9)	28
Share-based compensation	—	—	67	—	—	—	—	67
Balance as of April 2, 2023	198	2	9,311	(1)	1,145	(40)	(3,764)	6,693
Net loss	—	—	—	—	(234)	—	—	(234)
Unrealized gain on cash flow hedges, net of deferred tax	—	—	—	13	—	—	—	13
Issuance of common stock, net of repurchases	—	—	—	—	—	—	(3)	(3)
Share-based compensation	—	—	77	—	—	—	—	77
Reclassification of liability-classified awards	—	—	9	—	—	—	—	9
Balance as of July 2, 2023	198	\$ 2	\$ 9,397	\$ 12	\$ 911	(40)	\$ (3,767)	\$ 6,555

*See accompanying notes to condensed consolidated financial statements.*

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

	Six Months Ended	
	July 2, 2023	July 3, 2022
<b>Cash flows from operating activities:</b>		
Net loss	\$ (231)	\$ (449)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation expense	116	102
Amortization of intangible assets	99	83
Share-based compensation expense	199	183
Deferred income taxes	36	(34)
Impairment of long-lived assets	7	—
Net losses on strategic investments	19	76
(Gain) loss on Helix contingent value right	(3)	3
Change in fair value of contingent consideration liabilities	28	(11)
Other	14	4
Changes in operating assets and liabilities:		
Accounts receivable	(78)	1
Inventory	(49)	(86)
Prepaid expenses and other current assets	(6)	4
Operating lease right-of-use assets and liabilities, net	(10)	(7)
Other assets	4	13
Accounts payable	(44)	(52)
Accrued liabilities	29	470
Other long-term liabilities	(15)	(3)
Net cash provided by operating activities	115	297
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(99)	(132)
Purchases of strategic investments	(11)	(22)
Sales of strategic investments	18	—
Net cash paid for acquisitions	—	(85)
Cash paid for intangible asset	(1)	—
Net cash used in investing activities	(93)	(239)
<b>Cash flows from financing activities:</b>		
Debt issuance costs paid for credit facility	(1)	—
Payments on term notes	(500)	—
Taxes paid related to net share settlement of equity awards	(12)	(17)
Proceeds from issuance of common stock	37	33
Net cash (used in) provided by financing activities	(476)	16
Effect of exchange rate changes on cash and cash equivalents	(4)	(17)
Net (decrease) increase in cash and cash equivalents	(458)	57
Cash and cash equivalents at beginning of period	2,011	1,232
Cash and cash equivalents at end of period	\$ 1,553	\$ 1,289

*See accompanying notes to condensed consolidated financial statements.*

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

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

## **1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

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### **Business Overview**

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

On August 18, 2021, we acquired GRAIL, a healthcare company focused on early detection of multiple cancers. The acquisition is subject to ongoing legal proceedings and, currently, GRAIL must be held and operated separately and independently from Illumina pursuant to interim measures ordered by the European Commission, which prohibited our acquisition of GRAIL on September 6, 2022. GRAIL is a separate reportable segment. Refer to note [“7. Legal Proceedings”](#) and note [“9. Segment Information,”](#) respectively, for additional details.

### **Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. Interim financial results are not necessarily indicative of results anticipated for the full year. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and footnotes included in the Annual Report on Form [10-K](#) for the fiscal year ended January 1, 2023, from which the prior year balance sheet information herein was derived. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expense, and related disclosure of contingent assets and liabilities. Though the COVID-19 pandemic, the armed conflict between Russia and Ukraine, and macroeconomic factors such as inflation, exchange rates and concerns about an economic downturn present additional uncertainty, we continue to use the best information available to form our critical accounting estimates. Actual results could differ from those estimates.

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

### **Fiscal Year**

Our fiscal year is the 52 or 53 weeks ending the Sunday closest to December 31, with quarters of 13 or 14 weeks ending the Sunday closest to March 31, June 30, September 30, and December 31. References to Q2 2023 and Q2 2022 refer to the three months ended July 2, 2023 and July 3, 2022, respectively, which were both 13 weeks, and references to year-to-date (YTD) 2023 and 2022 refer to the six months ended July 2, 2023 and July 3, 2022, respectively, which were both 26 weeks.

## Significant Accounting Policies

During YTD 2023, there were no changes to our significant accounting policies as described in our Annual Report on Form [10-K](#) for the fiscal year ended January 1, 2023, with the exception of the following for income taxes:

Historically we calculated the provision/(benefit) for income taxes for interim periods utilizing an estimated annual effective tax rate applied to the income/(loss) for the reporting period. In accordance with the authoritative guidance for accounting for income taxes in interim periods, we concluded for Q2 2023 and YTD 2023 that it was appropriate to determine the provision for income taxes utilizing the year-to-date effective tax rate method. Since minor changes in the estimated income/(loss) before income taxes would result in significant changes in the estimated annual effective tax rate, we determined the year-to-date effective tax rate method would provide a more reliable estimate of the provision for income taxes for Q2 2023 and YTD 2023.

## Loss per Share

Basic loss per share is computed based on the weighted average number of common shares outstanding during the period. Diluted loss per share is computed based on the sum of the weighted average number of common shares and potentially dilutive common shares outstanding during the period. In loss periods, basic and diluted loss per share are identical since the effect of potentially dilutive common shares is antidilutive and therefore excluded.

Potentially dilutive common shares consist of shares issuable under convertible senior notes and equity awards. We utilize the if-converted method to calculate the impact of convertible senior notes on diluted loss per share. Potentially dilutive common shares from equity awards are determined using the average share price for each period under the treasury stock method. In addition, proceeds from exercise of equity awards and the average amount of unrecognized compensation expense for equity awards are assumed to be used to repurchase shares.

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

<i>In millions</i>	Q2 2023	Q2 2022	YTD 2023	YTD 2022
Weighted average shares used in calculating basic loss per share	158	157	158	157
Weighted average shares used in calculating diluted loss per share	158	157	158	157
Antidilutive shares:				
Convertible senior notes	2	2	2	2
Equity awards	3	2	3	2
Potentially dilutive shares excluded from calculation due to antidilutive effect	5	4	5	4

## 2. REVENUE

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

## Revenue by Source

<i>In millions</i>	Q2 2023			Q2 2022		
	Sequencing	Microarray	Total	Sequencing	Microarray	Total
Consumables	\$ 734	\$ 70	\$ 804	\$ 739	\$ 74	\$ 813
Instruments	193	4	197	190	3	193
Total product revenue	927	74	1,001	929	77	1,006
Service and other revenue	156	19	175	136	20	156
Total revenue	\$ 1,083	\$ 93	\$ 1,176	\$ 1,065	\$ 97	\$ 1,162

<i>In millions</i>	YTD 2023			YTD 2022		
	Sequencing	Microarray	Total	Sequencing	Microarray	Total
Consumables	\$ 1,419	\$ 148	\$ 1,567	\$ 1,516	\$ 149	\$ 1,665
Instruments	346	10	356	401	10	411
Total product revenue	1,765	158	1,923	1,917	159	2,076
Service and other revenue	293	47	340	257	53	310
Total revenue	\$ 2,058	\$ 205	\$ 2,263	\$ 2,174	\$ 212	\$ 2,386

## Revenue by Geographic Area

<i>Based on region of destination (in millions)</i>	Q2 2023	Q2 2022 <sup>(1)</sup>	YTD 2023	YTD 2022 <sup>(1)</sup>
Americas	\$ 640	\$ 639	\$ 1,256	\$ 1,288
Europe	303	274	564	560
Greater China <sup>(2)</sup>	115	118	206	245
Asia-Pacific, Middle East, and Africa <sup>(3)</sup>	118	131	237	293
Total revenue	\$ 1,176	\$ 1,162	\$ 2,263	\$ 2,386

<sup>(1)</sup> We implemented a new global commercial structure in Q1 2023 to improve operating efficiencies and better align with local markets. We integrated Asia-Pacific and Japan with emerging markets across the Middle East, Africa, Turkey, and Commonwealth of Independent States (CIS). Beginning in Q1 2023, and going forward, we will report regional results for the following regions: Americas, Europe, Greater China, and Asia-Pacific, Middle East and Africa (AMEA). Prior period amounts have been reclassified to conform to this new presentation.

<sup>(2)</sup> Region includes revenue from China, Taiwan, and Hong Kong.

<sup>(3)</sup> Region includes revenue from Russia and Turkey.

## Performance Obligations

We regularly enter into contracts with multiple performance obligations. These contracts are believed to be firm as of the balance sheet date. However, we may allow customers to make product substitutions as we launch new products. The timing of shipments depends on several factors, including agreed upon shipping schedules, which may span multiple quarters. Most performance obligations are generally satisfied within a short time frame, approximately three to six months, after the contract execution date. As of July 2, 2023, the aggregate amount of the transaction price allocated to remaining performance obligations was \$881 million, of which approximately 86% is expected to be converted to revenue in the next twelve months, approximately 7% in the following twelve months, and the remainder thereafter.

## Contract Assets and Liabilities

Contract assets, which consist of revenue recognized and performance obligations satisfied or partially satisfied in advance of customer billing, were \$17 million as of July 2, 2023 and January 1, 2023 and were recorded in prepaid expenses and other current assets.

Contract liabilities, which consist of deferred revenue and customer deposits, as of July 2, 2023 and January 1, 2023 were \$323 million and \$308 million, respectively, of which the short-term portions of \$250 million and \$245 million, respectively, were recorded in accrued liabilities and the remaining long-term portions were recorded in

other long-term liabilities. Revenue recorded in Q2 2023 and YTD 2023 included \$68 million and \$163 million, respectively, of previously deferred revenue that was included in contract liabilities as of January 1, 2023.

### 3. INVESTMENTS AND FAIR VALUE MEASUREMENTS

#### Strategic Investments

##### Marketable Equity Securities

Our short-term investments consist of marketable equity securities. As of July 2, 2023 and January 1, 2023, the fair value of our marketable equity securities totaled \$6 million and \$26 million, respectively.

Gains and losses recognized in other income (expense), net on our marketable equity securities were as follows:

<i>In millions</i>	Q2 2023	Q2 2022	YTD 2023	YTD 2022
Net losses recognized during the period on marketable equity securities	\$ —	\$ (27)	\$ (2)	\$ (69)
Less: Net gains (losses) recognized during the period on marketable equity securities sold during the period	1	—	(2)	—
Net unrealized losses recognized during the period on marketable equity securities still held at the reporting date	<u>\$ (1)</u>	<u>\$ (27)</u>	<u>\$ —</u>	<u>\$ (69)</u>

##### Non-Marketable Equity Securities

As of July 2, 2023 and January 1, 2023, the aggregate carrying amounts of our non-marketable equity securities without readily determinable fair values, included in other assets, were \$28 million.

Revenue recognized from transactions with our strategic investees was \$28 million and \$64 million for Q2 2023 and YTD 2023, respectively, and \$25 million and \$55 million for Q2 2022 and YTD 2022, respectively.

##### Venture Funds

We invest in two venture capital investment funds (the Funds) with capital commitments of \$100 million, callable through April 2026, and up to \$150 million, callable through July 2029, respectively, of which \$6 million and up to \$81 million, respectively, remained callable as of July 2, 2023. Our investments in the Funds are accounted for as equity-method investments. The aggregate carrying amounts of the Funds, included in other assets, were \$177 million and \$183 million as of July 2, 2023 and January 1, 2023, respectively. We recorded unrealized losses of \$2 million and \$14 million in Q2 2023 and YTD 2023, respectively, and unrealized losses of \$4 million and \$6 million in Q2 2022 and YTD 2022, respectively, in other income (expense), net.

#### Helix Contingent Value Right

In conjunction with the deconsolidation of Helix Holdings I, LLC (Helix) in April 2019, we received a contingent value right with a 7-year term that entitles us to consideration dependent upon the outcome of Helix's future financing and/or liquidity events. Changes in the fair value of our contingent value right resulted in an unrealized gain of \$3 million

in YTD 2023 and unrealized losses of \$8 million and \$3 million in Q2 2022 and YTD 2022, respectively, which were included in other income (expense), net. There was no change in fair value of the contingent value right in Q2 2023.

## Fair Value Measurements

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

In millions	July 2, 2023				January 1, 2023			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets:</b>								
Money market funds (cash equivalents)	\$ 1,250	\$ —	\$ —	\$ 1,250	\$ 1,642	\$ —	\$ —	\$ 1,642
Marketable equity securities	6	—	—	6	26	—	—	26
Helix contingent value right	—	—	61	61	—	—	58	58
Deferred compensation plan assets	—	57	—	57	—	52	—	52
Total assets measured at fair value	<u>\$ 1,256</u>	<u>\$ 57</u>	<u>\$ 61</u>	<u>\$ 1,374</u>	<u>\$ 1,668</u>	<u>\$ 52</u>	<u>\$ 58</u>	<u>\$ 1,778</u>
<b>Liabilities:</b>								
Contingent consideration liabilities	\$ —	\$ —	\$ 440	\$ 440	\$ —	\$ —	\$ 412	\$ 412
Deferred compensation plan liability	—	54	—	54	—	51	—	51
Total liabilities measured at fair value	<u>\$ —</u>	<u>\$ 54</u>	<u>\$ 440</u>	<u>\$ 494</u>	<u>\$ —</u>	<u>\$ 51</u>	<u>\$ 412</u>	<u>\$ 463</u>



Our marketable equity securities are measured at fair value based on quoted trade prices in active markets. Our deferred compensation plan assets consist primarily of investments in life insurance contracts carried at cash surrender value, which reflects the net asset value of the underlying publicly traded mutual funds. We perform control procedures to corroborate the fair value of our holdings, including comparing valuations obtained from our investment service provider to valuations reported by our asset custodians, validating pricing sources and models, and reviewing key model inputs, if necessary. We elected the fair value option to measure the contingent value right received from Helix. The fair value of such contingent value right, included in other assets, is derived using a Monte Carlo simulation. Estimates and assumptions used in the Monte Carlo simulation include probabilities related to the timing and outcome of future financing and/or liquidity events, assumptions regarding collectibility and volatility, and an estimated equity value of Helix. These unobservable inputs represent a Level 3 measurement because they are supported by little or no market activity and reflect our own assumptions in measuring fair value.

We reassess the fair value of contingent consideration related to acquisitions on a quarterly basis. Changes in the fair value of contingent consideration subsequent to the acquisition date are recognized in selling, general and administrative expense. The contingent value rights issued as part of the GRAIL acquisition entitle the holders to receive future cash payments on a quarterly basis (Covered Revenue Payments) representing a pro rata portion of certain GRAIL-related revenues (Covered Revenues) each year for a 12-year period. As defined in the [Contingent Value Rights Agreement](#), this will reflect a 2.5% payment right to the first \$1 billion of revenue each year for 12 years. Revenue above \$1 billion each year will be subject to a 9% contingent payment right during this same period. Covered Revenues for Q4 2022 and Q1 2023 were \$42 million in aggregate and Covered Revenues for Q4 2021 and Q1 2022 were \$20 million in aggregate, driven primarily by sales of GRAIL's Galleri test. Covered Revenue Payments relating to such periods were approximately \$400,000 and \$187,000 in YTD 2023 and YTD 2022, respectively. Pursuant to the Contingent Value Rights Agreement, a portion of the Covered Revenue Payments in YTD 2022 were applied to reimburse us for certain expenses. We use a Monte Carlo simulation to estimate the fair value of contingent consideration related to the GRAIL acquisition. Estimates and assumptions used in the Monte Carlo simulation include forecasted revenues for GRAIL, a revenue risk premium, a revenue volatility estimate, an operational leverage ratio and a counterparty credit spread. These unobservable inputs represent a Level 3 measurement because they are supported by little or no market activity and reflect our own assumptions in measuring fair value. The fair value of our contingent consideration liability related to GRAIL was \$440 million and \$412 million as of July 2, 2023 and January 1, 2023, respectively, of which \$439 million and \$411 million, respectively, was included in other long-term liabilities, with the remaining balances included in accrued liabilities.

Changes in the estimated fair value of our contingent consideration liabilities during YTD 2023 were as follows:

<i>In millions</i>	
Balance as of January 1, 2023	\$ 412
Change in estimated fair value	28
Balance as of July 2, 2023	<u>\$ 440</u>

#### 4. DEBT

##### Summary of Term Debt Obligations

<i>In millions</i>	July 2, 2023	January 1, 2023
Principal amount of 2031 Term Notes outstanding	\$ 500	\$ 500
Principal amount of 2027 Term Notes outstanding	500	500
Principal amount of 2025 Term Notes outstanding	500	500
Principal amount of 2023 Term Notes outstanding	—	500
Unamortized discounts and debt issuance costs	(12)	(13)
Net carrying amount of term notes	1,488	1,987
Less: current portion	—	(500)
Term notes, non-current	<u>\$ 1,488</u>	<u>\$ 1,487</u>
Fair value of term notes outstanding (Level 2)	<u>\$ 1,418</u>	<u>\$ 1,913</u>

Interest expense recognized on our term notes, which included amortization of debt discounts and issuance costs, was \$18 million and \$37 million in Q2 2023 and YTD 2023, respectively, and \$4 million and \$9 million in Q2 2022 and YTD 2022, respectively.

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

In March 2021, we issued \$500 million aggregate principal amount of 2023 Term Notes and \$500 million aggregate principal amount of 2031 Term Notes. The 2023 Term Notes matured and were repaid in cash on March 23, 2023.

The 2031 Term Notes, which mature on March 23, 2031, accrue interest at a rate of 2.550% per annum, payable semi-annually on March 23 and September 23 of each year. We may redeem for cash all or any portion of the 2031 Term Notes, at our option, at any time prior to maturity. Prior to December 23, 2030, the 2031 Term Notes are redeemable at make-whole premium redemption prices as defined in the applicable forms of note. After December 23, 2030, the notes are redeemable at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus any accrued and unpaid interest up to, but excluding, the redemption date.

#### **5.800% Term Notes due 2025 (2025 Term Notes) and 5.750% Term Notes due 2027 (2027 Term Notes)**

In December 2022, we issued \$500 million aggregate principal amount of 2025 Term Notes and \$500 million aggregate principal amount of 2027 Term Notes. The 2025 Term Notes, which mature on December 12, 2025, and the 2027 Term Notes, which mature on December 13, 2027, accrue interest at a rate of 5.800% and 5.750% per annum, respectively, payable semi-annually. Interest for the 2025 Term Notes is payable on June 12 and December 12 of each year, beginning on June 12, 2023. Interest for the 2027 Term Notes is payable on June 13 and December 13 of each year, beginning on June 13, 2023.

We may redeem for cash all or any portion of the 2025 or 2027 Term Notes, at our option, at any time prior to maturity. Prior to November 12, 2025 for the 2025 Term Notes and prior to November 13, 2027 for the 2027 Term Notes, the notes are redeemable at make-whole premium redemption prices as defined in the applicable forms of note. After November 12, 2025 for the 2025 Term Notes and after November 13, 2027 for the 2027 Term Notes, the notes are redeemable at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus any accrued and unpaid interest up to, but excluding, the redemption date.

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

<i>In millions</i>	July 2, 2023	January 1, 2023
Principal amount outstanding	\$ 750	\$ 750
Unamortized debt issuance costs	—	(2)
Net carrying amount of convertible senior notes, current portion	\$ 750	\$ 748
Fair value of convertible senior notes outstanding (Level 2)	\$ 745	\$ 726

In August 2018, we issued \$750 million aggregate principal amount of 2023 Convertible Notes, which carry no coupon interest and mature on August 15, 2023. The notes became convertible on May 15, 2023 and remain convertible until August 11, 2023. As of August 9, 2023, none of the notes had been converted.

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

close of business on the scheduled trading day immediately preceding the redemption date; or (4) upon the occurrence of specified corporate events described in the indenture. Regardless of the foregoing circumstances, the holders may convert their notes on or after May 15, 2023 until August 11, 2023.

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

### **Credit Agreement**

On January 4, 2023, we entered into a new credit agreement (the Credit Agreement), which provides us with a \$750 million senior unsecured five-year revolving credit facility, including a \$40 million sublimit for swingline borrowings and a \$50 million sublimit for letters of credit (the Credit Facility). The proceeds of the loans under the Credit Facility may be used to finance working capital needs and for general corporate purposes. The credit agreement dated as of March 8, 2021 and the commitments thereunder were terminated as of January 4, 2023.

The Credit Facility matures, and all amounts outstanding thereunder become due and payable in full, on January 4, 2028, subject to two one-year extensions at our option, the consent of the extending lenders and certain other conditions. We may prepay amounts borrowed and terminate commitments under the Credit Facility at any time without premium or penalty. As of July 2, 2023, there were no borrowings or letters of credit outstanding under the Credit Facility and we were in compliance with all financial and operating covenants.

Any loans under the Credit Facility will have a variable interest rate based on either the term secured overnight financing rate or the alternate base rate, plus an applicable rate that varies with the Company's debt rating and, in the case of loans bearing interest based on the term secured overnight financing rate, a credit spread adjustment equal to 0.10% per annum. The Credit Agreement includes an option for us to elect to increase the commitments under the Credit Facility or to enter into one or more tranches of term loans in the aggregate principal amount of up to \$250 million, subject to the consent of the lenders providing the additional commitments or term loans, as applicable, and certain other conditions.

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

## 5. STOCKHOLDERS' EQUITY

In Q2 2023, the Company's stockholders approved an amended and restated version of the Company's 2015 Stock Incentive Plan (2015 Stock Plan) and increased the maximum number of shares authorized for issuance by 8.0 million shares. As of July 2, 2023, approximately 7.8 million shares remained available for future grants under the 2015 Stock Plan.

### Restricted Stock

Restricted stock activity was as follows:

Units in thousands	Restricted Stock Units (RSU)	Performance Stock Units (PSU) <sup>(1)</sup>	Weighted-Average Grant Date Fair Value per Share	
			RSU	PSU
Outstanding at January 1, 2023	1,611	74	\$ 311.23	\$ 446.74
Awarded	1,979	228	\$ 197.36	\$ 231.59
Vested	(85)	—	\$ 304.91	\$ —
Cancelled	(186)	(51)	\$ 268.37	\$ 308.63
Outstanding at July 2, 2023	3,319	251	\$ 246.12	\$ 279.51

<sup>(1)</sup> The number of units reflect the estimated number of shares to be issued at the end of the performance period. Awarded units are presented net of performance adjustments.

### Liability-Classified RSU

In Q1 2023, we granted RSU that were to be settled in cash if stockholder approval to increase our share reserve under the amended and restated 2015 Stock Plan was not obtained. In Q2 2023, the Company's stockholders approved an amended and restated version of the 2015 Stock Plan and increased the maximum number of shares authorized for issuance. Upon such approval, all RSU previously accounted for as liability-classified awards, approximately 557,000 RSU, were reclassified to stockholders' equity and accounted for prospectively as equity awards. There were no RSU liability-classified awards outstanding as of July 2, 2023.

### Market-Based PSU

During YTD 2023, we granted PSU with a market condition that vest based on the Company's relative total shareholder return (rTSR) as compared to a peer group of companies measured over a three-fiscal year performance period. Depending on the actual performance over the measurement period, an award recipient could receive up to 175% of the granted award. The grant date fair value of such awards is estimated using a Monte Carlo simulation, which includes assumptions for expected volatility, risk-free interest rate and dividend yield. These unobservable inputs represent a Level 3 measurement because they are supported by little or no market activity and reflect our own assumptions in measuring fair value. The compensation expense for the awards is recognized over the requisite service period regardless of whether the market conditions are achieved. As of July 2, 2023, there were approximately 133,000 PSU with a rTSR market condition outstanding.

## Stock Options

Stock option activity was as follows:

<i>Units in thousands</i>	<b>Options</b>	<b>Weighted-Average Exercise Price</b>	<b>Performance Options<sup>(1)</sup></b>	<b>Weighted-Average Exercise Price</b>
Outstanding at January 1, 2023	187	\$ 319.72	17	\$ 85.54
Exercised	(8)	\$ 71.09	(1)	\$ 16.69
Cancelled	(82)	\$ 330.25	—	\$ —
Outstanding at July 2, 2023	97	\$ 330.25	16	\$ 87.74
Exercisable at July 2, 2023	45	\$ 330.25	—	\$ —

<sup>(1)</sup> The number of units reflect awards that have been granted and for which it is assumed to be probable that the underlying performance goals will be achieved.

## Other Liability-Classified Awards

We grant cash-based equity incentive awards to GRAIL employees. For purposes of valuation and performance measurement of the awards, GRAIL's stand-alone valuation, as determined by GRAIL using a reasonable calculation and based on advice from independent valuation experts and analyses, is used. The awards generally have terms of four years with equal vesting annually, subject to continued employment through the vesting period.

Cash-based equity incentive award activity was as follows:

<i>In millions</i>	
Outstanding at January 1, 2023	\$ 293
Granted	116
Vested and paid in cash	(25)
Cancelled	(17)
Change in fair value	(13)
Outstanding at July 2, 2023	\$ 354
Estimated liability as of July 2, 2023 (included in accrued liabilities)	\$ 57

We recognized share-based compensation expense of \$25 million and \$46 million in Q2 2023 and YTD 2023, respectively, and \$16 million and \$29 million in Q2 2022 and YTD 2022, respectively. As of July 2, 2023, approximately \$297 million of total unrecognized compensation cost related to awards issued to date was expected to be recognized over a weighted-average period of approximately 3.0 years.

In connection with the acquisition of GRAIL, we assumed a performance-based award for which vesting is based on GRAIL's future revenues. The award has an aggregate potential value of up to \$78 million and expires, to the extent unvested, in August 2030. As of July 2, 2023, it was not probable that the performance conditions associated with the award will be achieved and, therefore, no share-based compensation expense, or corresponding liability, has been recognized in the condensed consolidated financial statements to-date.

## Employee Stock Purchase Plan

The price at which common stock is purchased under the Employee Stock Purchase Plan (ESPP) is equal to 85% of the fair market value of the common stock on the first day of the offering period or purchase date, whichever is lower. During YTD 2023, approximately 0.2 million shares were issued under the ESPP. As of July 2, 2023, there were approximately 12.6 million shares available for issuance under the ESPP.

The assumptions used and the resulting estimate of weighted-average fair value per share for stock purchased under the ESPP during YTD 2023 were as follows:

Risk-free interest rate	0.78% - 4.79%
Expected volatility	41% - 51%
Expected term	0.5 - 1.0 year
Expected dividends	0 %
Weighted-average grant-date fair value per share	\$ 57.96

## Share Repurchases

We did not repurchase any shares during YTD 2023. As of July 2, 2023, authorizations to repurchase approximately \$15 million of our common stock remained available under the \$750 million share repurchase program authorized by our Board of Directors on February 5, 2020. The repurchases may be completed under a 10b5-1 plan or at management's discretion.

## Share-Based Compensation

Share-based compensation expense, which includes expense for both equity and liability-classified awards, reported in our condensed consolidated statements of operations was as follows:

<i>In millions</i>	Q2 2023	Q2 2022	YTD 2023	YTD 2022
Cost of product revenue	\$ 8	\$ 7	\$ 15	\$ 13
Cost of service and other revenue	6	1	12	2
Research and development	43	39	79	75
Selling, general and administrative	48	44	93	93
Share-based compensation expense, before taxes	105	91	199	183
Related income tax benefits	(24)	(20)	(45)	(41)
Share-based compensation expense, net of taxes	\$ 81	\$ 71	\$ 154	\$ 142

As of July 2, 2023, approximately \$704 million of total unrecognized compensation cost related to restricted stock, including RSU and PSU, stock options, including performance stock options, and ESPP shares issued to date was expected to be recognized over a weighted-average period of approximately 2.7 years.

## 6. SUPPLEMENTAL BALANCE SHEET DETAILS

### Accounts Receivable

<i>In millions</i>	July 2, 2023	January 1, 2023
Trade accounts receivable, gross	\$ 748	\$ 675
Allowance for credit losses	(7)	(4)
Total accounts receivable, net	\$ 741	\$ 671

### Inventory

<i>In millions</i>	July 2, 2023	January 1, 2023
Raw materials	\$ 281	\$ 247
Work in process	415	386
Finished goods	29	28
Inventory, gross	725	661
Inventory reserve	(108)	(93)
Total inventory, net	\$ 617	\$ 568

### Accrued Liabilities

<i>In millions</i>	July 2, 2023	January 1, 2023
Legal contingencies <sup>(1)</sup>	\$ 471	\$ 473
Contract liabilities, current portion	250	245
Accrued compensation expenses <sup>(2)</sup>	249	188
Accrued taxes payable	84	97
Operating lease liabilities, current portion	84	76
Liability-classified equity incentive awards	57	36
Other, including warranties <sup>(3)</sup>	114	117
Total accrued liabilities	\$ 1,309	\$ 1,232

<sup>(1)</sup> See note "7. Legal Proceedings" for additional details.

<sup>(2)</sup> Included employee separation costs related to restructuring activities.

<sup>(3)</sup> See table below for changes in the reserve for product warranties.

Changes in the reserve for product warranties were as follows:

<i>In millions</i>	Q2 2023	Q2 2022	YTD 2023	YTD 2022
Balance at beginning of period	\$ 19	\$ 21	\$ 18	\$ 22
Additions charged to cost of product revenue	11	6	20	12
Repairs and replacements	(10)	(6)	(18)	(13)
Balance at end of period	\$ 20	\$ 21	\$ 20	\$ 21

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

## Restructuring

In Q2 2023, we implemented a cost reduction initiative that included workforce reductions, the consolidation of certain facilities and other actions to reduce expenses, all as part of a plan to realign operating expenses while maintaining focus on our innovation roadmap and sustainable long-term growth. In Q2 2023, we recorded a total pre-tax restructuring charge of \$33 million, primarily related to severance pay and other employee separation costs.

A summary of the pre-tax restructuring charge is as follows:

<i>In millions</i>		
Employee separation costs	\$	25
Asset impairment charges <sup>(1)</sup>		7
Other costs		1
Total restructuring charges <sup>(2)</sup>	\$	33

<sup>(1)</sup> Primarily related to impairment of right-of-use assets and leasehold improvements.

<sup>(2)</sup> \$18 million was recorded in SG&A expense, \$12 million in R&D expense, with the remainder recorded in cost of revenue.

A summary of the restructuring liability is as follows:

<i>In millions</i>		Employee Separation Costs	Other Costs	Total
Expense recorded in Q2 2023	\$	25	\$ 1	\$ 26
Cash paid during Q2 2023		(2)	—	(2)
Amount recorded in accrued liabilities as of July 2, 2023	\$	23	\$ 1	\$ 24
Estimated total restructuring costs to still be incurred	\$	7	\$ —	\$ 7

It is expected that substantially all of the employee separation related restructuring charges will be incurred and paid by the end of 2023. We also plan to exit our i3 campus in San Diego, California by the end of 2023 and we are evaluating options with respect to our campus in Foster City, California. As of July 2, 2023, we had assets, consisting primarily of right-of-use assets and leasehold improvements, related to our i3 and Foster City campuses of approximately \$52 million and \$185 million, respectively.



## Goodwill

Goodwill is reviewed for impairment annually, during the second quarter of our fiscal year, or more frequently if an event occurs indicating the potential for impairment. In May 2023, we performed our annual goodwill impairment test for our two reporting units: Core Illumina and GRAIL. We performed a quantitative assessment for both reporting units. No impairment was recorded for either Core Illumina or GRAIL, in Q2 2023, as the fair value for each reporting unit exceeded its carrying value by approximately \$34 billion and \$555 million, respectively.

We performed our annual goodwill impairment test using a combination of both an income and a market approach to determine the fair value of each reporting unit. The income approach utilized the estimated discounted cash flows for each reporting unit, while the market approach utilized comparable company information. Estimates and assumptions used in the income approach included projected cash flows and a discount rate for each reporting unit. Discount rates were determined using a weighted average cost of capital for risk factors specific to each reporting unit and other market and industry data. For GRAIL, the selected discount rate was 21.5%. The estimates and assumptions used in our assessment represent a Level 3 measurement because they are supported by little or no market activity and reflect our own assumptions in measuring fair value. The assumptions used are inherently subject to uncertainty and we note that small changes in these assumptions could have a significant impact on the concluded value. An increase of 100 to 150 basis points to the discount rate used in our annual assessment for GRAIL would have resulted in an outcome ranging from no impairment to an impairment of approximately \$250 million for GRAIL. In order to further validate the reasonableness of the fair values concluded for our reporting units, a reconciliation to market capitalization was performed by estimating a reasonable implied control premium and other market factors. As of July 2, 2023, remaining goodwill allocated to GRAIL was \$2,178 million.

In conjunction with our annual goodwill impairment test, we also evaluated the in-process research and development (IPR&D) asset assigned to the GRAIL reporting unit for potential impairment. We performed our impairment test by comparing the carrying value of the IPR&D asset to its estimated fair value, which was determined by the income approach, using a discounted cash flow model. Estimates and assumptions used in the income approach, which represent a Level 3 measurement, included projected cash flows and a discount rate. Based on our impairment test, the carrying value of the IPR&D asset did not exceed its estimated fair value. We also performed a recoverability test for the definite-lived intangible assets assigned to the GRAIL reporting unit, which includes developed technology and trade name, noting no impairment.

## Derivative Financial Instruments

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

We use foreign exchange forward contracts to manage foreign currency risks related to monetary assets and liabilities denominated in currencies other than the U.S. dollar. These derivative financial instruments have terms of one month or less and are not designated as hedging instruments. Changes in fair value of these derivatives are recognized in other income (expense), net, along with the re-measurement gain or loss on the foreign currency denominated assets or liabilities. As of July 2, 2023, we had foreign exchange forward contracts in place to hedge exposures in the euro, Japanese yen, Australian dollar, Canadian dollar, Singapore dollar, Chinese Yuan Renminbi, and British pound. As of July 2, 2023 and January 1, 2023, the total notional amounts of outstanding forward contracts in place for these foreign currency purchases were \$503 million and \$485 million, respectively. On July 25, 2023, we entered into forward contracts for a total notional amount of €432 million to hedge the foreign currency exposure for the approximately €432 million fine imposed by the European Commission on July 12, 2023.

We also use foreign currency forward contracts to hedge portions of our foreign currency exposure associated with forecasted revenue transactions. These derivative financial instruments have terms up to 24 months and are designated as cash flow hedges. Changes in fair value of our cash flow hedges are recorded as a component of accumulated other comprehensive income and are reclassified to revenue in the same period the underlying hedged transactions are recorded. We regularly review the effectiveness of our cash flow hedges and consider them to be ineffective if it becomes probable that the forecasted transactions will not occur in the identified period. Changes in fair value of the ineffective portions of our cash flow hedges, if any, are recognized in other income (expense), net. As of July 2, 2023, we had foreign currency forward contracts in place to hedge exposures associated with forecasted revenue transactions denominated in the euro, Japanese yen, Australian dollar, Canadian dollar, and Chinese Yuan Renminbi. As of July 2, 2023 and January 1, 2023, the total notional amounts of outstanding cash flow hedge contracts in place for these foreign currency purchases were \$787 million and \$425 million, respectively. We reclassified \$2 million and \$3 million to revenue in Q2 2023 and YTD 2023, respectively, and \$10 million and \$16 million in Q2 2022 and YTD 2022, respectively. As of July 2, 2023, the fair value of the foreign currency forward contracts recorded in total assets and total liabilities was \$19 million and \$6 million, respectively. As of January 1, 2023, the fair value of the foreign currency forward contracts recorded in total assets and total liabilities was \$8 million and \$6 million, respectively.

## 7. LEGAL PROCEEDINGS

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

### Acquisition of GRAIL

Our acquisition of GRAIL remains subject to ongoing legal and regulatory proceedings in the United States and in the European Union.

On March 30, 2021, the U.S. Federal Trade Commission (the FTC) filed an administrative complaint and a motion for a preliminary injunction in the United States District Court for the District of Columbia. In both actions, the FTC alleged that our acquisition of GRAIL would violate Section 7 of the Clayton Act, as amended, 15 U.S.C. § 18. We filed an answer to the FTC's complaint in federal district court on April 6, 2021, and in the administrative court on April 13, 2021. On April 20, 2021, the United States District Court for the District of Columbia granted our motion to transfer venue to the United States District Court for the Southern District of California. On May 28, 2021, the district court granted the FTC's motion to dismiss the complaint without prejudice. The administrative trial commenced on August 24, 2021. On September 1, 2022, the administrative law judge (the ALJ) ruled in favor of Illumina and found that the acquisition of GRAIL did not violate Section 7 of the Clayton Act. In the decision, the ALJ found that the FTC's complaint counsel had failed to prove its prima facie case that Illumina's acquisition of GRAIL would result in harm to competition in a putative market for multi-cancer early detection (MCED) tests. The FTC's complaint counsel appealed the ALJ's decision to the full FTC on September 2, 2022. The appeal was fully briefed as of November 10, 2022 and oral argument occurred on December 13, 2022. On March 31, 2023, the FTC issued an opinion and order (the FTC Order) requiring Illumina to divest GRAIL, reversing the ALJ's ruling. On April 5, 2023, Illumina filed a petition for review of the FTC Order in the U.S. Court of Appeals for the Fifth Circuit. On April 24, 2023, the FTC granted a motion staying in its entirety the FTC Order pending resolution of Illumina's Fifth Circuit appeal. Illumina submitted its opening appeal brief on June 5, 2023. The FTC submitted its opposition brief on July 26, 2023, and Illumina's reply brief is due on August 16, 2023. Oral argument is scheduled for September 12, 2023. We intend to continue to vigorously defend against the FTC action.

On April 19, 2021, the European Commission accepted a request for a referral of the GRAIL acquisition for European Union merger review, submitted by a Member State of the European Union (France), and joined by several other Member States (Belgium, Greece, Iceland, the Netherlands and Norway), under Article 22(1) of Council Regulation (EC) No 139/2004 (the EU Merger Regulation). The European Commission had never solicited

referrals to take jurisdiction over an acquisition of a U.S. company that had no revenue in Europe. On April 29, 2021, we filed an action in the General Court of the European Union (the EU General Court) asking for annulment of the European Commission's assertion of jurisdiction to review the acquisition under Article 22 of the EU Merger Regulation, as the acquisition does not meet the jurisdictional criteria under the EU Merger Regulation or under the national merger control laws of any Member State of the European Union. On December 16, 2021, the EU General Court held a hearing regarding the European Commission's assertion of jurisdiction. On July 13, 2022, the EU General Court reached a decision in favor of the European Commission, holding that the European Commission has jurisdiction under the EU Merger Regulation to review the acquisition. On September 22, 2022, we filed an appeal in the Court of Justice of the European Union asking for annulment of the EU General Court's decision.

On October 29, 2021, the European Commission adopted an order imposing interim measures (the Initial Interim Measures Order). As the Initial Interim Measures Order was set to expire on November 3, 2022, the European Commission adopted a new order imposing interim measures (the New Interim Measures Order) on October 28, 2022. On December 1, 2021, we filed an action with the EU General Court asking for annulment of the Initial Interim Measures Order. The hearing of that application has been stayed pending our appeal of the judgment of the EU General Court regarding the European Commission's assertion of jurisdiction. On January 10, 2023, we filed an action with the EU General Court asking for annulment of the New Interim Measures Order. On January 20, 2023, the European Commission requested that these proceedings be stayed pending our appeal on jurisdiction. We submitted a filing indicating that we had no objections to the European Commission's request, and the EU General Court stayed the proceedings on February 21, 2023.

On September 6, 2022, the European Commission announced that it had completed its Phase II review of the acquisition of GRAIL and adopted a final decision (the Prohibition Decision), which found that, in its view, our acquisition of GRAIL was incompatible with the internal market in Europe because it results in a significant impediment to effective competition. On November 17, 2022, we filed an action with the EU General Court asking for annulment of the Prohibition Decision.

On December 5, 2022, the European Commission issued a Statement of Objections informing Illumina of the order it intends to adopt requiring us (among other things) to divest GRAIL (the EC Divestment Decision). We filed our response to the Statement of Objections on January 16, 2023. Neither the Prohibition Decision nor such public statements indicate when any such EC Divestment Decision may be adopted. We may pursue other appeals to the EC Divestment Decision.

On July 12, 2023, the European Commission adopted a final decision finding that we breached the EU Merger Regulation by, in its view, acquiring the possibility to exert decisive influence over GRAIL and exerting such influence during the pendency of the European Commission's review (the Article 14(2)(b) Decision). The European Commission therefore imposed a fine on us pursuant to Article 14(2)(b) of the EU Merger Regulation of approximately €432 million, representing the maximum fine of 10% of our consolidated annual revenues for fiscal year 2022. As of July 2, 2023, we accrued \$471 million included in accrued liabilities. We intend to appeal this decision.

### **SEC Inquiry Letter**

In July 2023, we were informed that the staff of the SEC was conducting an investigation relating to Illumina and was requesting documents and communications primarily related to Illumina's acquisition of GRAIL and certain statements and disclosures concerning GRAIL, its products and its acquisition, and related to the conduct and compensation of certain members of Illumina and GRAIL management, among other things. Illumina is cooperating with the SEC in this investigation.

## **8. INCOME TAXES**

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

Our effective tax rates for Q2 2023 and YTD 2023 were (163.8)% and (38.5)%, respectively, compared to 16.0% and 9.7% in Q2 2022 and YTD 2022, respectively. The variance from the U.S. federal statutory tax rate of 21% in Q2 2023 and YTD 2023 was primarily attributable to the \$112 million and net \$64 million income tax expense impact of research and development expense capitalization for tax purposes, respectively, and the \$69 million and net \$25 million income tax expense impact of GRAIL pre-acquisition net operating losses on global intangible low-taxed

income (GILTI) and the utilization of U.S. foreign tax credits, respectively. This was partially offset by the mix of earnings in jurisdictions with lower statutory tax rates than the U.S. federal statutory tax rate, such as in Singapore and the United Kingdom.

Historically we calculated the provision/(benefit) for income taxes for interim periods utilizing an estimated annual effective tax rate applied to the income/(loss) for the reporting period. In accordance with the authoritative guidance for accounting for income taxes in interim periods, we concluded for Q2 2023 and YTD 2023 that it was appropriate to determine the provision for income taxes utilizing the year-to-date effective tax rate method. Since minor changes in the estimated income/(loss) before income taxes would result in significant changes in the estimated annual effective tax rate, we determined the year-to-date effective tax rate method would provide a more reliable estimate of the provision for income taxes for Q2 2023 and YTD 2023.

As of July 2, 2023 and January 1, 2023, prepaid income taxes included within prepaid expenses and other current assets on the condensed consolidated balance sheets were \$123 million and \$116 million, respectively.

## 9. SEGMENT INFORMATION

We have two reportable segments, Core Illumina and GRAIL. We report segment information based on the management approach, which designates the internal reporting used by the Chief Operating Decision Maker (CODM) for making decisions and assessing performance as the source of our reportable segments. The CODM allocates resources and assesses the performance of each operating segment using information about its revenue and income (loss) from operations. Our CODM does not evaluate our operating segments using discrete asset information. We do not allocate expenses between segments. Core Illumina sells products and provides services to GRAIL, and vice versa, in accordance with contractual agreements between the entities.

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

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

<i>In millions</i>	Q2 2023	Q2 2022	YTD 2023	YTD 2022
<b>Revenue:</b>				
Core Illumina	\$ 1,159	\$ 1,156	\$ 2,235	\$ 2,377
GRAIL	22	12	42	22
Eliminations	(5)	(6)	(14)	(13)
Consolidated revenue	<u>\$ 1,176</u>	<u>\$ 1,162</u>	<u>\$ 2,263</u>	<u>\$ 2,386</u>
<b>Income (loss) from operations:</b>				
Core Illumina	\$ 115	\$ (396)	\$ 257	\$ (34)
GRAIL	(204)	(187)	(408)	(359)
Eliminations	1	4	(1)	(2)
Consolidated loss from operations	<u>\$ (88)</u>	<u>\$ (579)</u>	<u>\$ (152)</u>	<u>\$ (395)</u>

Total other expense, net primarily relates to Core Illumina and we do not allocate income taxes to our segments.

## MANAGEMENT'S DISCUSSION & ANALYSIS

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

- *Management's Overview and Outlook.* High level discussion of our operating results and significant known trends that affect our business.
- *Results of Operations.* Detailed discussion of our revenues and expenses.
- *Liquidity and Capital Resources.* Discussion of key aspects of our condensed consolidated statements of cash flows, changes in our financial position, and our financial commitments.
- *Critical Accounting Policies and Estimates.* Discussion of significant changes since our most recent Annual Report on Form [10-K](#) that we believe are important to understanding the assumptions and judgments underlying our condensed consolidated financial statements.
- *Recent Accounting Pronouncements.* Summary of recent accounting pronouncements applicable to our condensed consolidated financial statements.
- *Quantitative and Qualitative Disclosure About Market Risk.* Discussion of our financial instruments' exposure to market risk.

Our discussion of our results of operations, financial condition, and cash flow for Q2 2022 and YTD 2022 can be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations" within our filing of [Form 10-Q](#) for the fiscal quarter ended July 3, 2022.

This MD&A discussion contains forward-looking statements that involve risks and uncertainties. See "[Consideration Regarding Forward-Looking Statements](#)" preceding the Condensed Consolidated Financial Statements section of this report for additional factors relating to such statements. This MD&A should be read in conjunction with our condensed consolidated financial statements and accompanying notes included in this report and our Annual Report on Form [10-K](#) for the fiscal year ended January 1, 2023. Operating results are not necessarily indicative of results that may occur in future periods.

## MANAGEMENT'S OVERVIEW AND OUTLOOK

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

### About Illumina

Our focus on innovation has established us as a global leader in DNA sequencing and array-based technologies, serving customers in the research, clinical and applied markets. Our products are used for applications in the life sciences, oncology, reproductive health, agriculture and other emerging segments. Our customers include leading genomic research centers, academic institutions, government laboratories, and hospitals, as well as pharmaceutical, biotechnology, commercial molecular diagnostic laboratories, and consumer genomics companies. Our comprehensive line of products addresses the scale of experimentation and breadth of functional analysis to advance disease research, drug development, and the development of molecular tests. This portfolio of leading-edge sequencing and array-based solutions addresses a range of genomic complexity and throughput, enabling researchers and clinical practitioners to select the best solution for their scientific challenge.

On August 18, 2021, we acquired GRAIL, a healthcare company focused on early detection of multiple cancers. GRAIL's Galleri blood test detects various types of cancers before they are symptomatic. We believe our acquisition of GRAIL will accelerate the adoption of next-generation sequencing based early multi-cancer detection tests, enhance our position in Clinical Genomics, and increase our directly accessible total addressable market. The acquisition is subject to ongoing legal proceedings and, currently, GRAIL must be held and operated separately and independently from Illumina pursuant to interim measures ordered by the European Commission, which prohibited our acquisition of GRAIL on September 6, 2022. See note ["7. Legal Proceedings"](#) for further details.

We have two reportable segments, Core Illumina and GRAIL. Core Illumina relates to our core operations, excluding the results of GRAIL. See note ["9. Segment Information"](#) for additional details.

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

## Financial Overview

Since 2020, the COVID-19 pandemic and international efforts to control its spread have significantly curtailed the movement of people, goods, and services worldwide, including in the regions where we sell our products and services and conduct our business operations. In addition, armed conflict between Russia and Ukraine, which began in 2022, and the sanctions imposed by the U.S. and other countries, has impacted our ability to ship products into affected regions and to designated customers. Furthermore, macroeconomic factors such as inflation, exchange rates and concerns about an economic downturn, and competitive challenges in our China region, have impacted both Illumina directly and our customers' behavior. For example, some customers experienced supply chain pressures that delayed their lab expansions and others are managing inventory and capital more conservatively. We expect these factors to continue to impact our sales and results of operations in 2023, the size and duration of which is significantly uncertain.

Financial highlights for YTD 2023 included the following:

- Revenue decreased 5.2% in YTD 2023 to \$2,263 million compared to \$2,386 million in YTD 2022 primarily due to decreases in sequencing consumables revenue and sequencing instruments revenue, partially offset by an increase in GRAIL service and other revenue. We now expect revenue to grow 1% in 2023 compared to 2022.
- Gross profit as a percentage of revenue (gross margin) was 61.3% in YTD 2023 compared to 66.3% in YTD 2022. The decrease in gross margin was driven primarily by less fixed cost leverage on lower manufacturing volumes and lower instrument margins due to the NovaSeq X launch in Q1 2023. Our gross margin depends on many factors, including: market conditions that may impact our pricing; sales mix changes among consumables, instruments, services, and development and licensing revenue; product mix changes between established products and new products; excess and obsolete inventories; royalties; our cost structure for manufacturing operations relative to volume; freight costs; and product support obligations.
- Loss from operations was \$152 million in YTD 2023 compared to \$395 million in YTD 2022. The decrease was primarily due to a decrease in operating expense of \$440 million, which included a significant decrease in legal contingency and settlement, partially offset by a \$197 million decrease in gross profit. We continue to focus on our cost reduction initiatives to accelerate progress toward higher margins and create flexibility for further investment in high-growth areas.
- Our effective tax rate was (38.5)% in YTD 2023 compared to 9.7% in YTD 2022. The variance from the U.S. federal statutory tax rate of 21% was primarily because of the income tax expense impact of research and development expense capitalization for tax purposes, and the income tax expense impact of GRAIL pre-acquisition net operating losses on GILTI and the utilization of U.S. foreign tax credits. This was partially offset by the mix of earnings in jurisdictions with lower statutory tax rates than the U.S. federal statutory tax rate, such as in Singapore and the United Kingdom.

- We ended Q2 2023 with cash, cash equivalents, and short-term investments totaling \$1.6 billion, of which approximately \$413 million was held by our foreign subsidiaries.

## RESULTS OF OPERATIONS

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

	Q2 2023	Q2 2022	YTD 2023	YTD 2022
Revenue:				
Product revenue	85.1 %	86.6 %	85.0 %	87.0 %
Service and other revenue	14.9	13.4	15.0	13.0
Total revenue	100.0	100.0	100.0	100.0
Cost of revenue:				
Cost of product revenue	25.9	24.7	26.1	24.6
Cost of service and other revenue	7.7	5.9	8.4	5.8
Amortization of acquired intangible assets	4.2	3.4	4.2	3.3
Total cost of revenue	37.8	34.0	38.7	33.7
Gross profit	62.2	66.0	61.3	66.3
Operating expense:				
Research and development	30.4	28.1	30.9	27.3
Selling, general and administrative	38.3	35.4	36.4	30.1
Legal contingency and settlement	1.0	52.3	0.7	25.5
Total operating expense	69.7	115.8	68.0	82.9
Loss from operations	(7.5)	(49.8)	(6.7)	(16.6)
Other income (expense):				
Interest income	1.4	0.1	1.5	—
Interest expense	(1.6)	(0.5)	(1.7)	(0.5)
Other income (expense), net	0.1	(4.6)	(0.5)	(3.8)
Total other expense, net	(0.1)	(5.0)	(0.7)	(4.3)
Loss before income taxes	(7.6)	(54.8)	(7.4)	(20.9)
Provision (benefit) for income taxes	12.3	(8.8)	2.8	(2.1)
Net loss	(19.9)%	(46.0)%	(10.2)%	(18.8)%

<sup>(1)</sup> Percentages may not recalculate due to rounding.



## Revenue

<i>Dollars in millions</i>	Q2 2023	Q2 2022	Change	% Change	YTD 2023	YTD 2022	Change	% Change
Core Illumina:								
Consumables	\$ 809	\$ 818	\$ (9)	(1)%	\$ 1,579	\$ 1,676	\$ (97)	(6)%
Instruments	197	193	4	2	357	412	(55)	(13)
Total product revenue	1,006	1,011	(5)	—	1,936	2,088	(152)	(7)
Service and other revenue	153	145	8	6	299	289	10	3
Total Core Illumina revenue	1,159	1,156	3	—	2,235	2,377	(142)	(6)
GRAIL:								
Service and other revenue	22	12	10	83	42	22	20	91
Eliminations	(5)	(6)	1	(17)	(14)	(13)	(1)	8
Total consolidated revenue	\$ 1,176	\$ 1,162	\$ 14	1 %	\$ 2,263	\$ 2,386	\$ (123)	(5)%

The decrease in Core Illumina consumables revenue in Q2 2023 and YTD 2023 was primarily due to a decrease in sequencing consumables revenue of \$5 million and \$96 million, respectively, driven primarily by lower NovaSeq 6000 consumables pull-through as some of our high throughput customers continue to transition to NovaSeq X, as well as customers managing tighter inventory given the continued impact of challenging macroeconomic factors. Core Illumina instruments revenue slightly increased in Q2 2023 due to shipments of our NovaSeq X instrument, offset by fewer shipments of our NovaSeq 6000 instrument. Core Illumina instruments revenue decreased in YTD 2023 due to a decrease in sequencing instruments revenue of \$55 million, driven primarily by fewer shipments of our NovaSeq 6000, NextSeq 550, and MiSeq instruments, partially offset by shipments of NovaSeq X that launched in Q1 2023. Core Illumina service and other revenue increased in Q2 2023 and YTD 2023 primarily due to increased revenue from extended maintenance service contracts on a growing installed base, partially offset by decreases in revenues from development and licensing agreements. The increase in YTD 2023 was also partially offset by decreases in genotyping services revenue. Additionally, Core Illumina revenue was adversely impacted by \$11 million and \$35 million in Q2 2023 and YTD 2023, respectively, due to unfavorable foreign exchange rate fluctuations, which is net of the amounts reclassified to revenue of \$2 million and \$3 million in Q2 2023 and YTD 2023, respectively, related to our cash flow hedges.

GRAIL service and other revenue increased \$10 million, or 83%, and \$20 million, or 91%, in Q2 2023 and YTD 2023, respectively, primarily due to sales of Galleri.

## Gross Margin

<i>Dollars in millions</i>	Q2 2023	Q2 2022	Change	% Change	YTD 2023	YTD 2022	Change	% Change
Gross profit (loss):								
Core Illumina	\$ 760	\$ 801	\$ (41)	(5)%	\$ 1,446	\$ 1,651	\$ (205)	(12)%
GRAIL	(24)	(29)	5	(17)	(50)	(58)	8	(14)
Eliminations	(4)	(5)	1	(20)	(10)	(10)	—	—
Consolidated gross profit	\$ 732	\$ 767	\$ (35)	(5)%	\$ 1,386	\$ 1,583	\$ (197)	(12)%
Gross margin:								
Core Illumina	65.5 %	69.3 %			64.7 %	69.5 %		
GRAIL	*	*			*	*		
Consolidated gross margin	62.2 %	66.0 %			61.3 %	66.3 %		



\* Not meaningful.

The decrease in Core Illumina gross margin in Q2 2023 and YTD 2023 was driven primarily by less fixed cost leverage on lower manufacturing volumes, lower instrument margins due to the NovaSeq X launch, which is typical with a new platform introduction until we scale manufacturing and gain operating efficiencies, and increased field services and installation costs.

GRAIL gross loss in Q2 2023 and Q2 2022 and YTD 2023 and YTD 2022 was primarily due to amortization of intangible assets of \$33 million and \$67 million, respectively.

## Operating Expense

<i>Dollars in millions</i>	Q2 2023	Q2 2022	Change	% Change	YTD 2023	YTD 2022	Change	% Change
Research and development:								
Core Illumina	\$ 274	\$ 249	\$ 25	10 %	\$ 532	\$ 486	\$ 46	9 %
GRAIL	89	86	3	3	175	171	4	2
Eliminations	(5)	(8)	3	(38)	(8)	(7)	(1)	14
Consolidated research and development	358	327	31	9	699	650	49	8
Selling, general and administrative:								
Core Illumina	359	339	20	6	641	590	51	9
GRAIL	91	72	19	26	184	130	54	42
Eliminations	—	(1)	1	(100)	(1)	(1)	—	—
Consolidated selling, general and administrative	450	410	40	10	824	719	105	15
Legal contingency and settlement:								
Core Illumina	12	609	(597)	(98)	15	609	(594)	(98)
Total consolidated operating expense	\$ 820	\$ 1,346	\$ (526)	(39)%	\$ 1,538	\$ 1,978	\$ (440)	(22)%

Core Illumina R&D expense increased by \$25 million, or 10%, in Q2 2023 and by \$46 million, or 9%, in YTD 2023 primarily due to an increase in compensation related expenses, including performance-based compensation, as we continue to invest in the research and development of new products and enhancements to existing products, and \$12 million for restructuring activities that commenced in Q2 2023, primarily related to employee separation costs.

GRAIL R&D expense increased by \$3 million, or 3%, in Q2 2023 and by \$4 million, or 2%, in YTD 2023 primarily due to an increase in headcount, including an increase in performance-based compensation, partially offset by lower spend on clinical trials.

Core Illumina SG&A expense increased by \$20 million, or 6%, in Q2 2023 and by \$51 million, or 9%, in YTD 2023 primarily due to an increase in compensation related expenses, including performance-based compensation, \$17 million for restructuring activities that commenced in Q2 2023, consisting primarily of employee separation costs and lease and other asset impairments of \$7 million, and costs related to the proxy contest of \$25 million and \$31 million, respectively, partially offset by decreases in travel and professional services costs. The increase in Q2 2023 was also partially offset by a \$10 million favorable impact related to our contingent consideration liability for GRAIL. The increase in YTD 2023 was also due to a \$39 million unfavorable loss related to our contingent consideration liability for GRAIL.

GRAIL SG&A expense increased by \$19 million, or 26%, in Q2 2023 and by \$54 million, or 42%, in YTD 2023 primarily due to an increase in headcount, including an increase in performance-based compensation, and professional services.

Core Illumina legal contingency and settlement in Q2 2023 consisted of an adjustment to our previously recorded accrual for the fine imposed by the European Commission in July 2023. Refer to note [7. Legal Proceedings](#) for additional details. Core Illumina legal contingency and settlement in YTD 2023 also consisted of a loss related to a patent litigation settlement in Q1 2023. Core Illumina legal contingency and settlement for Q2 2022 and YTD 2022 consisted of an estimated accrual of \$453 million related to the fine imposed by the European Commission in July 2023 and an accrual of \$156 million related to the settlement of our litigation with BGI.

### Other Income (Expense)

<i>Dollars in millions</i>	Q2 2023	Q2 2022	Change	% Change	YTD 2023	YTD 2022	Change	% Change
Interest income	\$ 17	\$ 1	\$ 16	1,600 %	\$ 34	\$ 1	\$ 33	3,300 %
Interest expense	(19)	(6)	(13)	217	(39)	(12)	(27)	225
Other income (expense), net	1	(53)	54	(102)	(10)	(91)	81	(89)
Total other expense, net	<u>\$ (1)</u>	<u>\$ (58)</u>	<u>\$ 57</u>	(98)%	<u>\$ (15)</u>	<u>\$ (102)</u>	<u>\$ 87</u>	(85)%

Total other expense, net primarily relates to the Core Illumina segment.

Interest income consisted primarily of interest on our money market funds, which benefited from higher yields in Q2 2023 and YTD 2023 due to rising interest rates. Interest expense consisted primarily of interest on our Term Notes and increased in Q2 2023 and YTD 2023 due to the issuance of our 2025 and 2027 Term Notes in December 2022. The fluctuation in other income (expense), net in Q2 2023 and YTD 2023 was primarily due to lower net losses recognized on our strategic investments, as well as favorable impacts related to our deferred compensation plan assets and Helix contingent value right. We recognized net losses on our strategic investments of \$3 million and \$19 million in Q2 2023 and YTD 2023, respectively, and \$32 million and \$76 million in Q2 2022 and YTD 2022, respectively.

### Provision (Benefit) for Income Taxes

<i>Dollars in millions</i>	Q2 2023	Q2 2022	Change	% Change	YTD 2023	YTD 2022	Change	% Change
Loss before income taxes	\$ (89)	\$ (637)	\$ 548	(86)%	\$ (167)	\$ (497)	\$ 330	(66)%
Provision (benefit) for income taxes	145	(102)	247	(242)	64	(48)	112	(233)
Net loss	<u>\$ (234)</u>	<u>\$ (535)</u>	<u>\$ 301</u>	(56)%	<u>\$ (231)</u>	<u>\$ (449)</u>	<u>\$ 218</u>	(49)%
Effective tax rate	(163.8)%	16.0 %			(38.5)%	9.7 %		

Our effective tax rate was (163.8)% and (38.5)% in Q2 2023 and YTD 2023, respectively, compared to 16.0% and 9.7% in Q2 2022 and YTD 2022, respectively. The variance from the U.S. federal statutory tax rate of 21% for Q2 2023 and YTD 2023 was primarily because of the \$112 million and net \$64 million income tax expense impact of capitalizing research and development expenses for tax purposes, respectively, and the \$69 million and net \$25 million income tax expense impact of GRAIL pre-acquisition net operating losses on GILTI and the utilization of U.S. foreign tax credits, respectively. The income tax expense in Q2 2023 and YTD 2023 were also favorably impacted by the mix of earnings in jurisdictions with lower statutory tax rates than the U.S. federal statutory tax rate, such as in Singapore and the United Kingdom.

The income tax benefits in Q2 2022 and YTD 2022 had an effective tax rate that was lower than the U.S. federal statutory tax rate of 21% primarily because of the \$95 million income tax expense impact from the potential European Commission fine related to the GRAIL transaction which is nondeductible for tax purposes, the \$23 million and \$27 million income tax expense impact of capitalizing research and development expenses, respectively, and the \$6 million and \$31 million income tax expense impact of GRAIL pre-acquisition net operating losses on GILTI and the utilization of the U.S. foreign tax credits, respectively. Our effective tax rate in Q2 2022 and YTD 2022 were also favorably impacted by the mix of earnings in jurisdictions with lower statutory tax rates than the U.S. federal statutory tax rate, such as in Singapore and the United Kingdom.

Historically we calculated the provision/(benefit) for income taxes for interim periods utilizing an estimated annual effective tax rate applied to the income/(loss) for the reporting period. In accordance with the authoritative guidance for accounting for income taxes in interim periods, we concluded for Q2 2023 and YTD 2023 that it was appropriate to determine the provision for income taxes utilizing the year-to-date effective tax rate method. Since minor changes in the estimated income/(loss) before income taxes would result in significant changes in the estimated annual effective tax rate, we determined the year-to-date effective tax rate method would provide a more reliable estimate of the provision for income taxes for Q2 2023 and YTD 2023.

Our future effective tax rate may vary from the U.S. federal statutory tax rate due to the mix of earnings in tax jurisdictions with different statutory tax rates and the other factors discussed in the risk factor “We are subject to risks related to taxation in multiple jurisdictions” described in “Risk Factors” within the Business & Market Information section of our Annual Report on Form [10-K](#) for the fiscal year ended January 1, 2023.

## LIQUIDITY AND CAPITAL RESOURCES

As of July 2, 2023, we had approximately \$1.6 billion in cash and cash equivalents, of which approximately \$413 million was held by our foreign subsidiaries. Cash and cash equivalents decreased by \$458 million from January 1, 2023 due primarily to the repayment of our 2023 Term Notes in Q1 2023 of \$500 million and other factors described in the “Cash Flow Summary” below. Our primary source of liquidity, other than our holdings of cash, cash equivalents, and investments, has been cash flows from operations and, from time to time, issuances of debt. Our ability to generate cash from operations provides us with the financial flexibility we need to meet operating, investing, and financing needs. Historically, we have liquidated our short-term investments and/or issued debt to finance our business needs as a supplement to cash provided by operating activities. As of July 2, 2023, we had \$6 million in short-term investments comprised of marketable equity securities.

On July 12, 2023, as a result of our decision to proceed with the completion of our acquisition of GRAIL during the pendency of the European Commission’s review, the European Commission imposed a €432 million fine on us, representing the maximum fine of 10% of our consolidated annual revenues for fiscal year 2022. As of July 2, 2023, we accrued \$471 million included in accrued liabilities. Refer to note “[7. Legal Proceedings](#)” for additional details.

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

Our convertible senior notes, with an aggregate principal amount of \$750 million, which are due on August 15, 2023 and are classified as short-term, became convertible on May 15, 2023 and remain convertible until August 11, 2023. As of August 9, 2023, none of the notes had been converted.

In December 2022, we issued term notes due 2025 with an aggregate principal amount of \$500 million and term notes due 2027 with an aggregate principal amount of \$500 million. The 2025 Term Notes, which mature on December 12, 2025, and the 2027 Term Notes, which mature on December 13, 2027, accrue interest at a rate of 5.800% and 5.750% per annum, respectively, payable semi-annually in June and December of each year. We may redeem for cash all or any portion of the 2025 or 2027 Term Notes, at our option, at any time prior to maturity.

On January 4, 2023, we obtained a new Credit Facility, which provides us with a \$750 million senior unsecured five year revolving credit facility, including a \$40 million sublimit for swingline borrowings and a \$50 million sublimit for letters of credit. The Credit Facility matures, and all amounts outstanding thereunder become due and payable in

full, on January 4, 2028, subject to two one-year extensions at our option and the consent of the extending lenders and certain other conditions. As of July 2, 2023, there were no borrowings outstanding under the Credit Facility; however, we may draw upon the facility in the future to manage cash flow or for other corporate purposes, including in connection with the payment of the €432 million European Commission fine. We are planning to issue a guarantee and defer the payment of the European Commission fine pending the outcome of our appeal of the EU General Court's ruling that the European Commission has jurisdiction to review our acquisition of GRAIL under the EU Merger Regulation.

As of July 2, 2023, the fair value of our contingent consideration liability related to our acquisition of GRAIL was \$440 million, of which \$439 million was included in other long-term liabilities. The contingent value rights issued as part of the acquisition entitle the holders to receive future cash payments on a quarterly basis (Covered Revenue Payments) representing a pro rata portion of certain GRAIL-related revenues (Covered Revenues) each year for a 12-year period. This will reflect a 2.5% payment right to the first \$1 billion of revenue each year for 12 years. Revenue above \$1 billion each year will be subject to a 9% contingent payment right during this same period. We expect Covered Revenues for Q2 2023 to be approximately \$22 million and for related Covered Revenue Payments to total approximately \$209,000 in Q3 2023. In YTD 2023, we paid \$400,000 in aggregate Covered Revenue Payments related to Covered Revenues for Q4 2022 and Q1 2023 of \$42 million in aggregate.

We grant cash incentive equity awards to GRAIL employees that generally have terms of four years and vest in equal annual installments. As of July 2, 2023, the aggregate cash value of awards outstanding and unvested was \$354 million, and we accrued an estimated liability of \$57 million, included in accrued liabilities. In addition, we have an outstanding performance-based award for which vesting is based on GRAIL's future revenues. The award has an aggregate potential value of up to \$78 million, which is expected to be settled in cash, and expires, to the extent unvested, in August 2030. As of July 2, 2023, it was not probable that the performance conditions associated with the award will be achieved.

We had \$6 million and up to \$81 million, respectively, remaining in our capital commitments to two venture capital investment funds as of July 2, 2023 that are callable through April 2026 and July 2029, respectively.

Authorizations to repurchase \$15 million of our common stock remained available as of July 2, 2023 under the \$750 million share repurchase program authorized by our Board of Directors on February 5, 2020. The repurchases may be completed under a 10b5-1 plan or at management's discretion. We do not intend to make any share repurchases during fiscal year 2023.

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

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

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

<i>In millions</i>	YTD 2023	YTD 2022
Net cash provided by operating activities	\$ 115	\$ 297
Net cash used in investing activities	(93)	(239)
Net cash (used in) provided by financing activities	(476)	16
Effect of exchange rate changes on cash and cash equivalents	(4)	(17)
Net (decrease) increase in cash and cash equivalents	\$ (458)	\$ 57

### Operating Activities

Net cash provided by operating activities in YTD 2023 primarily consisted of a net loss of \$231 million, plus net adjustments of \$515 million, less net changes in operating assets and liabilities of \$169 million. The primary adjustments to net loss included depreciation and amortization expense of \$215 million, share-based compensation expense of \$199 million, deferred income taxes of \$36 million, and change in fair value of contingent consideration liabilities of \$28 million. Cash flow impact from changes in net operating assets and liabilities were primarily driven by increases in accounts receivable and inventory and a decrease in accounts payable, partially offset by an increase in accrued liabilities.

### Investing Activities

Net cash used in investing activities totaled \$93 million in YTD 2023. We invested \$99 million in capital expenditures, primarily associated with our investment in facilities, which was partially offset by sales of our strategic investments of \$18 million.

### Financing Activities

Net cash used in financing activities totaled \$476 million in YTD 2023. We used \$500 million to repay our 2023 Term Notes in Q1 2023 and used \$12 million to pay taxes related to net share settlement of equity awards, partially offset by \$37 million received in proceeds from the sale of shares under our employee stock purchase plan.

## 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 (loss) and net income (loss), as well as on the value of certain assets and liabilities on our balance sheet. We believe that the estimates, assumptions and judgments involved in the accounting policies described in “Critical Accounting Policies and Estimates” within the Management’s Discussion & Analysis section of our Annual Report on Form [10-K](#) for the fiscal year ended January 1, 2023 have the greatest potential impact on our financial statements, so we consider them to be our critical accounting policies and estimates. Though the COVID-19 pandemic, the armed conflict between Russia and Ukraine, and macroeconomic factors such as inflation, exchange rates and concerns about an economic downturn present additional uncertainty, we continue to use the best information available to inform our critical accounting estimates. There were no material changes to our critical accounting policies and estimates during YTD 2023, with the exception of income taxes as disclosed in note “[1. Organization and Significant Accounting Policies](#).”

## RECENT ACCOUNTING PRONOUNCEMENTS

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

## **QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

There were no substantial changes to our market risks in YTD 2023, when compared to the disclosures in “Quantitative and Qualitative Disclosures about Market Risk” within the Management’s Discussion & Analysis section of our Annual Report on Form [10-K](#) for the fiscal year ended January 1, 2023.

## **OTHER KEY INFORMATION**

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### **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.

During the second quarter of 2023, we continued to monitor and evaluate the design and operating effectiveness of key controls. 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.

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.

### **LEGAL PROCEEDINGS**

See discussion of legal proceedings in note “[7. Legal Proceedings](#)” in the Condensed Consolidated Financial Statements section of this report, which is incorporated herein by reference.

## RISK FACTORS

Our business is subject to various risks, including those described in “Risk Factors” within the Business & Market Information Section of our Annual Report on Form [10-K](#) for the fiscal year ended January 1, 2023, and the “Other Key Information” section of our Quarterly Report on Form [10-Q](#) for the period ended April 2, 2023, which we strongly encourage you to review. In addition to the risk factors disclosed in our Form [10-K](#), the issues raised in the following risk factor could adversely affect our operating results and stock price:

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

As previously disclosed, on March 30, 2021, the FTC filed an administrative complaint alleging that our acquisition of GRAIL (the Acquisition) would violate Section 7 of the Clayton Act, as amended, 15 U.S.C. § 18. On September 1, 2022, the administrative law judge (the ALJ) ruled in favor of Illumina and found that the acquisition of GRAIL did not violate Section 7 of the Clayton Act. The FTC’s complaint counsel appealed the ALJ’s decision to the full FTC on September 2, 2022. On March 31, 2023, the FTC issued an opinion and order (the FTC Order) requiring Illumina to divest GRAIL, reversing the ALJ’s ruling. On April 5, 2023, Illumina filed a petition for review of the FTC Order in the U.S. Court of Appeals for the Fifth Circuit. On April 24, 2023, the FTC granted a motion staying in its entirety the FTC Order pending resolution of Illumina’s Fifth Circuit appeal. Illumina submitted its opening appeal brief on June 5, 2023. The FTC submitted its opposition brief on July 26, 2023, and Illumina’s reply brief is due on August 16, 2023. Oral argument is scheduled for September 12, 2023. We intend to continue to vigorously defend against the FTC action.

As previously disclosed, on April 19, 2021, the European Commission accepted a request for referral of the Acquisition (the Referral) for European Union merger review under Article 22(1) of Council Regulation (EC) No 139/2004 (the EU Merger Regulation), which had been submitted by a Member State of the European Union. On July 13, 2022, the EU General Court ruled that the European Commission has jurisdiction to review the Acquisition under the EU Merger Regulation. On September 22, 2022, we filed an appeal in the Court of Justice of the European Union asking for annulment of the EU General Court’s decision.

As previously disclosed, on October 29, 2021, the European Commission adopted an order imposing interim measures (the Initial Interim Measures Order), which was renewed on October 28, 2022 (subject to certain operational modifications and also expressly prohibits Illumina from selling, transferring, encumbering or otherwise disposing of GRAIL or any of GRAIL’s assets), provided that (i) we ensure that Illumina and GRAIL will continue to operate as independent legal entities that transact at arms’ length, no integration activity will take place, the day-to-day operation of GRAIL will remain the sole responsibility of GRAIL’s management and our management will have no involvement in or influence over GRAIL, (ii) we take certain supportive measures to preserve GRAIL’s viability, marketability and competitiveness, including with respect to the provision of resources to GRAIL and the retention and/or replacement of key personnel of GRAIL, (iii) subject to limited exceptions, we implement all necessary measures to ensure that Illumina does not obtain any confidential information relating to GRAIL during the hold separate period and vice versa and (iv) we appoint an independent firm as monitoring trustee to monitor our compliance with the Initial Interim Measures Order. An independent monitoring trustee has been appointed. Such hold separate arrangement, and our obligations pursuant thereto, have imposed implementation and administrative processes and additional legal, financial advisory, regulatory and other professional services costs, which have been burdensome to implement and administer, and which we expect to continue for the duration of the hold separate arrangement (pursuant to the New Interim Measures Order or any replacement thereof). Such burdens and additional costs, independently or together with additional burdens, costs and/or liabilities arising from such arrangement, may result in loss of revenue and other adverse effects on our business, financial condition and results of operations and have an adverse impact on our ability to achieve the anticipated benefits of the Acquisition, as further explained below. Moreover, our failure to comply with the terms of the New Interim Measures Order may result in the European Commission seeking to impose fines or other penalties on us. On January 10, 2023, we filed an action with the EU General Court asking for annulment of the New Interim Measures Order. On January 20, 2023, the European Commission requested that these proceedings be stayed pending our appeal on jurisdiction.



We submitted a filing indicating that we had no objections to the European Commission's request, and the EU General Court stayed the proceedings on February 21, 2023.

On September 6, 2022, the European Commission announced that it had completed its Phase II review of the Acquisition and adopted a final decision (the Prohibition Decision), which found that, in its view, our acquisition of GRAIL was incompatible with the internal market in Europe because it results in a significant impediment to effective competition. On November 17, 2022, we filed an action with the EU General Court asking for annulment of the Prohibition Decision. On December 5, 2022, the European Commission issued a Statement of Objections informing Illumina of the order it intends to adopt requiring us (among other things) to divest GRAIL (the EC Divestment Decision). We filed a response to the Statement of Objections on January 16, 2023. There can be no assurance that our Statement of Objections nor any appeal we may file in the future will be successful. We also cannot predict when the EC's Divestment Decision may be adopted.

The Prohibition Decision, and the EC Divestment Decision, and any order or decision by the FTC or any other governmental or regulatory authority pursuant to which Illumina is required to divest GRAIL (an FTC Divestment Decision), if implemented once final and non-appealable or during the pendency of the applicable appeals proceedings, and our obligations pursuant thereto, have imposed in the past and may will impose in the future significant costs and additional liabilities on us, including significant legal, financial advisory, regulatory and other professional services fees and additional expenses, and may result in loss of revenue and other adverse effects on our business, financial condition and results of operations. Such adverse effects could include being required to divest GRAIL on terms that are materially worse than the terms on which we acquired GRAIL. Furthermore, we may not be able to direct the timing, structure or financial terms of such divestment, which could result in negative financial or tax consequences. For example, we are unlikely to be able to, in a sale of GRAIL, effect such sale in a non-taxable transaction and so would incur significant tax liabilities attributable to the recognition of taxable gain equal to the difference between (i) the fair market value of any consideration received and (ii) our tax basis in GRAIL (which tax basis is currently estimated to be between \$500 million and \$1 billion). In addition, any such divestment will likely implicate certain provisions in our third-party contracts and other agreements, including our obligations with respect to contingent value rights (the CVRs) issued by us as part of the Acquisition, which may adversely affect us and our business and/or the market value of the CVRs or have other consequences. For example, we may be unable to fully discharge our obligations with respect to the CVRs in connection with any such divestiture, and/or such divestiture may result in a change in obligor on the CVRs. Moreover, the business of GRAIL may be adversely affected by any such divestment, which could adversely affect the market value of the CVRs.

Furthermore, even if an order or decision by the European Commission, General Court of EU, FTC or any other governmental or regulatory authority, approves the Acquisition, the delay in the approval or/and the imposition of conditions not part of the Acquisition agreement, could adversely affect the synergies and benefits we anticipate from the integration of GRAIL in our operations and may result in loss of revenue and other adverse effects on our business, financial condition and results of operations.

The Initial Interim Measures Order, the New Interim Measures Order, the Prohibition Decision, and the implementation of the EC Divestment Decision, or an FTC Divestment Decision or any other order or decision by any other governmental or regulatory authority, if implemented once final and non-appealable or during the pendency of the applicable appeals proceedings, have in the past and could may also in the future divert management's attention and company resources away from existing operations and other opportunities that may have been beneficial to us, any or all of which, individually or in the aggregate, could have a material adverse effect on our business, financial condition and results of operation. We have experienced and might continue to experience negative impacts on our stock price. We cannot predict what other adverse consequences to, among other things, our reputation, our relationships with governmental or regulatory authorities, or our ability to successfully complete future transactions, our ability to attract, retain and motivate customers, key personnel and those with whom we conduct business may result.

On July 12, 2023, the European Commission adopted a final decision finding that we breached the EU Merger Regulation by, in its view, acquiring the possibility to exert decisive influence over GRAIL and exerting such influence during the pendency of the European Commission's review (the Article 14(2)(b) Decision). The European Commission therefore imposed a fine on us pursuant to Article 14(2)(b) of the EU Merger Regulation of approximately €432 million, representing the maximum fine of 10% of our consolidated annual revenues for fiscal year 2022. As of July 2, 2023, we accrued \$471 million included in accrued liabilities. In addition, the European Commission, the FTC and/or other governmental or regulatory authorities may seek to impose other fines, penalties, remedies or restrictions. We also cannot predict what other adverse consequences to, among other things, our reputation, our relationships with governmental or regulatory authorities or our ability to successfully complete future acquisitions and/or divestitures may result from our decision to proceed with the completion of the Acquisition. We expect to continue to hold the assets or equity interests of GRAIL separate until the applicable legal and regulatory proceedings are completed or, if required, a divestment of GRAIL is effected, and such inability to



integrate may materially and adversely affect or prevent the synergies and other benefits we expect to achieve as a result of the Acquisition and could result in additional costs or liabilities, loss of revenue and other adverse effects on our business, financial condition and results of operations. In addition, under applicable accounting rules, we may be required from time to time to perform interim analyses of the value of GRAIL. To the extent that the value of GRAIL on a standalone basis is less than its book value, we would be required to record an impairment on our consolidated financial statements.

## **SHARE REPURCHASES AND SALES**

### **Purchases of Equity Securities by the Issuer**

None during the quarterly period ended July 2, 2023.

### **Unregistered Sales of Equity Securities**

None during the quarterly period ended July 2, 2023.

## **ADOPTIONS, MODIFICATIONS OR TERMINATIONS OF TRADING PLANS**

During the quarterly period ended July 2, 2023, the following directors and officers adopted, modified or terminated 10b5-1 plans:

- On May 30, 2023, Phil Febbo, Chief Medical Officer, entered in a new arrangement intended to satisfy the affirmative defense conditions of Rule 10b5-1(c). The arrangement terminates on December 31, 2024 and provides for the sale of up to 9,294 shares.
- On May 9, 2023, Alex Aravanis, Chief Technology Officer, Head of Research and Product Development, entered in a new arrangement intended to satisfy the affirmative defense conditions of Rule 10b5-1(c). The arrangement terminates on May 9, 2024 and provides for the sale of up to 15,486 shares.

On August 7, 2023, Phil Febbo departed the Company, and on August 9, 2023, the Company announced that Alex Aravanis will also depart the Company.

Other than as disclosed above, during the quarterly period ended July 2, 2023, none of the Company's directors or officers adopted or terminated any "Rule 10b5-1 trading arrangement" or any "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408 of Regulation S-K.

## EXHIBITS

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File Number	Exhibit	Filing Date	
+10.1	<a href="#">2000 Employee Stock Purchase Plan, as amended and restated through May 2, 2023</a>					X
31.1	<a href="#">Certification of Charles Dadswell pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>					X
31.2	<a href="#">Certification of Joydeep Goswami pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>					X
32.1	<a href="#">Certification of Charles Dadswell pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>					X
32.2	<a href="#">Certification of Joydeep Goswami pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>					X
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document					X
101.SCH	XBRL Taxonomy Extension Schema					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase					X
101.LAB	XBRL Taxonomy Extension Label Linkbase					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase					X
104	Cover Page Interactive Data File - formatted in Inline XBRL and included as Exhibit 101					X

+ Management contract or corporate plan or arrangement

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

**FORM 10-Q CROSS-REFERENCE INDEX**

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## SIGNATURES

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

ILLUMINA, INC.  
(registrant)

Date: August 10, 2023

By: /s/ Joydeep Goswami  
Name: Joydeep Goswami  
Title: Chief Financial Officer, Chief Strategy and Corporate  
Development Officer

**ILLUMINA, INC.**

**2000 EMPLOYEE STOCK PURCHASE PLAN**

**As Amended and Restated May 2, 2023**

The following constitute the provisions of the 2000 Employee Stock Purchase Plan of Illumina, Inc.

1. **Purpose.** The purpose of the Purchase Plan is to provide Employees of the Company and its Designated Companies with an opportunity to purchase Common Stock through accumulated payroll deductions. Unless otherwise determined by the Administrator, each offering under the Purchase Plan in which Employees of one or more Designated Companies may participate will be deemed a separate offering for purposes of Section 423 of the Code, even if the dates of the applicable Offering Periods of each such offering are identical, and the provisions of the Purchase Plan will separately apply to each offering and applicable Offering Period. Each offering under the Purchase Plan shall be designated as either a Code Section 423(b) Offering or a Non-423(b) Offering, but of the avoidance of doubt, it is the intention of the Company to have the Purchase Plan qualify as an “Employee Stock Purchase Plan” under that meets the requirements of Treas. Reg. § 1.423-2(a)(2), although the Company makes no undertaking or representation to maintain such qualification. The provisions of the Purchase Plan, accordingly, shall be construed so as to extend and limit participation in a manner consistent with the requirements of Treas. Reg. § 1.423-2(a)(2). In addition, any Code Section 423(b) Offering shall be construed so as to meet all requirements of Treas. Reg. § 1.423-2(a)(3). The Purchase Plan also authorizes the purchase of Common Stock under a Non-423(b) Offering, pursuant to rules, procedures or sub-plans adopted by the Board and designed to achieve tax, securities law or other objectives. With respect to Code Section 423(b) Offerings, the terms of separate offerings need not be identical provided that all Employees granted purchase rights in a particular offering will have the same rights and privileges, except as otherwise may be permitted by Section 423 of the Code; a Non-423(b) Offering need not satisfy such requirements.

2. **Definitions.**

a. **“Administrator”** shall mean the Board any committee or subcommittee of the Board to which the Board has delegated administrative authority with respect to the Purchase Plan pursuant to Section 13 or any persons or groups of persons to whom the Board has delegated, or the foregoing committee or subcommittee has further delegated, administrative authority with respect to the Purchase Plan pursuant to Section 13.

b. **“Affiliate”** shall mean any entity which meets the requirements to constitute an “Affiliate” within the meaning of Rule 12b-2 promulgated under the

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Exchange Act. The Administrator shall have the authority to determine the time or times at which “Affiliate” status is determined within the foregoing definition.

c. “**Applicable Law**” shall mean the requirements relating to the administration of equity-based awards under state corporate laws, United States federal and state securities laws, the Code, the rules of any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any non-U.S. jurisdiction where rights are, or will be, granted under the Purchase Plan.

d. “**Board**” shall mean the Board of Directors of the Company or any committee thereof or one or more other parties designated by the Board of Directors of the Company in accordance with Section 13 of the Purchase Plan.

e. “**Code**” shall mean the U.S. Internal Revenue Code of 1986, as amended, and the regulations and other guidance promulgated thereunder.

f. “**Code Section 423(b) Offering**” shall mean an offering under the Purchase Plan that is designed to meet the requirements set forth in Section 423(b) of the Code, including the requirements of Treas. Reg. § 1.423-2(a)(3). The terms and conditions of any Code Section 423(b) Offering should be construed, administered and enforced in accordance with Section 423(b) of the Code, including the requirements of Treas. Reg. § 1.423-2(a)(3).

g. “**Common Stock**” shall mean the common stock, \$0.01 par value per share, of the Company, as the same may be converted, changed, reclassified or exchanged.

h. “**Company**” shall mean Illumina, Inc., a Delaware corporation, and any successor to the Company that adopts the Purchase Plan.

i. “**Compensation**” shall mean all base straight time gross earnings, but exclusive of commissions, payments for overtime, shift premium, incentive compensation, incentive payments, bonuses and other compensation, unless otherwise determined by the Administrator. Such Compensation shall be calculated before deduction of (i) any income or employment tax withholdings or (ii) any contributions made by the participant to any Code Section 401(k) salary deferral plan or any Code Section 125 cafeteria benefit program now or hereafter established by the Company or a Designated Company. The Administrator, in its discretion, may establish a different definition of Compensation, which for any Code Section 423(b) Offering shall apply on a uniform and nondiscriminatory basis. The Administrator shall have the discretion to determine what constitutes Compensation for Employees outside of the United States.

j. “**Designated Company**” shall mean any Subsidiary or Affiliate that has been designated by the Board from time to time in its sole discretion as eligible to participate in the Purchase Plan. For purposes of a Code Section 423(b) Offering, only the Company and its Subsidiaries may be Designated Companies, *provided, however*, that

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at any given time, a Subsidiary that is a Designated Company under a Code Section 423(b) Offering shall not be a Designated Company under a Non-423(b) Offering.

k. **“Employee”** shall mean, unless the Board elects not to apply the following limitations with respect to a given Offering Period, any individual whose customary employment with the Company or a Designated Company for tax purposes is at least 20 hours per week and for more than five months in any calendar year. Under a Non-423(b) Offering, the definition may also include an individual whose customary employment with the Company or a Designated Company for tax purposes is less than 20 hours per week or for less than five months in any calendar year. The Board, in its discretion, from time to time may, prior to an Enrollment Period for all options to be granted in an offering, determine (on a uniform and nondiscriminatory basis for Code Section 423(b) Offerings) that the definition of Employee will or will not include an individual if he or she: (A) has not completed at least two years of service since his or her last hire date (or such lesser period of time as may be determined by the Board in its discretion) or (B) is a highly compensated employee within the meaning of Section 414(q) of the Code with compensation above a certain level or who is an officer or subject to the disclosure requirements of Section 16(a) of the Exchange Act, provided the exclusion is applied with respect to each Code Section 423(b) Offering in an identical manner to all highly compensated individuals of the Designated Company whose employees are participating in that offering. The Administrator will have exclusive discretion to determine whether an individual is an Employee for purposes of the Purchase Plan.

l. **“Enrollment Date”** shall mean the first Trading Day of each Offering Period.

m. **“Enrollment Period”** shall mean the period during which an Employee may elect to participate in the Purchase Plan, with such period occurring before the first day of each Offering Period, as prescribed by the Administrator.

n. **“Exercise Date”** shall mean the first Trading Day in March and September of each year (or such other Trading Day as the Board may determine in accordance with Section 4 hereof).

o. **“Exchange Act”** shall mean the U.S. Securities Exchange Act of 1934, as amended, and the regulations and guidance promulgated thereunder.

p. **“Fair Market Value”** shall mean, as of any date, the value of Common Stock determined as follows:

i. If the Common Stock is listed on any established stock exchange, including, without limitation, the Nasdaq Global Select Market, its Fair Market Value shall be the closing selling price per share for such stock (or if no sale occurred on such date, the closing price reported for the first Trading Day

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immediately following such date during which a sale occurred), as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable;

ii. If the Common Stock is not traded on an exchange but is regularly quoted on a national market or other quotation system, its Fair Market Value shall be the closing sales price on such date as quoted on such market or system, or if no sales occurred on such date, then on the Trading Day immediately following such date on which sales prices are reported, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable; or

iii. In the absence of an established market for the Common Stock of the type described in (i) or (ii) of this Section 2(p), the Fair Market Value thereof shall be determined in good faith by the Administrator.

q. “**Non-423(b) Offering**” shall mean an offering under the Purchase Plan that is not intended to meet the requirements set forth in Treas. Reg. § 1.423-2(a)(3).

r. “**Offering Periods**” shall mean the periods of approximately 12 months during which an option granted pursuant to the Purchase Plan may be exercised, commencing on the first Trading Day in March and September each year and terminating on the first Trading Day in March or September which is approximately twelve months later. The duration and timing of Offering Periods may be changed pursuant to Section 4 of this Purchase Plan.

s. “**Purchase Plan**” shall mean this 2000 Employee Stock Purchase Plan, as amended from time to time.

t. “**Purchase Period**” shall mean the approximately six-month period commencing on one Exercise Date and ending with the next Exercise Date (or such other period as determined by the Board in accordance with Section 4 of the Purchase Plan).

u. “**Purchase Price**” shall mean the purchase price at which Shares may be acquired on an Exercise Date and which will be set by the Board; *provided, however*, that the Purchase Price for a Code Section 423(b) Offering shall not be less than 85% of the Fair Market Value of a Share on the Enrollment Date or on the Exercise Date, whichever is lower. Unless otherwise determined by the Board prior to the commencement of an Offering Period, the Purchase Price shall be 85% of the Fair Market Value of a Share on the Enrollment Date or on the Exercise Date, whichever is lower.

v. “**Shares**” shall mean the shares of Common Stock.

w. “**Subsidiary**” shall mean any corporation, domestic or foreign, other than the Company, in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in such chain owns not less than 50% of the voting shares in one of the other corporations in such chain, and

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shall in any event be interpreted to meet the requirements of a “subsidiary,” as defined in Section 424(f) of the Code.

x. “**Tax-Related Items**” shall mean any income tax, social insurance, payroll tax, payment on account or other tax-related items arising in relation to the participant’s participation in the Purchase Plan.

y. “**Trading Day**” shall mean a day on which the principal exchange that the Common Stock is listed on is open for trading.

3. **Eligibility.**

a. Subject to Section 3(c) hereof, any Employee who shall be employed by the Company or a Designated Company on a given Enrollment Date shall be eligible to participate in the Purchase Plan.

b. Any provisions of the Purchase Plan to the contrary notwithstanding, no Employee shall be granted an option under the Purchase Plan (i) to the extent that, immediately after the grant, such Employee (or any other person whose stock would be attributed to such Employee pursuant to Section 424(d) of the Code) would own capital stock of the Company and/or hold outstanding options to purchase such stock possessing 5% or more of the total combined voting power or value of all classes of the capital stock of the Company or of any Affiliate, or (ii) to the extent that his or her rights to purchase stock under all employee stock purchase plans of the Company and its Affiliates, including the Purchase Plan, accrues at a rate which exceeds US\$25,000 worth of stock (determined under Section 423 of the Code at the fair market value of the Shares at the time such option is granted) for each calendar year in which such option is outstanding at any time.

c. An Employee who works for a Designated Company and is a citizen or resident of a jurisdiction other than the United States (without regard to whether such individual also is a citizen or resident of the United States or is a resident alien (within the meaning of Section 7701(b)(1)(A) of the Code)) may be excluded from participation in the Purchase Plan or an offering if the participation of such Employee is prohibited under the laws of the applicable jurisdiction or if complying with the laws of the applicable jurisdiction would cause the Purchase Plan or a Code Section 423(b) Offering to violate Section 423 of the Code. In the case of a Non-423(b) Offering, an Employee (or group of Employees) may be excluded from participation in such offering if the Administrator has determined, in its sole discretion, that participation of such Employee(s) is not advisable or practicable for any reason.

4. **Offering Periods.** The Purchase Plan shall be implemented by consecutive, overlapping Offering Periods with a new Offering Period commencing on the first Trading Day in March and September each year, or on such other date as the Board shall determine, and continuing thereafter until terminated in accordance with Section 18 hereof. Unless and until the Board determines otherwise in its discretion, each

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Offering Period will consist of two approximately six-month Purchase Periods, which will commence on one Exercise Date and end with the next Exercise Date. The Board shall have the power to change the duration of Offering Periods (including the commencement dates thereof) with respect to future offerings and to change the Exercise Dates with respect to future Purchase Periods without stockholder approval if such change is announced at least five days, or such other period designated by the Board, prior to the scheduled beginning of the first Offering Period to be affected thereafter; *provided, however*, that no Offering Period may have a duration that exceeds 27 months.

**5. Participation.**

a. An eligible Employee may elect to participate in an Offering Period under the Purchase Plan during the Enrollment Period immediately preceding such Offering Period. Any such election will be made by completing the online enrollment process through the Company's designated Purchase Plan broker or by completing a subscription agreement authorizing contributions of Compensation in a form provided by the Company and filing it with the Company during the Enrollment Period.

b. Once an eligible Employee becomes a participant in the Purchase Plan, such individual shall remain a participant and, subject to Section 5(c), will automatically participate in each subsequent Offering Period applicable to such participant at the same rate of contributions as was in effect in the prior Offering Period unless the participant elects to increase or decrease the rate of contributions or until he or she terminates such participation as provided in Section 10 hereof, the Purchase Plan terminates or the participant loses his or her status as an Employee. A participant who is automatically enrolled in a subsequent Offering Period pursuant to this Section 5(b) is not required to file any additional documentation in order to continue participation in the Purchase Plan; *provided, however*, that participation in the subsequent Offering Period will be governed by the terms and conditions of the Purchase Plan in effect at the beginning of such Offering Period, subject to the participant's right to withdraw from the Purchase Plan in accordance with Section 10 below. The Administrator has the authority to change the rules set forth in this Section 5(b) regarding participation in the Purchase Plan.

c. An eligible Employee may be enrolled in only one Offering Period at a time.

**6. Payroll Deductions/Contributions.**

a. At the time a participant elects to enroll in an Offering Period, he or she shall elect to contribute to the Purchase Plan (in the form of payroll deductions or by means other than payroll deductions as may be permitted by the Board, in its sole discretion) during the Offering Period in an amount not exceeding 15% of the participant's Compensation for the Purchase Period within the Offering Period to which the deduction applies.

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b. All contributions made for a participant shall be credited to his or her account under the Purchase Plan and shall be made in whole percentages only. A participant may not make any additional payments into such account unless required to comply with Applicable Law.

c. A participant may discontinue his or her participation in the Purchase Plan as provided in Section 10 hereof, or may decrease the rate of his or her payroll deductions or other contributions during the Offering Period by submitting the appropriate form online through the Company's designated Purchase Plan broker or by completing and filing with the Company a new subscription agreement authorizing a change in payroll deduction or contribution rate. The Administrator may, in its discretion, limit the nature and/or number of participation rate changes during any Offering Period, and may establish such other conditions or limitations as it deems appropriate for Purchase Plan administration. The change in rate shall be effective no later than the first full payroll period following five business days after the Company's receipt of the new online form or subscription agreement, as applicable. A participant may elect to increase or decrease the rate of the participant's contributions during any subsequent Enrollment Period by submitting the appropriate form online through the Company's designated Purchase Plan broker or completing and filing with the Company a new subscription agreement authorizing a change in payroll deduction or contribution rate, provided that no change in contributions will be permitted to the extent that such change would result in total contributions exceeding 15% of the Employee's Compensation, or such other maximum amount as may be determined by the Board. A participant's contribution election shall remain in effect for successive Offering Periods unless terminated as provided in Section 10 hereof or changed in accordance with this Section 6(c).

d. If by reason of the limitations set forth in Sections 3(b), 7 and 12(a) or in any sub-plan to the Purchase Plan, any option of a participant does not accrue for a particular Purchase Period, then the contributions that the participant made during that Purchase Period with respect to such option, to the extent such option does not accrue, shall be promptly refunded, without the payment of interest unless required under Applicable Law. In addition, to the extent necessary to comply with Section 423(b)(8) of the Code and Section 3(b) hereof, a participant's contributions may be decreased to 1% (or, to the extent determined by Administrator, 0%), at any time during a Purchase Period. Contributions shall recommence at the rate provided in connection with such participant's enrollment at the beginning of the first Purchase Period which is scheduled to end in the following calendar year, unless terminated by the participant as provided in Section 10 hereof.

e. At the time the option is exercised, in whole or in part, at the time some or all of the Common Stock issued under the Purchase Plan is disposed of, or at any other taxable or tax withholding event, as applicable, the participant must make adequate provision for any Tax-Related Items. In the discretion of the Administrator, the Company or a Designated Company that employs the participant may satisfy any

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obligation to withhold Tax-Related Items by (i) withholding from the participant's wages or other compensation, (ii) withholding a sufficient whole number of Shares otherwise issuable following purchase having an aggregate Fair Market Value sufficient to pay the Tax-Related Items required to be withheld with respect to the Shares, (iii) withholding from the proceeds from the sale of Shares issued upon purchase, either through a voluntary sale or a mandatory sale arranged by the Company, (iv) requiring the participant to make a cash payment to the Company or another Designated Company equal to the amount of the Tax-Related Items, or (v) any other method permitted under Applicable Law.

7. **Grant of Option.** On the Enrollment Date of each Offering Period, each eligible Employee participating in such Offering Period shall be granted an option to purchase on each Exercise Date during such Offering Period (at the applicable Purchase Price) up to a number of whole Shares determined by dividing such Employee's contributions accumulated prior to such Exercise Date and retained in the participant's account as of the Exercise Date by the applicable Purchase Price; provided that in no event shall an Employee be permitted to purchase during each Purchase Period more than 50,000 Shares (subject to any adjustment pursuant to Section 17), and provided further that such purchase shall be subject to the limitations set forth in Sections 3(b) and 12 hereof or in any sub-plan to the Purchase Plan. The Board may, for future Offering Periods, increase or decrease, in its absolute discretion, the maximum number of Shares an Employee may purchase during each Purchase Period of such Offering Period. Exercise of the option shall occur as provided in Section 8 hereof, unless the participant has withdrawn pursuant to Section 10 hereof. The option shall expire on the last day of the Offering Period.

8. **Exercise of Option.**

a. Unless a participant withdraws from the Purchase Plan as provided in Section 10 hereof, his or her option for the purchase of Shares shall be exercised automatically on the Exercise Date for the number of Shares subject to such option, as determined pursuant to Section 7 hereof. No fractional Shares shall be purchased; any contributions accumulated in a participant's account immediately following the most recent Exercise Date that are not sufficient to purchase a full share shall be returned to the participant after such Exercise Date. Any other monies left over in a participant's account after the Exercise Date shall be returned to the participant. During a participant's lifetime, a participant's option to purchase Shares hereunder is exercisable only by him or her.

b. If the Administrator determines that, on a given Exercise Date, the number of Shares with respect to which options are to be exercised may exceed (i) the number of Shares that were available for sale under the Purchase Plan on the Enrollment Date of the applicable Offering Period, or (ii) the number of Shares available for sale under the Purchase Plan on such Exercise Date, the Administrator may in its sole discretion (A) provide that the Company shall make a pro rata allocation of the Shares

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available for purchase on such Enrollment Date or Exercise Date, as applicable, in as uniform a manner as shall be practicable and as it shall determine in its sole discretion to be equitable among all participants exercising options to purchase Common Stock on such Exercise Date, and continue all Offering Periods then in effect, or (B) provide that the Company shall make a pro rata allocation of the Shares available for purchase on such Enrollment Date or Exercise Date, as applicable, in as uniform a manner as shall be practicable and as it shall determine in its sole discretion to be equitable among all participants exercising options to purchase Common Stock on such Exercise Date, and terminate any or all Offering Periods then in effect pursuant to Section 18 hereof. The Company may make pro rata allocation of the Shares available on the Enrollment Date of any applicable Offering Period pursuant to the preceding sentence, notwithstanding any authorization of additional Shares for issuance under the Purchase Plan by the Company's stockholders subsequent to such Enrollment Date.

**9. Delivery; Brokerage Accounts or Purchase Plan Share Accounts.**

a. As promptly as practicable after each Exercise Date on which a purchase of Shares occurs, the Company shall arrange the delivery to each participant, as appropriate, of a certificate or the electronic equivalent representing the Shares purchased upon exercise of his or her option.

b. By enrolling in the Purchase Plan, each participant will be deemed to have authorized the establishment of a brokerage account on his or her behalf at a securities brokerage firm selected by the Administrator. Alternatively, the Administrator may provide for Purchase Plan share accounts for each participant to be established by the Company or by an outside entity selected by the Administrator which is not a brokerage firm. Shares purchased by a participant pursuant to the Purchase Plan will be held in the participant's brokerage or Purchase Plan share account. The Administrator may require that Shares be retained in such brokerage or Purchase Plan share account for a designated period of time, and/or may establish procedures to permit tracking of dispositions of the Shares.

**10. Withdrawal.**

a. A participant may withdraw all but not less than all the contributions credited to his or her account and not yet used to exercise his or her option under the Purchase Plan at any time by giving written notice to the Company by submitting the appropriate form online through the Company's designated Purchase Plan broker or to the Company. A notice of withdrawal must be received no later than the 15th of the month immediately preceding the month of the Exercise Date or by such other deadline as may be prescribed by the Administrator. After receipt of notice of withdrawal, such participant's option for the Offering Period shall be automatically terminated, and no further contributions for the purchase of Shares shall be made for such Offering Period commencing with the payroll period immediately following the effective date of the notice of withdrawal, and all of the participant's contributions credited to his

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or her account shall be promptly paid to such participant, without the payment of interest unless required by Applicable Law. If a participant withdraws from an Offering Period, contributions may not resume at the beginning of the succeeding Offering Period unless the participant elects to participate in the Offering Period in accordance with the procedures set forth in Section 5(a).

b. A participant's withdrawal from an Offering Period shall not have any effect upon his or her eligibility to participate in any similar plan which may hereafter be adopted by the Company or in succeeding Offering Periods which commence after the termination of the Offering Period from which the participant withdraws.

#### **11. Termination of Option.**

a. Upon a participant's ceasing to be an Employee, for any reason (including by reason of the participant's employer ceasing to be a Designated Company or by reason of the participant's transfer of employment to an Affiliate that is not a Designated Company), he or she shall be deemed to have elected to withdraw from the Purchase Plan and the contributions credited to such participant's account during the Offering Period but not yet used to exercise the option shall be refunded without payment of interest unless required by Applicable Law to such participant or, in the case of his or her death, to the participant's estate, and such participant's option shall be automatically terminated.

b. Subject to the discretion of the Administrator, if a participant is granted a leave of absence, any payroll deductions that are made on behalf of the participant during the leave of absence will continue and any contributions credited to the participant's account may be used to purchase Shares as provided under the Purchase Plan. Where the period of leave exceeds three months and the participant's right to reemployment is not guaranteed by statute or by contract, for purposes of the Purchase Plan, the employment relationship will be deemed to have terminated three months and one day following the commencement of such leave.

c. Unless otherwise determined by the Administrator or required by Applicable Law, a participant whose employment transfers or whose employment terminates with an immediate rehire (with no break in service) by or between the Company or a Designated Company will not be treated as having terminated employment for purposes of participating in the Purchase Plan or an Offering Period; *provided, however*, that if a participant transfers from a Code Section 423(b) Offering to a Non-423(b) Offering, the exercise of the participant's option will continue to be considered as if granted pursuant to a Code Section 423(b) Offering only to the extent that such exercise complies with Section 423 of the Code. If a participant transfers from a Non-423(b) Offering to a Code Section 423(b) Offering, the exercise of the participant's purchase right will continue to be considered as if granted under a Non-423(b) Offering. The Administrator may establish additional or different rules to

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govern transfers of employment for purposes of participation in the Purchase Plan or an offering, consistent with the applicable requirements of Section 423 of the Code.

d. **Interest.** No interest shall accrue on the payroll deductions of a participant in the Purchase Plan, unless required by Applicable Law.

12. **Stock.**

a. Subject to adjustment upon changes in capitalization of the Company as provided in Section 17 hereof taking place after the date of this Purchase Plan, the maximum aggregate number of Shares which shall be made available for sale under the Purchase Plan shall be 24,467,426 Shares, which consists of (i) 1,000,000 Shares that were initially reserved under the Purchase Plan and (ii) 23,467,426, representing the number of Shares by which the reserve was increased pursuant to share automatic increases provided under the terms of the Purchase Plan between the date that the Purchase Plan was initially adopted and 2010. For the avoidance of doubt, up to the maximum number of Shares reserved under this Section 12 may be used to satisfy purchases of Shares under Code Section 423(b) Offering and any remaining portion of such maximum number of Shares may be used to satisfy purchases of Shares under Non-423(b) Offerings.

b. Shares issuable pursuant to the Purchase Plan may be authorized but unissued Shares, treasury Shares or Shares purchased in the open market.

c. The participant (and his or her beneficiaries) shall have no interest or voting right in Shares covered by his or her option until such option has been exercised.

d. Shares to be delivered to a participant under the Purchase Plan shall be registered in the name of the participant or in the name of the participant and his or her spouse.

e. All share numbers in this Section 12 give effect to a two-for-one stock split of Common Stock that became effective on September 22, 2008.

13. **Administration.**

a. The Purchase Plan shall be administered by the Board, provided that, to the extent not prohibited by Applicable Law, the Board may delegate any of its administrative authority under this Section 13 or otherwise under the Purchase Plan to any committee or subcommittee of the Board, and the Board may also delegate, or any such committee or subcommittee of the Board may further delegate, any such authority to any persons or groups of persons. Notwithstanding the foregoing, any authority that this Purchase Plan provides will be exercised by the Board may only be delegated to a committee or subcommittee of the Board, and any references in this Purchase Plan to the Board shall be deemed to include any such committee or subcommittee. Subject to

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Applicable Law, no Administrator will be liable for any good faith action or determination made in connection with the operation, administration or interpretation of the Purchase Plan. In the performance of its responsibilities with respect to the Purchase Plan, the Administrator will be entitled to rely upon, and the Administrator will not be liable for any action taken or not taken in reliance upon, information and/or advice furnished by the Company's officers or employees, the Company's accountants, the Company's counsel and any other party that the Administrator deems necessary.

b. The Administrator will have full power and authority to administer the Purchase Plan, including, without limitation, the authority to (i) construe, interpret, reconcile any inconsistency in, correct any default in and supply any omission in, and apply the terms of the Purchase Plan and any enrollment form or other instrument or agreement relating to the Purchase Plan, (ii) determine eligibility and adjudicate all disputed claims filed under the Purchase Plan, including whether Employees will participate in a Code Section 423(b) Offering or a Non-423(b) Offering and which Subsidiaries and Affiliates of the Company will be Designated Companies participating in either a Code Section 423(b) Offering or a Non-423(b) Offering (within the limits of the Purchase Plan), (iii) determine the terms and conditions of any right to purchase Shares under the Purchase Plan, (iv) establish, amend, suspend or waive such rules and regulations and appoint such agents as it deems appropriate for the proper administration of the Purchase Plan, (v) amend an outstanding right to purchase Shares, including any amendments to a right that may be necessary for purposes of effecting a transaction contemplated under Section 17 hereof (including, but not limited to, an amendment to the class or type of stock that may be issued pursuant to the exercise of a right or the Purchase Price applicable to a right), provided that the amended right otherwise conforms to the terms of the Purchase Plan, and (vi) make any other determination and take any other action that the Administrator deems necessary or desirable for the administration of the Purchase Plan, including, without limitation, the adoption of any such rules, procedures, agreements, appendices, or sub-plans (collectively, "Sub-Plans") as are necessary or appropriate to permit the participation in the Purchase Plan by employees who are foreign nationals or employed outside the United States, as further set forth in Section 13(c) below.

c. Notwithstanding any provision to the contrary in this Purchase Plan, the Administrator may adopt such Sub-Plans relating to the operation and administration of the Purchase Plan to accommodate local laws, customs and procedures for jurisdictions outside of the United States, the terms of which Sub-Plans may take precedence over other provisions of this Purchase Plan, with the exception of Section 12 hereof, but unless otherwise superseded by the terms of such Sub-Plan, the provisions of this Purchase Plan will govern the operation of such Sub-Plan. Notwithstanding the foregoing, approval of the Board will be required for any Sub-Plan that would modify or vary a term of this Purchase Plan that may only be amended or modified by the Board. To the extent inconsistent with the requirements of Section 423 of the Code, any such Sub-Plan will only provide for Non-423(b) Offerings, and purchase rights granted thereunder will not be required by the terms of the Purchase Plan to comply with Section

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423 of the Code. Without limiting the generality of the foregoing, the Administrator may adopt Sub-Plans for particular non-U.S. jurisdictions that modify the terms of the Purchase Plan to meet applicable local requirements, customs or procedures regarding, without limitation, (i) eligibility to participate, (ii) the definition of Compensation, (iii) the dates and duration of Offering Periods or other periods during which participants may make contributions towards the purchase of Shares, (iv) the method of determining the Purchase Price and the discount from Fair Market Value at which Shares may be purchased, (v) any minimum or maximum amount of contributions a participant may make in an Offering Period or other specified period under the applicable Sub-Plan, (vi) the treatment of purchase rights upon a change in control of or other transaction involving, the Company or a change in capitalization of the Company, (vii) the handling of payroll deductions and the methods for making contributions by means other than payroll deductions, (viii) establishment of bank, building society or trust accounts to hold contributions, (ix) payment of interest, (x) conversion of local currency, (xi) obligations to pay payroll tax, (xii) determination of beneficiary designation requirements, (xiii) withholding procedures, and (xiv) handling of Share issuances.

d. Every finding, decision and determination made by the Administrator shall, to the full extent permitted by Applicable Law, be final and binding upon all parties and any enrollment form or other instrument or agreement relating to the Purchase Plan will be made in the Administrator's sole discretion and will be final, binding and conclusive for all purposes and upon all interested persons.

14. **Transferability.** Neither contributions credited to a participant's account nor any rights with regard to the exercise of an option or to receive Shares under the Purchase Plan may be assigned, transferred, pledged or otherwise disposed of in any way (other than by will or the laws of descent and distribution) by the participant. Any such attempt at assignment, transfer, pledge or other disposition shall be without effect, except that the Administrator may treat such act as an election to withdraw funds from an Offering Period in accordance with Section 10 hereof.

15. **Use of Funds.** All contributions received or held by the Company under the Purchase Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such contributions, unless required by Applicable Law.

16. **Reports.** Individual accounts shall be maintained for each participant in the Purchase Plan. Statements of account shall be given to participating Employees at least annually, which statements shall set forth the amounts of contributions, the Purchase Price, the number of Shares purchased and the remaining cash balance, if any.

17. **Adjustments Upon Changes in Capitalization, Dissolution, Liquidation, Merger or Asset Sale.**

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a. **Changes in Capitalization.** Subject to any required action by the stockholders of the Company, the maximum number of Shares or type of securities available for issuance pursuant to the Purchase Plan, the maximum number of Shares each participant may purchase each Purchase Period (pursuant to Section 7), as well as the price per share and the number of Shares and type of securities covered by each option under the Purchase Plan which has not yet been exercised shall be proportionately adjusted for any change affecting the number, class, value or terms of the Shares resulting from a recapitalization, stock split, reverse stock split, stock dividend, spinoff, split up, combination, reclassification or exchange of the Common Stock, merger, consolidations, rights offering, separation, reorganization or liquidation or any other change in corporate structure or the Common Stock, including any extraordinary dividend or other distribution (but excluding any regular cash dividend), or any other increase or decrease in the number of Shares effected without receipt of consideration by the Company; *provided, however* that conversion of any convertible securities of the Company shall not be deemed to have been “effected without receipt of consideration.” Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of Shares subject to an option.

b. **Dissolution or Liquidation.** In the event of the proposed dissolution or liquidation of the Company, the Offering Periods then in progress shall, if the date of such dissolution or liquidation would occur before the last Exercise Date for such Offering Period, be shortened and the Board shall, unless the Board determines otherwise, modify the Exercise Dates for any Purchase Periods that would otherwise end after such dissolution or liquidation so that such modified Exercise Dates are before the date of such dissolution or liquidation, and any Offering Period then in effect shall terminate immediately following the applicable modified Exercise Date. The Board shall notify each participant in writing prior to the applicable modified Exercise Date, that the Exercise Date for the participant’s option has been so modified and that the participant’s option shall be exercised automatically on such modified Exercise Date, unless prior to such date the participant has withdrawn from the Offering Period as provided in Section 10 hereof.

c. **Merger or Asset Sale.** In the event of a proposed sale of all or substantially all of the assets of the Company or the merger of the Company with or into another corporation, each outstanding option shall be assumed or an equivalent option substituted by the successor corporation or a parent or subsidiary of the successor corporation. In the event that the successor corporation refuses to assume or substitute for the option, the Offering Periods then in progress shall, if the date of such sale or merger would occur before the last Exercise Date for such Offering Period, be shortened and the Board shall, unless the Board determines otherwise, modify the Exercise Dates for any Purchase Periods that would otherwise end after such sale or merger so that such modified Exercise Dates are on or before the date of such sale or merger, and any

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Offering Period then in effect shall terminate immediately following the applicable modified Exercise Date. The Board shall notify each participant in writing prior to the applicable modified Exercise Date, that the Exercise Date for the participant's option has been so modified and that the participant's option shall be exercised automatically on such modified Exercise Date, unless prior to such date the participant has withdrawn from the Offering Period as provided in Section 10 hereof.

**18. Amendment or Termination.**

a. The Board may at any time and for any reason terminate or amend the Purchase Plan. Except as provided in Section 17, no such termination can affect options previously granted, provided that the Board may terminate an Offering Period immediately following any Exercise Date if the Board determines that the termination of the Offering Period or the Purchase Plan is in the best interests of the Company and its stockholders. Except as provided in Section 17 and this Section 18 hereof, no amendment may make any change in any option theretofore granted which adversely affects the rights of any participant unless such amendment is deemed necessary or desirable to facilitate compliance with Applicable Law, as determined in the sole discretion of the Board. To the extent necessary to comply with Section 423 of the Code (or any successor rule or provision or any other Applicable Law, regulation or stock exchange rule), the Company shall obtain stockholder approval in such a manner and to such a degree as required.

b. Without stockholder consent and without regard to whether any participant rights may be considered to have been "adversely affected," the Board shall be entitled to change the Offering Periods and the Administrator shall be entitled to limit the frequency and/or number of changes in the amount withheld during an Offering Period, establish the exchange ratio applicable to amounts withheld in a currency other than U.S. dollars, permit payroll withholding or contributing to the Purchase Plan in excess of the amount designated by a participant in order to adjust for delays or mistakes in the Company's processing of properly completed withholding elections, establish reasonable waiting and adjustment periods and/or accounting and crediting procedures to ensure that amounts applied toward the purchase of Common Stock for each participant properly correspond with amounts withheld from the participant's Compensation, and establish such other limitations or procedures as the Administrator determines in its sole discretion advisable which are consistent with the Purchase Plan.

c. In the event the Board determines that the ongoing operation of the Purchase Plan may result in unfavorable financial accounting consequences, the Board may, in its discretion and, to the extent necessary or desirable, modify or amend the Purchase Plan to reduce or eliminate such accounting consequence including, but not limited to:

i. altering the Purchase Price for any Offering Period including an Offering Period underway at the time of the change in Purchase Price;

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ii. shortening any Offering Period so that such Offering Period ends on a modified Exercise Date, including an Offering Period underway at the time of the Board action; and

iii. allocating Shares.

Such modifications or amendments shall not require stockholder approval or the consent of any Purchase Plan participants.

19. **Notices.** All notices or other communications by a participant to the Company under or in connection with the Purchase Plan shall be deemed to have been duly given when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

20. **Conditions Upon Issuance of Shares.** Shares shall not be issued with respect to an option unless the exercise of such option and the issuance and delivery of such Shares pursuant thereto shall comply with Applicable Law (including, without limitation, the completion of any registration or qualification of the Shares or obtaining any approval or other clearance under Applicable Law), and shall be further subject to the approval of counsel for the Company with respect to such compliance. The Company is under no obligation to register or qualify the Shares with any state or foreign securities commission, or to seek approval or clearance from any governmental authority for the issuance or sale of the Shares. If, pursuant to this Section 20, the Administrator determines that the Shares will not be issued to any participant, any contributions credited to such participant's account will be promptly refunded, without interest (unless required by Applicable Law), to the participant, without any liability to the Company or any of its Subsidiaries or Affiliates.

As a condition to the exercise of an option, the Administrator may require the person exercising such option to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required by Applicable Law.

21. **Code Section 409A.** Any Code Section 423(b) Offering is intended to be exempt from the application of Section 409A of the Code. Any Non-423(b) Offering is intended to be exempt from Section 409A of the Code since the intent is that the only participants in such offerings shall not be subject to Section 409A of the Code. In the case of a participant who would otherwise be subject to Section 409A of the Code, to the extent an option to purchase Shares or the payment, settlement or deferral thereof is subject to Section 409A of the Code, the option to purchase Shares shall be granted, paid, exercised, settled or deferred in a manner that will comply with Section 409A of the Code, including the final regulations and other guidance issued with respect thereto, except as otherwise determined by the Administrator. Notwithstanding the foregoing, the Company or any of its Affiliates shall have no liability or obligation to indemnify to a participant or any other party if the option to purchase Common Stock

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under the Purchase Plan that is intended to be exempt from or compliant with Section 409A of the Code is not so exempt or compliant or for any action taken by the Administrator with respect thereto. The Company makes no representation that the option to purchase Common Stock under the Purchase Plan is compliant with Section 409A of the Code.

22. **Term of Purchase Plan.** The Purchase Plan became effective on July 28, 2000 and was amended and restated on each of April 29, 2020 and May 2, 2023. Unless sooner terminated by the Board, the Purchase Plan shall terminate upon the earliest to occur of (a) the date on which all Shares available for issuance under the Purchase Plan shall have been sold pursuant to options exercised under the Purchase Plan or (b) the date on which all options are exercised in connection with a dissolution or liquidation pursuant to Section 17(b) hereof or a merger or asset sale pursuant to Section 17(c) hereof. No further options shall be granted or exercised, and no further contributions shall be collected, under the Purchase Plan following such termination.

23. **Automatic Transfer to Low Price Offering Period.** To the extent permitted by any Applicable Law, regulation or stock exchange rule, if the Fair Market Value of the Common Stock on any Exercise Date in an Offering Period is lower than the Fair Market Value of the Common Stock on the Enrollment Date for that Offering Period, then all participants in such Offering Period shall be automatically withdrawn from such Offering Period immediately after the exercise of their option on such Exercise Date and automatically enrolled in the new Offering Period beginning coincident with such Exercise Date.

24. **At Will Employment.** Nothing in the Purchase Plan shall confer upon the participant any right to continue in the employ of the Company or any Subsidiary or Affiliate for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Company (or any Subsidiary or Affiliate employing such person) or of the participant, which rights are hereby expressly reserved by each, to terminate such person's employment at any time for any reason, with or without cause.

25. **Severability.** If any particular provision of this Purchase Plan is found to be invalid or unenforceable, such provision shall not affect the other provisions of the Purchase Plan, but the Purchase Plan shall be construed in all respects as if such invalid provision had been omitted.

26. **Governing Law.** Except to the extent that provisions of this Purchase Plan are governed by applicable provisions of the Code or any other substantive provision of federal law, this Purchase Plan shall be construed in accordance with, and shall be governed by, the substantive laws of the State of Delaware without regard to any provisions of Delaware law relating to the conflict of laws.

**CERTIFICATION OF CHARLES DADSWELL PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Charles Dadswell, 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 10, 2023

By: /s/ CHARLES DADSWELL  
 Name: Charles Dadswell  
 Title: Interim Chief Executive Officer, General Counsel and Secretary

**CERTIFICATION OF JOYDEEP GOSWAMI PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Joydeep Goswami, 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 10, 2023

By: /s/ JOYDEEP GOSWAMI  
 Name: Joydeep Goswami  
 Title: Chief Financial Officer, Chief Strategy and Corporate Development Officer

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

In connection with the Quarterly Report of Illumina, Inc. (the "Company") on Form 10-Q for the quarter ended July 2, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charles Dadswell, Interim Chief Executive Officer, General Counsel and Secretary 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 10, 2023

By:	<u>/s/ CHARLES DADSWELL</u>
Name:	Charles Dadswell
Title:	Interim Chief Executive Officer, General Counsel and Secretary

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 of such Section, and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before, on or after the date of the Report), irrespective of any general incorporation language contained in such filing.



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

In connection with the Quarterly Report of Illumina, Inc. (the "Company") on Form 10-Q for the quarter ended July 2, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joydeep Goswami, Chief Financial Officer, Chief Strategy and Corporate Development 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 10, 2023

By: /s/ JOYDEEP GOSWAMI  
Name: Joydeep Goswami  
Title: Chief Financial Officer, Chief Strategy and Corporate Development 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 of 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.