GAMING & ENTERTAINMENT GROUP INC
Form 10QSB
August 16, 2004

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

FORM 10-QSB

(Mark One)

|X| **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended: June 30, 2004

OR

|_| **TRANSITION REPORT PURSUANT SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from: ____________________________ to __________________________

Commission file number: 000-28399

Gaming & Entertainment Group, Inc.

(Exact name of small business issuer as specified in its charter)

Utah	59-1643698
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

6757 Spencer Street, Las Vegas, Nevada 89119

(Address of principal executive offices)

(702) 407-2471

(Issuer s telephone number)

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES |X| NO |_|

Applicable Only to Issuers Involved in Bankruptcy Proceedings During the Preceding Five Years

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by court. YES |_| NO |_|

Applicable Only to Corporate Issuers

State the number of shares outstanding of each of the issuer s classes of common equity, as of the latest practicable date:

19,218,245 shares of common stock, $0.01 par value, as of August 16, 2004

Transitional Small Business Disclosure Format (check one): YES |_| NO |X|

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

GAMING & ENTERTAINMENT GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
JUNE 30, 2004 (UNAUDITED)

ASSETS		
Current Assets		
Cash	$	214,932
Prepaid expenses		21,790
Total current assets		236,722
Equipment, net		162,530
Other Assets		680
Total assets	$	399,932
LIABILITIES AND STOCKHOLDERS DEFICIENCY		
Current Liabilities		
Accounts payable	$	132,013
Accrued expenses		28,616
Accrued expenses - employees		203,334
Foreign income taxes payable		130,959
Total liabilities		494,922
Commitments and Contingencies		
Stockholders Deficiency		
Class A convertible preferred stock, par value $10 per share; 1,000,000 shares authorized; none issued		
Class B preferred stock, par value $10 per share; 1,000,000 shares authorized; none issued		
Common stock, par value $.01 per share; 150,000,000 shares authorized; 18,942,352 shares issued and outstanding		189,423
Additional paid-in capital		5,138,205
Accumulated deficit		(5,588,580)
Accumulated other comprehensive income foreign currency translation gains		165,962
Total stockholders deficiency		(94,990)

Total liabilities and stockholders deficiency	$	399,932

See accompanying notes to condensed consolidated financial statements

GAMING & ENTERTAINMENT GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE SIX AND THREE MONTHS ENDED
JUNE 30, 2004 AND 2003 (UNAUDITED)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2004	2003	2004	2003
Revenues:				
Services	$ 75,340	$ 408,462	$ 46,667	$ 202,782
Product		297,432		
Total revenues	75,340	705,894	46,667	202,782
Cost of revenues:				
Services		125,401		65,097
Product		242,564		
Total cost of revenues		367,965		65,097
Gross margin	75,340	337,929	46,667	137,685
Operating expenses:				
Research and development	504,269	292,603	252,213	151,893
Selling, general and administrative expenses	1,642,276	644,827	942,261	409,578
Impairment of intellectual property		23,028		
Total operating expenses	2,146,545	960,458	1,194,474	561,471
Operating loss	(2,071,205)	(622,529)	(1,147,807)	(423,786)
Other income (expense):				
Foreign currency transaction loss	(14,170)		(14,170)	
Interest expense	(26,760)		(3,209)	
Interest and dividend income	752	4,376	229	1,820
Other income	9,457		4,452	
Total other income (expense)	(30,721)	4,376	(12,698)	1,820
Net loss	$ (2,101,926)	$ (618,153)	$ (1,160,505)	$ (421,966)

Weighted average number of shares outstanding	16,362,468	13,660,544	18,299,604	13,829,372
Net loss per share - basic and diluted	$ (0.13)	$ (0.05)	$ (0.06)	$ (0.03)

See accompanying notes to condensed consolidated financial statements

GAMING & ENTERTAINMENT GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS DEFICIENCY
FOR THE SIX MONTHS ENDED JUNE 30, 2004 (UNAUDITED)

	Common Stock		Additional Paid-in	Accumulated	Accumulated Other Comprehensive	
	Shares	Amount	Capital	Deficit	Income (Loss)	Total
Balance at January 1, 2004	11,947,872	$ 11,948	$ 2,538,678	$ (3,486,654)	$ 206,766	$ (729,262)
Effects of reverse acquisition	4,058,756	148,118	(180,170)			(32,052)
Shares and warrants issued through private placement, net of expenses of $301,758	2,445,000	24,450	2,118,792			2,143,242
Shares issued for services	432,390	4,324	428,066			432,390
Shares and warrants issued for equipment	58,334	583	57,751			58,334
Options and warrants issued to consultants for services			175,088			175,088
Foreign currency translation loss (A)					(40,804)	(40,804)
Net loss				(2,101,926)		(2,101,926)
Balance at June 30, 2004	18,942,352	$ 189,423	$ 5,138,205	$ (5,588,580)	$ 165,962	$ (94,990)

(A) Comprehensive loss (net loss plus foreign currency translation loss) for the six and three months ended June 30, 2004 totaled $2,142,730 and $1,161,527, respectively.

See accompanying notes to condensed consolidated financial statements

GAMING & ENTERTAINMENT GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2003
(UNAUDITED)

	2004	2003
Cash flows from operating activities		
Net loss	$ (2,101,926)	$ (618,153)
Adjustments to reconcile net loss to net cash used in operating activities:		
Provision for bad debts (recoveries)	(2,419)	24,355
Impairment of intellectual property		23,028
Depreciation expense	15,339	19,342
Shares issued for services	432,390	
Options and warrants issued to nonemployees for services	175,088	
Changes in operating assets and liabilities:		
Accounts receivable		63,715
Prepaid expenses	(11,790)	
Accounts payable	90,936	40,772
Accrued expenses	(33,325)	54,718
Accrued expenses - employees	(59,190)	
Customer deposits		(20,000)
Net cash used in operating activities	(1,494,897)	(412,223)
Cash flows from investing activities - Acquisition equipment	(44,007)	(33,393)
Cash flows from financing activities		
Repayments of related party loans	(458,450)	
Net proceeds from sale of common stock and warrants	2,143,242	312,089
Net cash provided by financing activities	1,684,792	312,089
Effect of exchange rate changes on cash	(17,271)	29,511
Net increase (decrease) in cash	128,617	(104,016)
Cash, beginning of period	86,315	281,992
Cash, end of period	$ 214,932	$ 177,976
Supplemental schedule of noncash investing and financing activities		

Shares issued for equipment	$ 58,334

See accompanying notes to condensed consolidated financial statements

GAMING & ENTERTAINMENT GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 BUSINESS AND ORGANIZATION

On or about January 12, 2004, NorStar Group, Inc., a publicly-held company that was not conducting or developing any commercial operations (NorStar), consummated a series of transactions, including: (i) a 1-for-24.852732 reverse split of its outstanding shares of common stock; (ii) the issuance of 14,600,000 post-split shares of common stock in exchange for all of the outstanding shares of common stock of Gaming & Entertainment Group, Inc., a Nevada corporation (G&EG Nevada); (iii) the issuance of options and warrants to purchase 4,257,937 post-split shares of common stock in exchange for all of the outstanding options and warrants to purchase shares of G&EG Nevada; and (iv) a change in the name of NorStar to Gaming & Entertainment Group, Inc. (G&EG). As a result of the exchange, G&EG Nevada became a subsidiary of G&EG, and the former stockholders of G&EG Nevada became the holders of 91.25% of the then outstanding shares of common stock of the combined companies. In addition, the former directors and officers of G&EG Nevada became the controlling members of the board of directors and management of the combined companies. Since G&EG Nevada was the only operating company in the exchange and the former stockholders of G&EG Nevada received a substantial majority of the voting securities of the combined companies, the exchange was accounted for as a reverse acquisition and, effectively, as a recapitalization, in which G&EG Nevada was the accounting acquirer (and the legal acquiree) and NorStar was the accounting acquiree (and the legal acquirer). Since the exchange was accounted for as a reverse acquisition, the accompanying condensed consolidated financial statements reflect the historical financial statements of G&EG Nevada, the accounting acquirer, as adjusted for the effects of the exchange of shares on its equity accounts, the inclusion of the net liabilities of the accounting acquiree as of January 12, 2004 on their historical basis and the inclusion of the accounting acquiree s results of operations from that date.

As used herein, the Company refers to G&EG Nevada prior to January 12, 2004 and to G&EG, G&EG Nevada and their other subsidiaries from that date forward.

The Company is a developer of central server gaming systems, game content, gaming devices for the land-based gaming markets of the United States, Canada and Europe and Internet gaming systems for utilization in non U.S. regulated gaming markets.

NOTE 2 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted from this report, as is permitted by such rules and regulations; however, in the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the Company s financial position as of June 30, 2004 and its results of operations and cash flows for the interim periods presented. Results of operations for interim periods are not necessarily indicative of results for the full years of which they are a part.

GAMING & ENTERTAINMENT GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(CONTINUED)

The accompanying condensed consolidated financial statements have been prepared assuming the Company will continue as a going concern. As shown in the financial statements, the Company has incurred losses of $2,101,926 and $1,160,505 for the six and three months ended June 30, 2004, respectively, and recurring losses in prior years. As of June 30, 2004, the Company had a working capital deficiency of $258,200 and an accumulated deficit of $5,588,580. These conditions raise substantial doubt about the Company s ability to continue as a going concern. The Company s ability to continue as a going concern is dependent upon its ability to generate sufficient cash flows from its operations or obtain sufficient liquid resources from other sources to meet its obligations as they become due. Through June 30, 2004, the Company has funded its operations primarily through the issuance of common stock, warrants and options to outside investors for cash and consultants and others for services. The Company is attempting to procure additional funding through the issuance of equity securities, loans from financial institutions and agreements with strategic partners. Management anticipates that additional funding of not less than $2,000,000 will be necessary to fund the Company s operations through June 30, 2005. Management believes, but cannot assure, that the Company will be able to obtain such financing and continue its operations through at least June 30, 2005. If the Company is not able to obtain adequate financing, it may have to curtail or terminate some, or all, of its operations. The accompanying condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classifications of liabilities that might be necessary in the event the Company cannot continue as a going concern.

Stock-Based Compensation

Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 123), provides for the use of a fair value based method of accounting for employee stock compensation. However, SFAS 123 also allows an entity to continue to measure compensation cost for stock options granted to employees using the intrinsic value method of accounting prescribed by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25), which only requires charges to compensation expense for the excess, if any, of the fair value of the underlying stock at the date a stock option is granted (or at an appropriate subsequent measurement date) over the amount the employee must pay to acquire the stock. The Company has elected to continue to account for employee stock options using the intrinsic value method under APB 25. By making that election, it is required by SFAS 123 and SFAS 148, Accounting for Stock-Based Compensation Transition and Disclosure (SFAS 148), to provide pro forma disclosures of net loss and net loss per common share as if a fair value based method of accounting had been applied, if such amounts differ materially from the historical amounts.

The exercise price of all of the options granted to employees has been equal to or greater than the fair market value at the date of grant and, accordingly, the Company has not recorded any earned or unearned compensation cost related to such options in the accompanying condensed consolidated financial statements. The Company s historical net loss and net loss per share and pro forma net loss and net loss per share assuming compensation cost had been determined based on the fair value of the options at the date of grant and amortized over the vesting period consistent with the provisions of SFAS 123 are set forth below:

GAMING & ENTERTAINMENT GROUP, INC. AND SUBSIDIARIES

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See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended	
	March 31, 2019	April 1, 2018
Consolidated net income	$224	$ 197
Unrealized gain on available-for-sale debt securities, net of deferred tax	3	—
Total consolidated comprehensive income	227	197
Add: Comprehensive loss attributable to noncontrolling interests	9	11
Comprehensive income attributable to Illumina stockholders	$236	$ 208

See accompanying notes to condensed consolidated financial statements.

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

	Illumina Stockholders								
	Common Stock		Additional Paid-In	Accumulated Other Comprehensive	Retained	Treasury Stock		Noncontrolling	Total Stockholders'
	Shares	Amount	Capital	(Loss) Income	Earnings	Shares	Amount	Interests	Equity
Balance as of December 31, 2017	191	$ 2	$ 2,833	$ (1)	$ 2,256	(44)	$ (2,341)	$ —	$ 2,749
Net income (loss)	—	—	—	—	208	—	—	(1)	207
Issuance of common stock, net of repurchases	—	—	21	—	—	—	(13)	—	8
Share-based compensation	—	—	48	—	—	—	—	—	48
Adjustment to the carrying value of redeemable noncontrolling interests	—	—	(5)	—	—	—	—	—	(5)
Contributions from noncontrolling interest owners	—	—	—	—	—	—	—	61	61
Issuance of subsidiary shares in business combination	—	—	—	—	—	—	—	5	5
Balance as of April 1, 2018	191	2	2,897	(1)	2,464	(44)	(2,354)	65	3,073
Net income (loss)	—	—	—	—	209	—	—	(2)	207
Issuance of common stock, net of repurchases	—	—	1	—	—	—	(2)	—	(1)
Share-based compensation	—	—	50	—	—	—	—	—	50
Vesting of redeemable equity awards	—	—	(1)	—	—	—	—	—	(1)
Adjustment to the carrying value of redeemable noncontrolling interests	—	—	(8)	—	—	—	—	—	(8)
Contributions from noncontrolling interest owners	—	—	—	—	—	—	—	31	31
Balance as of July 1, 2018	191	2	2,939	(1)	2,673	(44)	(2,356)	94	3,351
Net income (loss)	—	—	—	—	199	—	—	(3)	196
Unrealized loss on available-for-sale debt securities, net of deferred tax	—	—	—	(1)	—	—	—	—	(1)
Issuance of common stock, net of repurchases	—	—	23	—	—	—	(106)	—	(83)
Share-based compensation	—	—	47	—	—	—	—	—	47
Vesting of redeemable equity awards	—	—	(1)	—	—	—	—	—	(1)
Adjustment to the carrying value of redeemable noncontrolling interests	—	—	(8)	—	—	—	—	—	(8)
Issuance of convertible senior notes, net of tax impact	—	—	93	—	—	—	—	—	93
Balance as of September 30, 2018	191	2	3,093	(2)	2,872	(44)	(2,462)	91	3,594
Net income (loss)	—	—	—	—	210	—	—	(4)	206
Unrealized gain on available-for-sale debt securities, net of deferred tax	—	—	—	1	—	—	—	—	1
	1	—	1	—	—	(1)	(154)	—	(153)

Issuance of common stock, net repurchases									
Share-based compensation	—	—	48	—	—	—	—	—	48
Adjustment to the carrying value of redeemable noncontrolling interests	—	—	148	—	—	—	—	—	148

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Cumulative-effect adjustment from adoption of ASU 2016-01	—	—	—	—	1	—	—	—	1
Balance as of December 30, 2018	192	2	3,290	(1)	3,083	(45)	(2,616)	87	3,845
Net income (loss)	—	—	—	—	233	—	—	(2)	231
Unrealized gain on available-for-sale debt securities, net of deferred tax	—	—	—	3	—	—	—	—	3
Issuance of common stock, net of repurchases	—	—	27	—	—	—	(86)	—	(59)
Share-based compensation	—	—	51	—	—	—	—	—	51
Vesting of redeemable equity awards	—	—	(1)	—	—	—	—	—	(1)
Adjustment to the carrying value of redeemable noncontrolling interests	—	—	18	—	—	—	—	—	18
Cumulative-effect adjustment from adoption of ASU 2016-02, net of deferred tax	—	—	—	—	(18)	—	—	—	(18)
Balance as of March 31, 2019	192	$2	$3,385	$2	$3,298	(45)	$(2,702)	$85	$4,070

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended	
	March 31, 2019	April 1, 2018
Cash flows from operating activities:		
Consolidated net income	$224	$197
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	37	30
Amortization of intangible assets	10	9
Share-based compensation expense	51	48
Accretion of debt discount	14	8
Deferred income taxes	(11)	(11)
Gain on deconsolidation of GRAIL	(15)	—
Other	(5)	(6)
Changes in operating assets and liabilities:		
Accounts receivable	56	11
Inventory	(26)	(17)
Prepaid expenses and other current assets	6	(2)
Operating lease right-of-use assets and liabilities, net	(1)	—
Other assets	(8)	(1)
Accounts payable	(47)	2
Accrued liabilities	(70)	(18)
Other long-term liabilities	(17)	5
Net cash provided by operating activities	198	255
Cash flows from investing activities:		
Purchases of available-for-sale securities	(117)	(598)
Sales of available-for-sale securities	118	288
Maturities of available-for-sale securities	1,031	415
Proceeds from deconsolidation of GRAIL	15	—
Net purchases of strategic investments	(3)	(3)
Purchases of property and equipment	(56)	(90)
Net cash provided by investing activities	988	12
Cash flows from financing activities:		
Payments on financing obligations	(1)	(2)
Common stock repurchases	(63)	—
Taxes paid related to net share settlement of equity awards	(23)	(13)
Proceeds from issuance of common stock	27	21
Contributions from noncontrolling interest owners	—	61
Net cash (used in) provided by financing activities	(60)	67
Effect of exchange rate changes on cash and cash equivalents	—	1
Net increase in cash and cash equivalents	1,126	335
Cash and cash equivalents at beginning of period	1,144	1,225
Cash and cash equivalents at end of period	$2,270	$1,560
Supplemental cash flow information:		
Cash paid for operating lease liabilities	$21	$—

See accompanying notes to condensed consolidated financial statements.

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Illumina, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)
Unless the context requires otherwise, references in this report to “Illumina,” “we,” “us,” the “Company,” and “our” refer to Illumina, Inc. and its consolidated subsidiaries.

1. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. Interim financial results are not necessarily indicative of results anticipated for the full year. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and footnotes included in the Annual Report on Form 10-K for the fiscal year ended December 30, 2018, 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. Actual results could differ from those estimates.

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

We evaluate our ownership, contractual and other interests in entities that are not wholly-owned to determine if these entities are VIEs, and, if so, whether we are the primary beneficiary of the VIE. In determining whether we are the primary beneficiary of a VIE and therefore required to consolidate the VIE, we apply a qualitative approach that determines whether we have both (1) the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance and (2) the obligation to absorb losses of, or the rights to receive benefits from, the VIE that could potentially be significant to that VIE. We continuously perform this assessment, as changes to existing relationships or future transactions may result in the consolidation or deconsolidation of a VIE. See note “10. Subsequent Event.”

We use the equity method to account for investments through which we have the ability to exercise significant influence, but not control, over the investee. Such investments are recorded in other assets, and our share of net income or loss is recognized on a one quarter lag in other income, net.

Redeemable Noncontrolling Interests

Noncontrolling interests represent the portion of equity (net assets) in Helix, our consolidated but not wholly-owned entity, that is neither directly nor indirectly attributable to us. Noncontrolling interests with embedded contingent redemption features, such as put rights, that are not solely within our control are considered redeemable noncontrolling interests, and are presented outside of stockholders’ equity on the condensed consolidated balance sheets.

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. The three months ended March 31, 2019 and April 1, 2018 were both 13 weeks.

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Reclassifications

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

Significant Accounting Policies

During the three months ended March 31, 2019, there have been no changes to our significant accounting policies as described in our Annual Report on Form 10-K for the fiscal year ended December 30, 2018, except as described below.

Recently Adopted Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires lessees to recognize most leases on the balance sheet as lease liabilities with corresponding right-of-use assets and to disclose key information about leasing arrangements. We adopted Topic 842 on its effective date in the first quarter of 2019 using a modified retrospective approach by recognizing a cumulative-effect adjustment to retained earnings as of December 31, 2018. We elected the available package of practical expedients upon adoption, which allowed us to carry forward our historical assessment of whether existing agreements contained a lease and the classification of our existing operating leases. We continue to report our financial position as of December 30, 2018 under the former lease accounting standard (Topic 840) in our condensed consolidated balance sheet.
The following table summarizes the impact of Topic 842 on our condensed consolidated balance sheet upon adoption on December 31, 2018 (in millions):

	December 31, 2018 (unaudited)		
	Pre-adoption	Adoption Impact	Post-adoption
ASSETS			
Prepaid expenses and other current assets	$78	$ (8)	$ 70
Property and equipment, net	1,075	(241)	834
Operating lease right-of-use assets	—	579	579
Deferred tax assets, net	70	6	76
Total assets	$1,223	$ 336	$ 1,559
LIABILITIES AND STOCKHOLDERS' EQUITY			
Accrued liabilities	$513	$ 36	$ 549
Operating lease liabilities	—	722	722
Long-term debt	1,107	(269)	838
Other long-term liabilities	359	(135)	224
Retained earnings	3,083	(18)	3,065
Total liabilities and stockholders' equity	$5,062	$ 336	$ 5,398

The adoption impact summarized above was primarily due to the recognition of operating lease liabilities with corresponding right-of-use assets based on the present value of our remaining minimum lease payments, and the derecognition of existing fixed assets and financing obligations related to build-to-suit leasing arrangements that, under Topic 840, did not qualify for sale-leaseback accounting. The difference between these amounts, net of deferred tax, was recorded as a cumulative-effective adjustment to retained earnings.

Recently Issued Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments, which amends the impairment model by requiring entities to use a forward-looking approach based on expected losses to estimate credit losses on certain types of financial instruments, including trade receivables and available-for-sale debt securities. The standard is effective for us beginning in the first quarter of 2020, with early adoption permitted. We are currently evaluating the expected impact of ASU 2016-13 on our consolidated financial statements.

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Revenue Recognition

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 and instrument service contracts.

We recognize revenue when control of our products and services is transferred to our customers in an amount that reflects the consideration we expect to receive from our customers in exchange for those products and services. This process involves identifying the contract with a customer, determining the performance obligations in the contract, determining the contract price, allocating the contract price to the distinct performance obligations in the contract, and recognizing revenue when the performance obligations have been satisfied. A performance obligation is considered distinct from other obligations in a contract when it provides a benefit to the customer either on its own or together with other resources that are readily available to the customer and is separately identified in the contract. We consider a performance obligation satisfied once we have transferred control of a good or service to the customer, meaning the customer has the ability to use and obtain the benefit of the good or service.

Revenue from product sales is recognized generally upon delivery to the end customer, which is when control of the product is deemed to be transferred. Invoicing typically occurs upon shipment; and payment is typically due within 60 days from invoice. In instances where right of payment or transfer of title is contingent upon the customer's acceptance of the product, revenue is deferred until all acceptance criteria have been met. Revenue from instrument service contracts is recognized as the services are rendered, typically evenly over the contract term. Revenue from genotyping and sequencing services is recognized when earned, which is generally at the time the genotyping or sequencing analysis data is made available to the customer.

Revenue is recorded net of discounts, distributor commissions, and sales taxes collected on behalf of governmental authorities. Employee sales commissions are recorded as selling, general and administrative expenses when incurred as the amortization period for such costs, if capitalized, would have been one year or less.

We regularly enter into contracts with multiple performance obligations. Revenue recognition for contracts with multiple deliverables is based on the separate satisfaction of each distinct performance obligation within the contract. Most performance obligations are generally satisfied within a short time frame, approximately three to six months after the contract execution date. As of March 31, 2019, the aggregate amount of the transaction price allocated to remaining performance obligations was $1,083 million, of which approximately 85% is expected to be converted to revenue in the next twelve months, with the remainder thereafter.

The contract price is allocated to each performance obligation in proportion to its standalone selling price. We determine our best estimate of standalone selling price using average selling prices over a rolling 12-month period coupled with an assessment of current market conditions. If the product or service has no history of sales or if the sales volume is not sufficient, we rely upon prices set by management, adjusted for applicable discounts.

Contract liabilities, which consist of deferred revenue and customer deposits, as of March 31, 2019 and December 30, 2018 were $201 million and $206 million, respectively, of which the short-term portions of $169 million and $175 million, respectively, were recorded in accrued liabilities and the remaining long-term portions were recorded in other long-term liabilities. Revenue recorded during the three months ended March 31, 2019 included $64 million of previously deferred revenue that was included in contract liabilities as of December 30, 2018. Contract assets as of March 31, 2019 and December 30, 2018 were not material.

In certain markets, products and services are sold to customers through distributors. In most sales through distributors, the product is delivered directly to customers by us. The terms of sales transactions through distributors are consistent with the terms of direct sales to customers.

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The following table represents revenue by source (in millions):

	Three Months Ended					
	March 31, 2019			April 1, 2018		
	Sequencing	Microarray	Total	Sequencing	Microarray	Total
Consumables	$481	$ 75	$556	$422	$ 88	$510
Instruments	105	6	111	112	6	118
Total product revenue	586	81	667	534	94	628
Service and other revenue	113	66	179	96	58	154
Total revenue	$699	$ 147	$846	$630	$ 152	$782

Revenue related to our consolidated VIE, Helix, is included in sequencing service and other revenue.

The following table represents revenue by geographic area, based on region of destination (in millions):

	Three Months Ended	
	March 31, 2019	April 1, 2018
Americas	$473	$ 440
Europe, Middle East, and Africa	210	194
Greater China (1)	88	78
Asia-Pacific	75	70
Total revenue	$846	$ 782

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

Earnings per Share

Basic earnings per share attributable to Illumina stockholders is computed based on the weighted average number of common shares outstanding during the period. Diluted earnings per share attributable to Illumina stockholders is computed based on the sum of the weighted average number of common shares and potentially dilutive common shares outstanding during the period. Per-share earnings of our consolidated VIE, Helix, are included in the consolidated basic and diluted earnings per share computations based on our share of Helix's securities.

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

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

	Three Months Ended	
	March 31, 2019	April 1, 2018

Weighted average shares outstanding	147	147
Effect of potentially dilutive common shares from:		
Convertible senior notes	1	—
Equity awards	1	1
Weighted average shares used in calculating diluted earnings per share	149	148
Potentially dilutive shares excluded from calculation due to anti-dilutive effect	1	—

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2. Balance Sheet Account Details

Investments

Debt Securities

Available-for-sale debt securities, included in short-term investments, consisted of the following (in millions):

	March 31, 2019				December 30, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities in government sponsored entities	$21	$ —	$ —	$ 21	$21	$ —	$ —	$ 21
Corporate debt securities	716	2	(1)	717	1,060	—	(2)	1,058
U.S. Treasury securities	566	—	—	566	1,250	1	(1)	1,250
Total	$1,303	$ 2	$ (1)	$ 1,304	$2,331	$ 1	$ (3)	$ 2,329

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

Contractual maturities of available-for-sale debt securities, as of March 31, 2019, were as follows (in millions):

	Estimated Fair Value
Due within one year	$ 711
After one but within five years	593
Total	$ 1,304

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

Equity Securities

Our equity securities are strategic investments primarily in privately held companies.

The carrying values of our non-marketable equity securities without readily determinable market values are initially measured at cost and adjusted to fair value for observable transactions for identical or similar investments of the same issuer or impairment. Unrealized gains and losses on non-marketable equity securities are recognized in other income, net. As of March 31, 2019 and December 30, 2018, the aggregate carrying amounts of our non-marketable equity investments without readily determinable fair values were $230 million and $231 million, respectively, included in other assets.

One of our non-marketable equity investments is a VIE for which we have concluded that we are not the primary beneficiary, and therefore, we do not consolidate this VIE in our consolidated financial statements. We have determined our maximum exposure to loss, as a result of our involvement with the VIE, to be the carrying value of our investment, which was $189 million as of March 31, 2019 and December 30, 2018.

Our marketable equity security is measured at fair value. Unrealized gains and losses are recognized in other income, net. As of March 31, 2019 and December 30, 2018, the fair value of our marketable equity investment was $41 million and $39 million, respectively, included in short-term investments.

Revenue recognized from transactions with our strategic equity investees was $15 million and $36 million for the three months ended March 31, 2019 and April 1, 2018, respectively.

Venture Fund

We invest in a venture capital investment fund (the Fund) with a capital commitment of $100 million that is callable through April 2026, of which $66 million remained callable as of March 31, 2019. Our investment in the Fund is accounted for

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as an equity-method investment. The carrying amounts of the Fund, included in other assets, were $38 million and $29 million as of March 31, 2019 and December 30, 2018, respectively.

Inventory

Inventory consisted of the following (in millions):

	March 31, 2019	December 30, 2018
Raw materials	$ 115	$ 117
Work in process	234	218
Finished goods	63	51
Total inventory	$ 412	$ 386

Property and Equipment

Property and equipment, net consisted of the following (in millions):

	March 31, 2019	December 30, 2018
Leasehold improvements	$ 622	$ 567
Machinery and equipment	390	382
Computer hardware and software	256	217
Furniture and fixtures	48	45
Buildings	44	285
Construction in progress	46	100
Total property and equipment, gross	1,406	1,596
Accumulated depreciation	(554)	(521)
Total property and equipment, net	$ 852	$ 1,075

Property and equipment, net included non-cash expenditures of $17 million and $33 million for the three months ended March 31, 2019 and April 1, 2018, respectively, which were excluded from the condensed consolidated statements of cash flows. Such non-cash expenditures included $6 million recorded under build-to-suit lease accounting for the three months ended April 1, 2018.

As of December 30, 2018, property and equipment, net included $241 million of project construction costs paid or reimbursed by our landlord related to our build-to-suit leases that did not qualify for sale-leaseback accounting under Topic 840. Upon adoption of Topic 842 on December 31, 2018, we derecognized the Buildings related to our build-to-suit leasing arrangements and began to account for these leases as operating leases. See note “1. Basis of Presentation and Summary of Significant Accounting Policies” for further details on the adoption impact of Topic 842.

Leases

We lease approximately 2.7 million square feet of office, lab, and manufacturing facilities under various non-cancellable operating lease agreements (real estate leases). Our real estate leases have remaining lease terms of 1 to 20 years, which represent the non-cancellable periods of the leases and include extension options that we determined are reasonably certain to be exercised. We exclude extension options that are not reasonably certain to be exercised from our lease terms, ranging from 6 months to 20 years. Our lease payments consist primarily of fixed rental payments for the right to use the underlying leased assets over the lease terms as well as payments for common-area-maintenance and administrative services. We often receive customary incentives from our landlords, such as reimbursements for tenant improvements and rent abatement periods, which effectively reduce the total lease payments owed for these leases.

Operating lease right-of-use assets and liabilities on our condensed consolidated balance sheets represent the present value of our remaining lease payments over the remaining lease terms. We do not allocate lease payments to non-lease components; therefore, fixed payments for common-area-maintenance and administrative services are included in our operating lease right-of-use assets and liabilities. We use our incremental borrowing rate to calculate the present value of our lease payments, as the implicit rates in our leases are not readily determinable.

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As of March 31, 2019, the maturities of our operating lease liabilities were as follows (in millions):

	Remaining Lease Payments
2019	$ 64
2020	85
2021	82
2022	85
2023	86
Thereafter	621
Total remaining lease payments	1,023
Less: imputed interest	(253)
Total operating lease liabilities	770
Less: current portion	(52)
Long-term operating lease liabilities	$ 718
Weighted-average remaining lease term	12 years
Weighted-average discount rate	4.6 %

The components of our lease costs included in our condensed consolidated statements of income were as follows (in millions):

	Three months ended March 31, 2019
Operating lease costs	$ 22
Sublease income	(3)
Total lease costs	$ 19

Operating lease costs consist of the fixed lease payments included in our operating lease liabilities and are recorded on a straight-line basis over the lease terms. We sublease certain real estate to third parties and this sublease income is also recorded on a straight-line basis.

Derivatives

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

As of March 31, 2019, we had foreign exchange forward contracts in place to hedge exposures in the euro, Japanese yen, Australian dollar, Canadian dollar, Singapore dollar, and British pound. As of March 31, 2019 and December 30, 2018, the total notional amounts of outstanding forward contracts in place for foreign currency purchases were $272 million and $122 million, respectively.

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Accrued Liabilities

Accrued liabilities consisted of the following (in millions):

	March 31, 2019	December 30, 2018
Contract liabilities, current portion	$ 169	$ 175
Accrued compensation expenses	105	193
Accrued taxes payable	83	82
Operating lease liabilities, current portion	52	—
Other, including warranties	64	63
Total accrued liabilities	$ 473	$ 513

Warranties

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.

Changes in the reserve for product warranties during the three months ended March 31, 2019 and April 1, 2018 were as follows (in millions):

	Three Months Ended	
	March 31, 2019	April 1, 2018
Balance at beginning of period	$19	$ 17
Additions charged to cost of product revenue	3	6
Repairs and replacements	(6)	(7)
Balance at end of period	$16	$ 16

Investment in Helix

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

As contractually committed, in July 2015, we contributed certain perpetual licenses, instruments, intangibles, initial laboratory setup, and discounted supply terms in exchange for voting equity interests in Helix. Such contributions were recorded at their historical basis as they remained within our control. Helix is financed through cash contributions made by us and third-party investors in exchange for voting equity interests in Helix. During the year ended December 30, 2018, we made additional investments of $100 million in exchange for voting equity interests in Helix. During the three months ended March 31, 2019, we did not provide any other financial or other support to Helix that we were not previously contractually required to provide. As of March 31, 2019, the noncontrolling shareholders and Illumina each held 50% of Helix's outstanding voting equity interests.

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Certain noncontrolling Helix investors may require us to redeem certain noncontrolling interests in cash at the then approximate redemption fair market value. Such redemption right is exercisable at the option of certain noncontrolling interest holders after January 1, 2021, provided that a bona fide pursuit of the sale of Helix has occurred and an initial public offering of Helix has not been completed. As the contingent redemption is outside of our control, the redeemable noncontrolling interests in Helix are classified outside of stockholders' equity on the accompanying condensed consolidated balance sheets. The balance of the redeemable noncontrolling interests is reported at the greater of its carrying value after receiving its allocation of Helix's profits and losses or its estimated redemption fair value at each reporting date. The fair value of the redeemable noncontrolling interests is considered a Level 3 instrument.

As of March 31, 2019, the accompanying condensed consolidated balance sheet included $106 million of cash, cash equivalents, and short-term investments attributable to Helix that will be used to settle its respective obligations and will not be available to settle obligations of Illumina. The remaining assets and liabilities of Helix were not significant to our financial position as of March 31, 2019. Helix had an immaterial impact on our condensed consolidated statements of income and cash flows for the three months ended March 31, 2019. Refer to note "10. Subsequent Event."

Redeemable Noncontrolling Interests

The activity of the redeemable noncontrolling interests during the three months ended March 31, 2019 was as follows (in millions):

	Redeemable Noncontrolling Interests
Balance as of December 30, 2018	$ 61
Vesting of redeemable equity awards	1
Net loss attributable to noncontrolling interests	(7)
Adjustment down to the redemption value	(18)
Balance as of March 31, 2019	$ 37

3. Pending Acquisition

On November 1, 2018, we entered into an Agreement and Plan of Merger (the Merger Agreement) to acquire Pacific Biosciences of California, Inc. (PacBio) for an all-cash price of approximately $1.2 billion (or $8.00 per share). The transaction, which is expected to close mid-2019, is subject to certain customary closing conditions, including the receipt of certain required antitrust approvals. The Merger Agreement contains certain termination rights and provides that, upon termination of the Merger Agreement under specified circumstances, including but not limited to, a termination of the Merger Agreement in connection with PacBio accepting a superior offer or due to the withdrawal by PacBio's board of directors of its recommendation of the merger, PacBio will pay us a cash termination fee of $43 million. In certain other circumstances related to antitrust approvals, we may be required to pay PacBio a termination fee of $98 million assuming the other closing conditions not related to antitrust or competition laws have been satisfied.

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4. Fair Value Measurements

The following table presents the hierarchy for assets and liabilities measured at fair value on a recurring basis as of March 31, 2019 and December 30, 2018 (in millions):

	March 31, 2019				December 30, 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Money market funds (cash equivalents)	$1,805	$—	$ —	$1,805	$832	$—	$ —	$832
Debt securities in government-sponsored entities	—	21	—	21	—	21	—	21
Corporate debt securities	—	717	—	717	—	1,058	—	1,058
U.S. Treasury securities	566	—	—	566	1,250	—	—	1,250
Marketable equity security	41	—	—	41	39	—	—	39
Deferred compensation plan assets	—	43	—	43	—	34	—	34
Total assets measured at fair value	$2,412	$781	$ —	$3,193	$2,121	$1,113	$ —	$3,234
Liabilities:								
Deferred compensation plan liability	$—	$41	$ —	$41	$—	$33	$ —	$33

We hold available-for-sale securities that consist of highly-liquid, investment-grade debt securities. We consider information provided by our investment accounting and reporting service provider in the measurement of fair value of our debt securities. The investment service provider provides valuation information from an industry-recognized valuation service. Such valuations may be based on trade prices in active markets for identical assets or liabilities (Level 1 inputs) or valuation models using inputs that are observable either directly or indirectly (Level 2 inputs), such as quoted prices for similar assets or liabilities, yield curve, volatility factors, credit spreads, default rates, loss severity, current market and contractual prices for the underlying instruments or debt, broker and dealer quotes, as well as other relevant economic measures. Our 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.

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5. Debt and Other Commitments

Summary of debt obligations

Debt obligations consisted of the following (dollars in millions):

	March 31, 2019	December 30, 2018
Principal amount of 2023 Notes outstanding	$ 750	$ 750
Principal amount of 2021 Notes outstanding	517	517
Principal amount of 2019 Notes outstanding	632	633
Unamortized discount of liability component of convertible senior notes	(160)	(175)
Net carrying amount of liability component of convertible senior notes	1,739	1,725
Obligations under financing leases	—	269
Other	4	3
Less: current portion	(631)	(1,107)
Long-term debt	$ 1,112	$ 890
Carrying value of equity component of convertible senior notes, net of debt issuance costs	$ 287	$ 287
Fair value of convertible senior notes outstanding (Level 2)	$ 2,298	$ 2,222
Weighted-average remaining amortization period of discount on the liability component of convertible senior notes	3.8 years	3.9 years

Convertible Senior Notes

0% Convertible Senior Notes due 2023 (2023 Notes)

On August 21, 2018, we issued $750 million aggregate principal amount of convertible senior notes due 2023 (2023 Notes). The 2023 Notes mature on August 15, 2023, and the implied estimated effective rate of the liability component of the Notes was 3.7%, assuming no conversion option.

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

The 2023 Notes were not convertible as of March 31, 2019 and had no dilutive impact during the three months ended March 31, 2019. If the 2023 Notes were converted as of March 31, 2019, the if-converted value would not exceed the principal amount.

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

In June 2014, we issued $633 million aggregate principal amount of 2019 Notes and $517 million aggregate principal amount of 2021 Notes. The 2019 and 2021 Notes mature on June 15, 2019 and June 15, 2021, respectively, and the implied estimated effective rates of the liability components of the Notes were 2.9% and 3.5%, respectively, assuming no conversion option.

Both the 2019 and 2021 Notes will be convertible into cash, shares of common stock, or a combination of cash and shares of common stock, at our election, based on an initial conversion rate, subject to adjustment, of 3.9318 shares per $1,000 principal amount of the notes (which represents an initial conversion price of approximately $254.34 per share), only in the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending September 30, 2014 (and only during such calendar quarter), if the last reported sale price of our common stock for 20 or more trading days in the period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 130% of the applicable conversion price in effect on the last trading day of the immediately preceding calendar quarter; (2) during the five business day period after any 10 consecutive trading day period (the “measurement period”) in which the trading price per 2019 and 2021 Notes for each day of such 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; or (3) upon the occurrence of specified events described in the indenture for the 2019 and 2021 Notes. Regardless of the foregoing circumstances, the holders may convert their notes on or after March 15, 2019 until June 13, 2019 for the 2019 Notes and March 15, 2021 until June 11, 2021 for the 2021 Notes.

The potential dilutive impact of the 2019 and 2021 notes has been included in our calculation of diluted earnings per share for the three months ended March 31, 2019. If the 2019 and 2021 Notes were converted as of March 31, 2019, their if-converted values would exceed their principal amounts by $128 million and $105 million, respectively. The carrying values of the 2019 Notes were classified as current liabilities as they were convertible as of March 31, 2019 and mature within twelve months of the balance sheet date.

Obligations under financing leases

As of December 30, 2018, obligations under financing leases of $269 million represented project construction costs paid or reimbursed by our landlord related to our build-to-suit leases that did not qualify for sale-leaseback accounting under Topic 840. Upon adoption of Topic 842 on December 31, 2018, we derecognized the remaining financing obligations for our build-to-suit leasing arrangements and began to account for these leases as operating leases. See note “1. Basis of Presentation and Summary of Significant Accounting Policies” for further details on the adoption of Topic 842.

6. Stockholders’ Equity

As of March 31, 2019, approximately 4.8 million shares remained available for future grants under the 2015 Stock Plan.

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Restricted Stock

Restricted stock activity for the three months ended March 31, 2019 was as follows (units in thousands):

	Restricted Stock Units (RSU)	Performance Stock Units (PSU)(1)	Weighted-Average Grant-Date Fair Value per Share RSU	Weighted-Average Grant-Date Fair Value per Share PSU
Outstanding at December 30, 2018	1,840	660	$ 227.00	$ 196.99
Awarded	24	—	$ 291.79	$ —
Vested	(28)	—	$ 176.83	—
Cancelled	(43)	(39)	$ 204.64	$ 163.53
Outstanding at March 31, 2019	1,793	621	$ 229.18	$ 199.48

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

Stock Options

Stock option activity during the three months ended March 31, 2019 was as follows:

	Options (in thousands)	Weighted-Average Exercise Price
Outstanding at December 30, 2018	192	$ 54.52
Exercised	(34)	$ 47.86
Outstanding and exercisable at March 31, 2019	158	$ 55.95

ESPP

The price at which common stock is purchased under the ESPP is equal to 85% of the fair market value of the common stock on the first day of the offering period or purchase date, whichever is lower. During the three months ended March 31, 2019, approximately 0.1 million shares were issued under the ESPP. As of March 31, 2019, there were approximately 13.6 million shares available for issuance under the ESPP.

Share Repurchases

On February 6, 2019, our Board of Directors authorized a new share repurchase program, which supersedes all prior and available repurchase authorizations, to repurchase $550 million of outstanding common stock. The repurchases may be completed under a 10b5-1 plan or at management’s discretion. During the three months ended March 31, 2019, we repurchased 0.2 million shares for approximately $63 million. Authorizations to repurchase approximately $488 million of our common stock remained available as of March 31, 2019.

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Share-based Compensation

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

	Three Months Ended	
	March 31, 2019	April 1, 2018
Cost of product revenue	$5	$ 4
Cost of service and other revenue	1	1
Research and development	18	15
Selling, general and administrative	27	28
Share-based compensation expense before taxes	51	48
Related income tax benefits	(10)	(10)
Share-based compensation expense, net of taxes	$41	$ 38

The assumptions used for the specified reporting periods and the resulting estimates of weighted-average fair value per share for stock purchased under the Employee Stock Purchase Plan (ESPP) during the three months ended March 31, 2019 were as follows:

	Employee Stock Purchase Rights
Risk-free interest rate	1.89% - 2.56%
Expected volatility	30% - 38%
Expected term	0.5 - 1.0 year
Expected dividends	0 %
Weighted-average grant-date fair value per share	$71.48

As of March 31, 2019, approximately $433 million of total unrecognized compensation cost related to restricted stock and ESPP shares issued to date was expected to be recognized over a weighted-average period of approximately 2.3 years.

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 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.

8. Income Taxes

Our effective tax rate may vary from the U.S. federal statutory tax rate due to the change in the mix of earnings in tax jurisdictions with different statutory rates, benefits related to tax credits, and the tax impact of non-deductible expenses and other permanent differences between income before income taxes and taxable income. The effective tax rate for the three months ended March 31, 2019 was 3.9%. For the three months ended March 31, 2019, the decrease from the U.S. federal statutory tax rate of 21% was primarily attributable to a discrete tax benefit related to uncertain tax positions, the mix of earnings in jurisdictions with lower statutory tax rates than the U.S. federal statutory tax rate, such as in Singapore and the United Kingdom, and excess tax benefits related to share-based compensation.

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9. Segment Information

We report segment information based on the management approach. This approach 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. Based on the information used by the CODM, we have determined our reportable segments as follows:

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 our consolidated VIE, Helix.

Helix:

Helix, our consolidated VIE, was established to enable individuals to explore their genetic information by providing affordable sequencing and database services for consumers through third-party partners, driving the creation of an ecosystem of consumer applications.

Management evaluates the performance of our reportable segments based upon income (loss) from operations. We do not allocate expenses between segments. Core Illumina sells products and provides services to Helix in accordance with contractual agreements between the entities.

The following table presents the operating performance of each reportable segment (in millions):

	Three Months Ended	
	March 31, 2019	April 1, 2018
Revenue:		
Core Illumina	$ 846	$ 783
Helix	1	3
Elimination of intersegment revenue	(1)	(4)
Consolidated revenue	$ 846	$ 782
Income (loss) from operations:		
Core Illumina	$ 221	$ 238
Helix	(18)	(21)
Elimination of intersegment earnings	1	1
Consolidated income from operations	$ 204	$ 218

The following table presents the total assets of each reportable segment (in millions):

	March 31, 2019	December 30, 2018
Core Illumina	$ 7,362	$ 6,912
Helix	134	154
Elimination of intersegment assets	(106)	(107)
Consolidated total assets	$ 7,390	$ 6,959

10. Subsequent Event

On April 25, 2019, we entered into an agreement to sell our interest in, and relinquish control over, our consolidated VIE, Helix. In connection with the transaction, the redeemable noncontrolling interest of $37 million as of March 31, 2019 was eliminated, and we will no longer consolidate Helix effective April 25, 2019.

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

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

- Business Overview and Outlook. High level discussion of our operating results and significant known trends that affect our business.
- Results of Operations. Detailed discussion of our revenues and expenses.
- Liquidity and Capital Resources. Discussion of key aspects of our condensed consolidated statements of cash flows, changes in our financial position, and our financial commitments.
- Off-Balance Sheet Arrangements. We have no off-balance sheet arrangements.
- Critical Accounting Policies and Estimates. Discussion of significant changes since our most recent Annual Report on Form 10-K 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.

This MD&A discussion contains forward-looking statements that involve risks and uncertainties. Please see "Consideration Regarding Forward-Looking Statements" preceding Item 3 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 December 30, 2018. Operating results are not necessarily indicative of results that may occur in future periods.

Business Overview and Outlook

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

About Illumina

We have two reportable segments: Illumina's core operations (Core Illumina) and one segment related to the activities of our consolidated VIE, Helix. For information on Helix, refer to notes 2, 9, and 10 of the Notes to the Condensed Consolidated Financial Statements provided in this report.

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

Our customers include a broad range of academic, government, pharmaceutical, biotechnology, and other leading institutions around the globe.

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 November 1, 2018, we entered into an Agreement and Plan of Merger to acquire Pacific Biosciences of California, Inc. (PacBio) for an all-cash price of approximately $1.2 billion (or $8.00 per share), subject to applicable regulatory approvals. We believe PacBio's highly accurate long reads combined with our highly accurate and scalable short reads will provide researchers and clinicians with a more perfect view of the genome, enhancing their ability to make novel discoveries and broaden clinical utility across a range of applications. The transaction is expected to close mid-2019. See note "3. Pending Acquisition" in Part I, Item 1 of this report for further details regarding this acquisition.

Our financial results have been, and will continue to be, impacted by several significant trends, which are described below. While these trends are important to understanding and evaluating our financial results, this discussion should be read in conjunction with our condensed consolidated financial statements and the notes thereto in Item 1, Part I of this report, and the other transactions, events, and trends discussed in "Risk Factors" in Item 1A, Part II of this report and Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 30, 2018.

Financial Overview

Consolidated financial highlights for Q1 2019 included the following:

- Revenue increased 8% during Q1 2019 to $846 million compared to $782 million in Q1 2018 due to the growth in sales of our consumables and services, primarily driven by increases in sequencing. We expect our revenue, as compared to the prior year, to continue to increase in 2019.

- Gross profit as a percentage of revenue (gross margin) was 69.1% in Q1 2019 compared to 68.8% in Q1 2018. The gross margin increase was primarily driven by an increase in sequencing consumables as a percentage of total revenue, which generate higher gross margins, and an increase in revenue generated from a non-recurring licensing agreement. Our gross margin in future periods will depend on several factors, including: market conditions that may impact our pricing; sales mix changes among consumables, instruments, and services; product mix changes between established products and new products; excess and obsolete inventories; royalties; our cost structure for manufacturing operations relative to volume; and product support obligations.

- Income from operations as a percentage of revenue decreased to 24.2% in Q1 2019 compared to 27.8% in Q1 2018 primarily due to increased operating expenses as a percentage of revenue. We expect our operating expenses to continue to grow on an absolute basis.

- Our effective tax rate was 3.9% in Q1 2019 compared to 10.6% in Q1 2018. In Q1 2019, the variance from the U.S. federal statutory tax rate of 21% was primarily attributable to a discrete tax benefit related to uncertain tax positions, the mix of earnings in jurisdictions with lower statutory tax rates than the U.S. federal statutory tax rate, such as in Singapore and the United Kingdom, and excess tax benefits related to share-based compensation.

- We ended Q1 2019 with cash, cash equivalents, and short-term investments totaling $3.6 billion as of March 31, 2019, of which approximately $610 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.

	Q1 2019	Q1 2018
Revenue:		
Product revenue	78.8 %	80.3 %
Service and other revenue	21.2	19.7
Total revenue	100.0	100.0
Cost of revenue:		
Cost of product revenue	21.5	22.3
Cost of service and other revenue	8.3	7.9
Amortization of acquired intangible assets	1.1	1.0
Total cost of revenue	30.9	31.2
Gross profit	69.1	68.8
Operating expense:		
Research and development	20.0	17.5

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Selling, general and administrative	24.9	23.5
Total operating expense	44.9	41.0
Income from operations	24.2	27.8
Other income (expense):		
Interest income	2.7	0.6
Interest expense	(1.8)	(1.4)
Other income, net	2.5	1.2
Total other income, net	3.4	0.4
Income before income taxes	27.6	28.2
Provision for income taxes	1.1	3.0
Consolidated net income	26.5	25.2
Add: Net loss attributable to noncontrolling interests	1.0	1.4
Net income attributable to Illumina stockholders	27.5 %	26.6 %

Percentages may not recalculate due to rounding

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. The three-month periods ended March 31, 2019 and April 1, 2018 were both 13 weeks.

Revenue

(Dollars in millions)	Q1 2019	Q1 2018	Change	% Change
Consumables	$556	$510	$ 46	9 %
Instruments	111	118	(7)	(6)
Total product revenue	667	628	39	6
Service and other revenue	179	154	25	16
Total revenue	$846	$782	$ 64	8 %

Service and other revenue consists primarily of sequencing and genotyping service revenue as well as instrument service contract revenue. Total revenue primarily relates to Core Illumina for all periods presented.

The increase in consumables revenue in Q1 2019 compared to Q1 2018 was primarily due to a $59 million increase in sequencing consumables revenue, driven primarily by growth in the instrument installed base. Instruments revenue decreased in Q1 2019 primarily due to a $7 million decrease in sequencing instruments revenue driven by timing of NovaSeq shipments, partially offset by increased shipments of our NextSeq instruments. Service and other revenue increased in Q1 2019 as a result of a non-recurring licensing agreement and increased revenue from co-development agreements.

Gross Margin

(Dollars in millions)	Q1 2019	Q1 2018	Change	% Change
Gross profit	$584	$538	$ 46	9%
Gross margin	69.1 %	68.8 %		

The gross margin increase in Q1 2019 was driven primarily by an increase in sequencing consumables as a percentage of total revenue, which generate higher gross margins, and an increase in revenue generated from a non-recurring licensing agreement.

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Operating Expense

(Dollars in millions)	Q1 2019	Q1 2018	Change	% Change
Research and development	$ 169	$ 137	$ 32	23 %
Selling, general and administrative	211	183	28	15
Total operating expense	$ 380	$ 320	$ 60	19 %

Core Illumina R&D expense increased by $31 million, or 24%, in Q1 2019, primarily due to increased headcount, as we continue to invest in the research and development of new products and enhancements to existing products. Helix R&D expense increased by $1 million in Q1 2019.

Core Illumina SG&A expense increased by $31 million, or 18%, in Q1 2019, primarily due to expenses related to the pending Pacific Biosciences acquisition, increased headcount, and investments in facilities to support the continued growth and scale of our operations. Helix SG&A expense decreased by $3 million in Q1 2019.

Other Income, Net

(Dollars in millions)	Q1 2019	Q1 2018	Change	% Change
Interest income	$ 23	$ 5	$ 18	360 %
Interest expense	(15)	(11)	(4)	36
Other income, net	21	9	12	133
Total other income, net	$ 29	$ 3	$ 26	867 %

Other income, net relates primarily to Core Illumina for all periods presented.

Interest income increased in Q1 2019 as a result of higher yields on our short-term debt securities and higher cash and cash-equivalent balances. Interest expense consisted primarily of accretion of discount on our convertible senior notes and increased in Q1 2019 primarily due to the 2023 Notes issued in August 2018. Other income, net, increased in Q1 2019 primarily due to a $15 million gain resulting from the settlement of a contingency related to the deconsolidation of GRAIL in 2017.

Provision for Income Taxes

(Dollars in millions)	Q1 2019	Q1 2018	Change	% Change
Income before income taxes	$ 233	$ 221	$ 12	5 %
Provision for income taxes	9	24	(15)	(63)
Consolidated net income	$ 224	$ 197	$ 27	14 %
Effective tax rate	3.9 %	10.6 %		

Our effective tax rate was 3.9% for Q1 2019 compared to 10.6% in Q1 2018. The variance from the U.S. federal statutory tax rate of 21% in Q1 2019 was primarily attributable to a discrete tax benefit related to uncertain tax positions, the mix of earnings in jurisdictions with lower statutory tax rates than the U.S. federal statutory tax rate, such as in Singapore and the United Kingdom, and excess tax benefits related to share-based compensation. The variance from the U.S. federal statutory tax rate of 21% in Q1 2018 was primarily attributable to the mix of earnings in jurisdictions with lower statutory tax rates than the U.S. federal statutory tax rate, such as in Singapore and the United Kingdom, and the discrete tax benefit associated with the recognition of prior year losses from our investment in Helix.

Our future effective tax rate may vary from the U.S. federal statutory tax rate due to the mix of earnings in tax jurisdictions with different statutory tax rates and the other factors discussed in the risk factor “We are subject to risks related to taxation in multiple jurisdictions” in Part I Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 30, 2018.

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Liquidity and Capital Resources

At March 31, 2019, we had approximately $2.3 billion in cash and cash equivalents, of which approximately $610 million was held by our foreign subsidiaries. Cash and cash equivalents held by Helix as of March 31, 2019 were $28 million. Cash and cash equivalents increased by $1.1 billion from December 30, 2018, due to the factors described in the "Cash Flow Summary" below. Our primary source of liquidity, other than our holdings of cash, cash equivalents and investments, has been cash flows from operations and, from time to time, issuances of debt. Our ability to generate cash from operations provides us with the financial flexibility we need to meet operating, investing, and financing needs.

Historically, we have liquidated our short-term investments and/or issued debt and equity securities to finance our business needs as a supplement to cash provided by operating activities. As of March 31, 2019, we had $1.3 billion in short-term investments, including $78 million held by Helix. Our short-term investments are predominantly comprised of marketable securities consisting of U.S. government-sponsored entities, corporate debt securities, and U.S. Treasury securities.

Our convertible senior notes due on June 15, 2019 have an aggregate principal balance of $632 million. The notes became convertible on March 15, 2019 and remain convertible through June 13, 2019. It is our intent and policy to settle conversions of the notes through combination settlement; this involves repayment of an amount of cash equal to the principal amount and delivery of the excess of conversion value over the principal amount in shares of common stock. Our convertible senior notes due in 2021 and 2023 were not convertible as of March 31, 2019.

We anticipate that our current cash, cash equivalents, and short-term investments, together with cash provided by operating activities are sufficient to fund our near-term capital and operating needs for at least the next 12 months including the repayment of $632 million in convertible senior notes and the pending acquisition of PacBio for a cash price of approximately $1.2 billion. Operating needs include the planned costs to operate our business, including amounts required to fund working capital and capital expenditures. Our primary short-term needs for capital, which are subject to change, include:

- support of commercialization efforts related to our current and future products, including expansion of our direct sales force and field support resources both in the United States and abroad;
- acquisitions of equipment and other fixed assets for use in our current and future manufacturing and research and development facilities;
- the continued advancement of research and development efforts;
- potential strategic acquisitions and investments;
- repayment of debt obligations;
- the expansion needs of our facilities, including costs of leasing and building out additional facilities; and
- repurchases of our outstanding common stock.

On February 6, 2019, our Board of Directors authorized a new share repurchase program, which supersedes all prior and available repurchase authorizations, to repurchase $550 million of outstanding common stock. The repurchases may be completed under a 10b5-1 plan or at management's discretion. Authorizations to repurchase $488 million of our common stock remained available as of March 31, 2019.

Certain noncontrolling Helix investors may require Illumina to redeem certain noncontrolling interests in cash at the then approximate redemption fair market value. Such redemption right is exercisable at the option of certain noncontrolling interest holders after January 1, 2021, provided that a bona fide pursuit of the sale of Helix has occurred and an initial public offering of Helix has not been completed. The fair value of the redeemable noncontrolling interests related to Helix as of March 31, 2019 was $37 million.

We had $66 million remaining in our capital commitment to a venture capital investment fund as of March 31, 2019 that is callable through April 2026.

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:

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

Cash Flow Summary

(In millions)	Q1 2019	Q1 2018
Net cash provided by operating activities	$198	$255
Net cash provided by investing activities	988	12
Net cash (used in) provided by financing activities	(60)	67
Effect of exchange rate changes on cash and cash equivalents	—	1
Net increase in cash and cash equivalents	$1,126	$335

Operating Activities

Net cash provided by operating activities in Q1 2019 primarily consisted of net income of $224 million plus net adjustments of $81 million, partially offset by net changes in operating assets and liabilities of $107 million. The primary non-cash adjustments to net income included share-based compensation of $51 million, depreciation and amortization expenses of $47 million, accretion of debt discount of $14 million, partially offset by deferred income taxes of $11 million. Cash flow impact from changes in net operating assets and liabilities were primarily driven by increases in inventory and other assets and decreases in accrued liabilities, accounts payable, and other long-term liabilities, partially offset by decreases in accounts receivable and prepaid expenses and other current assets.

Net cash provided by operating activities in Q1 2018 consisted of net income of $197 million plus net adjustments of $78 million partially offset by net changes in operating assets and liabilities of $20 million. The primary non-cash adjustments to net income included depreciation and amortization expenses of $39 million, share-based compensation of $48 million, and accretion of debt discount of $8 million, partially offset by deferred income taxes of $11 million. Cash flow impact from changes in net operating assets and liabilities were primarily driven by a decrease in accrued liabilities and an increase in inventory, partially offset by a decrease in accounts receivable and increases in accounts payable and other long-term liabilities.

Investing Activities

Net cash provided by investing activities totaled $988 million in Q1 2019. We purchased $117 million of available-for-sale securities and $1,149 million of our available-for-sale securities matured or were sold during the period. We received $15 million in proceeds from the settlement of a contingency related to the deconsolidation of GRAIL in 2017. We invested $56 million in capital expenditures, primarily associated with our investment in facilities, and paid net cash of $3 million for strategic investments.

Net cash provided by investing activities in Q1 2018 totaled $12 million. We purchased $598 million of available-for-sale securities and $703 million of our available-for-sale securities matured or were sold during the period. We invested $90 million in capital expenditures, primarily associated with our investment in facilities.

Financing Activities

Net cash used in financing activities in Q1 2019 totaled $60 million. We received $27 million in proceeds from the issuance of common stock through the exercise of stock options and the sale of shares under our employee stock purchase plan. We used $63 million to repurchase our common stock and $23 million to pay taxes related to net share settlement of equity awards. Additionally, $1 million was used by Helix to repay financing obligations.

Net cash provided by financing activities in Q1 2018 totaled $67 million. We received $21 million in proceeds from issuance of common stock through the exercise of stock options and the sale of shares under our employee stock purchase plan, and contributions from noncontrolling interest owners were $61 million. We used $13 million to pay taxes related to net share settlement of equity awards.

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Off-Balance Sheet Arrangements

We do not participate in any transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. During Q1 2019, we were not involved in any "off-balance sheet arrangements" within the meaning of the rules of the Securities and Exchange Commission.

Critical Accounting Policies and Estimates

In preparing our condensed consolidated financial statements, we make estimates, assumptions and judgments that can have a significant impact on our net revenue, operating income and net income, as well as on the value of certain assets and liabilities on our balance sheet. We believe that the estimates, assumptions and judgments involved in the accounting policies described in Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 30, 2018 have the greatest potential impact on our financial statements, so we consider them to be our critical accounting policies and estimates. There were no material changes to our critical accounting policies and estimates during Q1 2019.

Recent Accounting Pronouncements

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

Consideration Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains, and our officers and representatives may from time to time make, "forward-looking statements" within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as: "anticipate," "intend," "plan," "goal," "seek," "believe," "continue," "project," "estimate," "expect," "strategy," "future," "likely," "may," "potential," "predict," sho 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, cash flows or other operational results or metrics;
- our expectations regarding the launch of new products or services;
- the benefits that we expect will result from our business activities and certain transactions we have completed, such as product introductions, increased revenue, decreased expenses, and avoided expenses and expenditures;
- our expectations of the effect on our financial condition of claims, litigation, contingent liabilities, and governmental investigations, proceedings, and regulations;
- our strategies or expectations for product development, market position, financial results, and reserves;
- our expectations regarding the integration of any acquired technologies with our existing technology; and
- other expectations, beliefs, plans, strategies, anticipated developments, and other matters that are not historical facts.

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

- challenges inherent in developing, manufacturing, and launching new products and services, including expanding manufacturing operations and reliance on third-party suppliers for critical components;

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- the timing and mix of customer orders among our products and services;
- the impact of recently launched or pre-announced products and services on existing products and services;
- our ability to develop and commercialize our instruments and consumables, to deploy new products, services, and applications, and to expand the markets for our technology platforms;
- our ability to manufacture robust instrumentation and consumables;
- our ability to identify and integrate acquired technologies, products, or businesses successfully;
- our expectations and beliefs regarding prospects and growth for the business and its markets;
- our expectations regarding the pending acquisition of Pacific Biosciences of California, Inc.;
- the assumptions underlying our critical accounting policies and estimates;
- our assessments and estimates that determine our effective tax rate;
- our assessments and beliefs regarding the outcome of pending legal proceedings and any liability, that we may incur as a result of those proceedings;
- uncertainty, or adverse economic and business conditions, including as a result of slowing or uncertain economic growth in the United States or worldwide; and
- other factors detailed in our filings with the SEC, including the risks, uncertainties, and assumptions described in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 30, 2018, or in information disclosed in public conference calls, the date and time of which are released beforehand.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There were no substantial changes to our market risks in the three months ended March 31, 2019, when compared to the disclosures in Item 7A of our Annual Report on Form 10-K for the fiscal year ended December 30, 2018.

Item 4. Controls and Procedures.

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

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

During Q1 2019, we continued to monitor and evaluate the design and operating effectiveness of key controls including those related to the adoption of Topic 842 discussed in Item 9A of our Annual Report on Form 10-K for the fiscal year ended December 30, 2018. 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.

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PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

See discussion of legal proceedings in note “7. Legal Proceedings” in Part I, Item 1, Notes to Condensed Consolidated Financial Statements, which is incorporated herein by reference.

Item 1A. Risk Factors.

Our business is subject to various risks, including those described in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 30, 2018, which we strongly encourage you to review. There have been no material changes from the risk factors disclosed in Item 1A of our Form 10-K.

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

Unregistered Sales of Equity Securities

None during the quarterly period ended March 31, 2019.

Purchases of Equity Securities by the Issuer

The following table summarizes shares repurchased pursuant to our share repurchase program during the three months ended March 31, 2019 (in thousands except for price per share):

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Programs
December 31, 2018 - January 27, 2019	—	—	—	$ 550,000
January 28, 2019 - February 24, 2019	158	$ 297.24	158	$ 503,070
February 25, 2019 - March 31, 2019	52	$ 297.82	52	$ 487,500
Total	210	$ 297.38	210	$ 487,500

(1) All shares repurchased were made in open-market transactions.

Item 3. Defaults Upon Senior Securities.

None.

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Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Number	Description of Document
31.1	Certification of Francis A. deSouza pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Sam A. Samad pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Francis A. deSouza pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Sam A. Samad pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase

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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: April 25, 2019	/s/ SAM A. SAMAD
	Sam A. Samad
	Senior Vice President and Chief Financial Officer