Table of Contents

As filed with the Securities and Exchange Commission on August 16, 2010

Registration No. 333-

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Pacific Biosciences of California, Inc.

(Exact name of Registrant as specified in its charter)

Delaware	3826	16-1590339
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification Number)*

1380 Willow Road
Menlo Park, CA 94025
(650) 521-8000

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

Hugh C. Martin
Chief Executive Officer
1380 Willow Road
Menlo Park, CA 94025
(650) 521-8000

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Larry W. Sonsini **Donna M. Petkanics** **Wilson Sonsini Goodrich & Rosati, P.C.** **650 Page Mill Road** **Palo Alto, California 94304** **(650) 493-9300**	**Matthew B. Murphy** **Vice President and General Counsel** **1380 Willow Road** **Menlo Park, CA 94025** **(650) 521-8000**	**Alan F. Denenberg** **Davis Polk & Wardwell LLP** **1600 El Camino Real** **Menlo Park, CA 94025** **(650) 752-2000**

Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box: ☐

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐ _____

If this Form is a post effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐ _____

If this Form is a post effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐ _____

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

Large accelerated filer ☐	Accelerated filer ☐	Non-accelerated filer ☒ (Do not check if a smaller reporting company)	Smaller reporting company ☐

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee(2)
Common Stock, par value $0.0001 per share	$200,000,000.00	$14,260.00

(1) Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(o) under the Securities Act of 1933, as amended. Includes offering price of shares that the underwriters have the option to purchase to cover over-allotments, if any.
(2) Calculated pursuant to Rule 457(o) under the Securities Act based on an estimate of the proposed maximum offering price.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting offers to buy these securities in any jurisdiction where the offer or sale is not permitted.

Prospectus (Subject to Completion)

Issued August 16, 2010

Shares

Common Stock

This is the initial public offering of common stock of Pacific Biosciences of California, Inc. Prior to this offering, there has been no public market for our common stock. The initial public offering price of our common stock is expected to be between $ and $ per share.

We expect to apply for listing of our common stock on the NASDAQ Global Market under the symbol "PACB".

	Per share	*Total*
Initial public offering price	**$**	**$**
Underwriting discounts and commissions	**$**	**$**
Proceeds to Pacific Biosciences, before expenses	**$**	**$**

We have granted the underwriters an option to purchase up to additional shares of common stock to cover over-allotments.

Investing in our common stock involves risks. See "Risk Factors" beginning on page 9.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares on or about , 2010.

J.P.Morgan **Morgan Stanley**

Deutsche Bank Securities **Piper Jaffray**

, 2010

Table of Contents

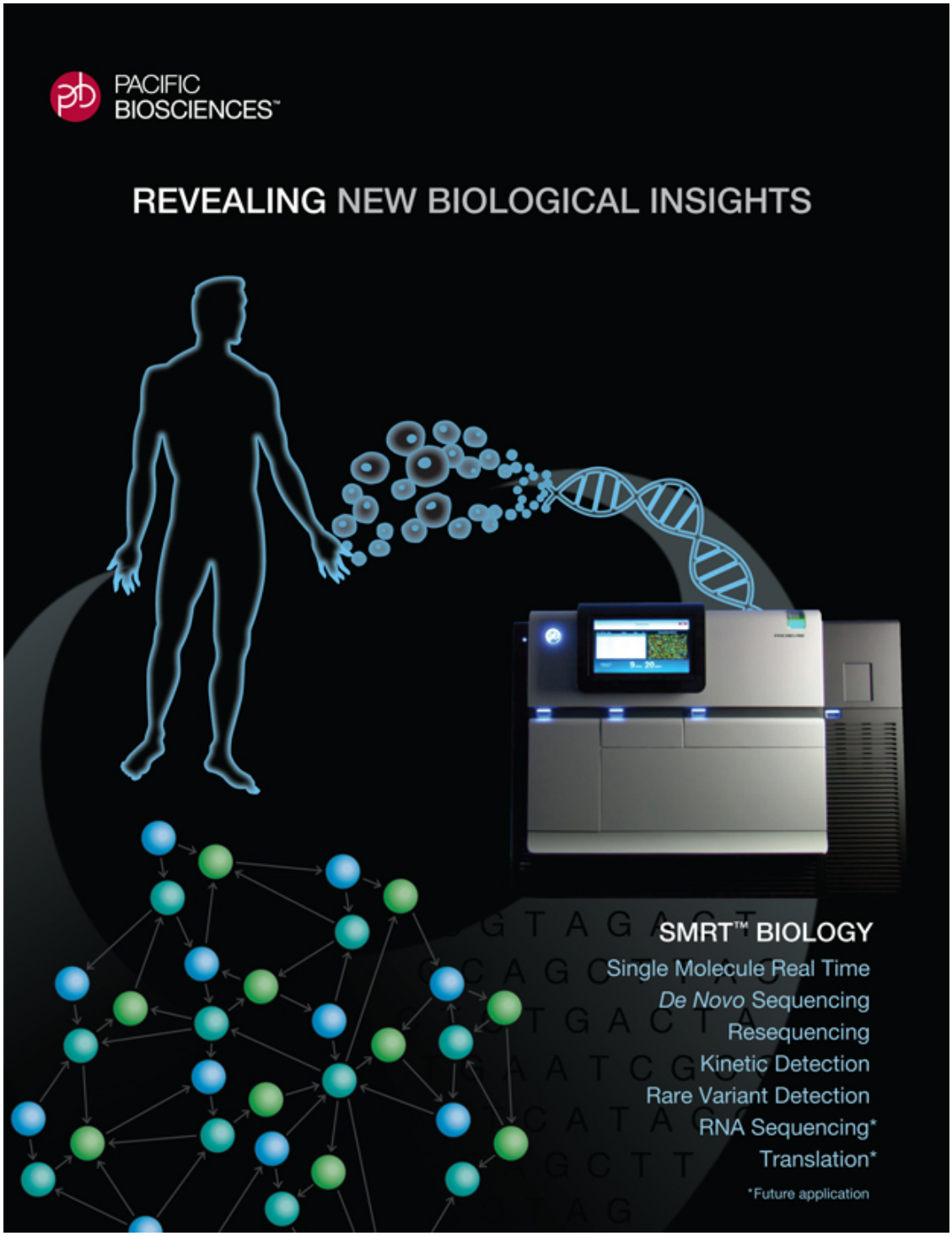


Table of Contents

Table of Contents

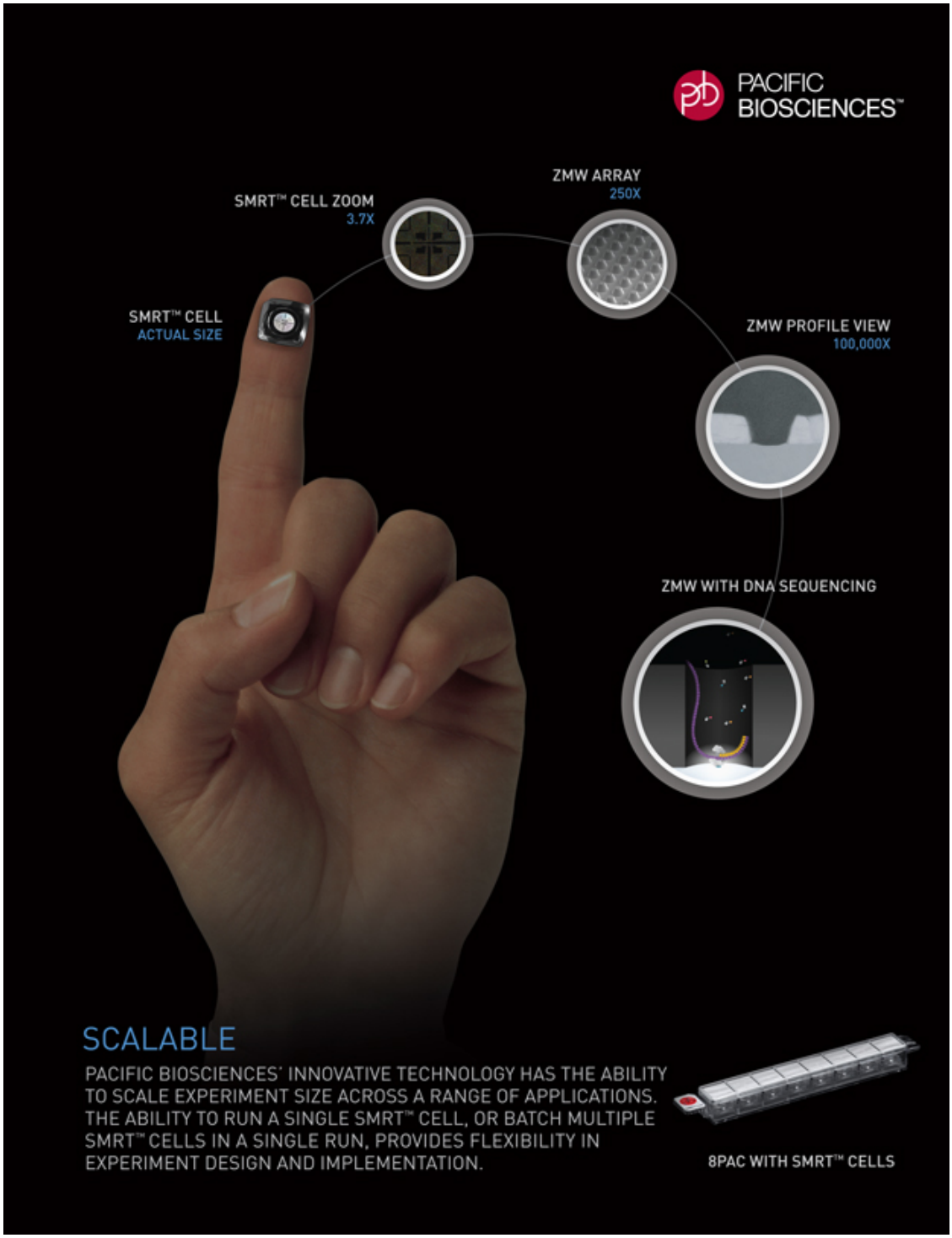


TABLE OF CONTENTS

We have not authorized anyone to provide any information other than that contained or incorporated by reference in this prospectus or in any free writing prospectus prepared by or on behalf of us or to which we have referred you. We take no responsibility for, and can provide no assurance as to the reliability of, any information that others may give you. This prospectus is an offer to sell only the shares offered hereby but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date.

Through and including , 2010 (the 25th day after the date of this prospectus), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to a dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to an unsold allotment or subscription.

For investors outside the United States, neither we nor any of the underwriters have done anything that would permit this offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than the United States. You are required to inform yourselves about and to observe any restrictions relating to this offering and the distribution of this prospectus.

PROSPECTUS SUMMARY

This summary highlights selected information appearing elsewhere in this prospectus and does not contain all the information you should consider before investing in our common stock. You should carefully read this prospectus in its entirety before investing in our common stock, including the section entitled "Risk Factors," and our financial statements and related notes included elsewhere in this prospectus.

Overview

Our mission is to transform the way humankind acquires, processes and interprets data from living systems through the design, development and commercialization of innovative tools for biological research. We have developed a novel approach to studying the synthesis and regulation of DNA, RNA and protein. Combining recent advances in nanofabrication, biochemistry, molecular biology, surface chemistry and optics, we created a powerful technology platform called single molecule, real-time, or SMRT, technology. SMRT technology enables real-time analysis of biomolecules with single molecule resolution, which has the potential to transform scientific understanding by providing a window into biological systems that has not previously been open for study.

Our initial focus is on the DNA sequencing market where we have developed and introduced a novel third generation sequencing platform, the PacBio *RS*. We believe that the PacBio *RS*, which uses our proprietary SMRT technology, maintains many of the key attributes of currently available sequencing technologies while solving many of the inherent limitations of previous technologies. Our system provides long readlengths, flexibility in experimental design, fast time to result and significant ease of use. The PacBio *RS* consists of an instrument platform that uses our consumables including our proprietary SMRT Cell. The system is designed to be integrated into existing laboratory workflows and information systems, which should facilitate rapid adoption. Currently, our focus is on applications for clinical, basic and agricultural research, with potential uses in molecular diagnostics, drug discovery and development, food safety, forensics, biosecurity and bio-fuels.

Our SMRT technology has the potential to impact scientific study beyond DNA sequencing. We, and our scientific collaborators, have published a number of peer-reviewed articles in journals including *Science*, *Nature* and *Nature Methods* highlighting the power and potential applications of the SMRT platform. Potential commercial applications we have demonstrated include the study of chemical and structural modifications of DNA and the processing of RNA and proteins. Our research and development efforts are focused on expanding our DNA sequencing capabilities and commercializing products based on these research findings. We believe that our SMRT platform represents a new paradigm in biological science, which we refer to as SMRT Biology, that has the potential to significantly impact a number of areas critical to humankind, including the diagnosis and treatment of disease as well as efforts to improve the world's food and energy supply.

Evolution of Sequencing

Recent advances in the understanding of biological complexity have highlighted the need for new tools to study DNA, RNA and proteins. In the field of DNA sequencing, incremental technological advances have provided novel insights into the structure and function of the genome. The International Human Genome Project, designed to map the human genome, took 13 years at a cost of over $3 billion and resulted in only approximately 92% coverage of the genome at its conclusion in 2004. The project generated many important insights regarding human biology, including a reduction in the number of estimated genes in the human genome from 100,000 or more to approximately 23,000. Despite these advances, researchers have not been able to fully characterize the human genome due to inherent limitations in existing technologies.

First generation DNA sequencing, also called "Sanger sequencing," was introduced in 1977 and has gradually grown into a $600 million market. Under standard conditions, this method results in average readlength, defined as the number of individual bases identified contiguously, of approximately 700 bases, but may be extended to 1,000 bases. These are relatively long readlengths compared with other sequencing methods.

However, first generation sequencing is limited by the small amounts of data that can be processed per unit of time, referred to as throughput. The limited throughput of first generation sequencing technologies constrains the ability of researchers to sequence the large amounts of genetic material needed to unravel the complexities of many biological processes.

Second generation sequencing emerged in 2005 to solve this issue of throughput. Since introduction, the market for these tools has grown rapidly and is currently estimated to be $600 million. Second generation technologies rely on a copying method called PCR amplification to achieve much higher throughput. However, the amplification process can introduce errors in the DNA sequence known as amplification bias. In addition to introducing errors in the sequence, the process of amplification increases the complexity and time associated with sample preparation. Second generation tools are also characterized by a "flush and scan" sequencing process that, for many commercial second generation systems, results in long run times and decreased readlengths. This repetitive process limits the average readlength produced by most second generation systems under standard sequencing conditions to approximately 35 to 400 bases. Long run times limit the flexibility of researchers to conduct experiments and short readlengths complicate the reassembly of sequences and the identification of disease-related variations in the genetic sequence.

Our Solution

We have developed a novel technology platform that enables single molecule, real-time, or SMRT, detection of biological processes. Based on our proprietary SMRT technology, we have introduced a third generation DNA sequencing system, the PacBio *RS*, that not only addresses many of the limitations of the first and second generation technologies but also enables new types of biological research that were previously not feasible. The DNA sequencing market is expected to grow from $1.2 billion in 2009 to more than $3.6 billion by 2014 according to Scientia Advisors, a market research firm. The growth in this market is expected to be driven by increases in the demand for sequencing products from both research and commercial users, including genome centers, government and academic institutions, genomic service providers, pharmaceutical companies and agriculture companies.

Three key innovations comprise our SMRT technology platform:

- *The SMRT Cell.* Our DNA sequencing is performed on proprietary SMRT Cells, each having an array of approximately 75,000 zero mode waveguides, or ZMWs. Each ZMW is a hole, tens of nanometers in diameter, which allows for limited penetration of focused laser light, creating a 30 nanometer observation window. Within this window, a DNA polymerase is immobilized on the surface of the ZMW and exposed to phospholinked nucleotides. In this way, we can view the incorporation of labeled nucleotides into a growing DNA strand within the ZMW.
- *Phospholinked nucleotides.* Our proprietary phospholinked nucleotides have a fluorescent dye attached to the phosphate chain of the nucleotide rather than to the base, as is the case with other technologies. During the synthesis process, the phosphate chain is cleaved when the nucleotide is incorporated into the DNA strand. The DNA polymerase naturally frees the dye molecule from the nucleotide when it cleaves the phosphate chain leaving a completely natural piece of DNA with no evidence of labeling remaining. This removes the need for a "flush and scan" method as used in second generation sequencing, enabling long readlengths.
- *The PacBio RS.* The PacBio *RS* is a user-friendly instrument that conducts, monitors and analyzes single molecule biochemical reactions in real time. The instrument includes high performance optics, automated liquid handling, a touchscreen control interface, a computational Blade Center and software. The PacBio *RS* uses a high numerical aperture objective lens and four single-photon sensitive cameras to collect light emitted by fluorescent reagents allowing the observation of biological processes, such as the incorporation of labeled nucleotides during DNA synthesis. An optimized set of algorithms is used to translate this data into biologically relevant information, such as base calls.

Our sequencing system includes the PacBio *RS* instrument and proprietary consumables, including SMRT Cells and reagent kits, providing a complete solution to the customer. A comprehensive informatics tools suite enabling users to generate finished sequence data is also included.

Our customers include genome centers, clinical, government and academic institutions, genomics service providers and agricultural companies. As of June 30, 2010, our backlog was approximately $15 million, and the commercial launch of our first products is scheduled for early 2011.

SMRT Sequencing Advantages

Sequencing with the PacBio *RS* system based on our SMRT technology offers the following key benefits:

- *Single molecule, real-time analysis.* The ability to resolve single molecules in real time allows our system to observe structural and cell type variation not accessible with other technologies. Unlike existing sequencing platforms, minimal amounts of reagent and sample preparation are required, and the sequencing reaction does not involve a time-consuming "flush and scan" process. In addition, our system does not require the routine PCR amplification needed by most second generation sequencing systems, thereby avoiding systematic amplification bias.
- *Longer readlengths.* The PacBio *RS* is designed to produce readlengths greater than 1,000 base pairs on average with instances of over 10,000 base pairs which facilitate mapping and assembly. We believe that the long readlengths produced by the PacBio *RS* will allow insights into biology that are not possible with existing technologies.
- *Faster time to result.* With the PacBio *RS*, sample preparation to sequencing results can take less than one day. A typical sequencing run can require as little as 30 minutes of instrument time. Sequence data is produced in minutes rather than days, potentially enabling important applications, including infectious disease monitoring and molecular pathology.
- *Ease of use.* Our system is easy to use and adopt because it is compatible with existing lab workflows and informatics infrastructures. Our SMRTbell sample preparation protocol is simple and fast. It can be used with a variety of sample types and can generate a range of library sizes. The PacBio *RS* is equipped with a simple touchscreen interface and requires minimal user intervention.
- *Flexibility and granularity.* The PacBio *RS* system is highly versatile, enabling the user to optimize performance based on the needs for a particular project. The system also has the ability to scale the throughput and cost of sequencing across a range of small and large projects. We call this granularity, and it results from our flexible consumables format.
- *Ability to observe and capture kinetic information.* The ability to observe the activity of a DNA polymerase in real time enables the PacBio *RS* to collect, measure and assess the dynamics and timing of enzymatic incorporation, referred to as kinetics. It has been shown that changes in the kinetics of incorporation may be associated with DNA methylation which is believed to play a critical role in diseases such as cancer. The PacBio *RS* is designed to generate this kinetic information automatically.

Our Strategy

In order to transform the way humankind acquires, processes and interprets data from living systems, we plan to execute the following strategy:

- *Define the future of biological analysis based on SMRT technology.* Our SMRT technology provides a window into biological processes that has not previously been available. We have and will continue to communicate the benefits and advantages of our SMRT technology platform through our commercial and marketing activities. In addition, we will continue to pursue publication of novel

biological insights using our SMRT technology in top-tier scientific, peer-reviewed journals. We plan to continue to develop the applications of our SMRT technology in the fields of DNA, RNA and protein biology.

- *Focus initially on the DNA sequencing market.* We will initially sell our products into the rapidly growing DNA sequencing market, addressing many of the limitations in current sequencing technologies and enabling a wide range of experiments and applications that were previously not feasible for researchers. We believe that the introduction of the PacBio *RS* will expand the market for genetic analysis tools. SMRT technology has the potential to address a broad range of expanded markets, including drug development, diagnostics, food, forensics, biosecurity and bio-fuels.
- *Continually enhance product performance to increase market share.* The design of the PacBio *RS* will allow for significant performance improvements without an upgrade or replacement of the instrument hardware. These performance enhancements will be delivered through software upgrades and new consumables. Our flexible platform is designed to generate a recurring revenue stream through the sale of proprietary SMRT Cells and reagent kits. Our research and development efforts are focused on product enhancements to reduce DNA sequencing cost and time as well as expand capabilities.
- *Leverage platform to develop and launch additional applications.* We plan to leverage our SMRT technology platform to develop new applications targeting kinetic detection, RNA transcription monitoring, RNA sequencing, protein translation and ligand binding. We believe these applications will create substantial new markets for our technology.
- *Create a global community of users to enhance informatics capabilities and drive adoption of our products.* We have worked closely with members of the informatics community to develop and define standards for working with single molecule, real-time sequence data. We have launched the PacBio DevNet, a software developer's open network to support academic informatics developers, life scientists and independent software vendors interested in creating tools to work with our third generation sequencing data.

Risks Affecting Us

Our business is subject to a number of risks and uncertainties that you should understand before making an investment decision. These risks may have a material adverse effect on our business or operating results. These risks are discussed more fully in the section entitled "Risk Factors" following this prospectus summary. These include:

- we are a development stage company with limited operating history and no product sales to date;
- we have incurred losses to date, and we expect to continue to incur significant losses as we develop our business and may never achieve profitability;
- we cannot be sure that the products we expect to introduce will gain acceptance in the marketplace;
- the products we expect to introduce involve unproven technology, and are highly complex, with unknown support requirements;
- we may not be able to produce products with the specifications required by our customers;
- a significant portion of our potential sales depends on customers' capital spending budgets that may be subject to significant and unexpected variation;
- we have limited experience in selling and marketing and, as a result, may be unable to successfully commercialize our SMRT technology;

- we have limited experience in manufacturing our products, and we may be unable to establish manufacturing capacity in a timely manner or manufacture our products at a reasonable cost; and
- we may be unable to secure or maintain protection for our intellectual property and we may be subject to claims that we infringe the intellectual property rights of others.

Corporate History and Information

We incorporated in the State of Delaware in 2000. Our executive offices are located at 1380 Willow Road, Menlo Park, California 94025, and our telephone number is (650) 521-8000. Our website address is www.pacificbiosciences.com. Information contained on our website is not incorporated by reference into this prospectus, and should not be considered to be part of this prospectus.

In this prospectus, “we,” “us” and “our” refer to Pacific Biosciences of California, Inc. and its subsidiaries.

The names “Pacific Biosciences,” “PacBio,” “SMRT,” “SMRTbell” and our logo are our trademarks. All other trademarks and trade names appearing in this prospectus are the property of their respective owners.

THE OFFERING

Common stock offered by us	Shares
Over-allotment option	Shares
Common stock to be outstanding after this offering	Shares
Use of proceeds	We intend to use the net proceeds from this offering to fund ongoing research and development of our products and SMRT technology, increases in our sales and marketing efforts associated with our planned commercial launch, increases in the scale of our manufacturing operations associated with producing our products and general corporate purposes, including working capital. We also may use a portion of the net proceeds to acquire complementary products, services, technologies or businesses. However, we have no understandings, agreements or commitments with respect to any such acquisition at this time. See "Use of Proceeds."
Proposed NASDAQ Global Market symbol	"PACB"

The number of shares of our common stock that will be outstanding following this offering is based on 75,227,061 shares of our common stock outstanding as of June 30, 2010 and excludes:

- 17,575,343 shares of common stock issuable upon the exercise of options outstanding as of June 30, 2010, with a weighted-average exercise price of $2.70 per share;
- 50,569 shares of common stock issuable upon the exercise of warrants to purchase 50,569 shares of convertible preferred stock at a weighted-average exercise price of $1.58 per share that upon the closing of this offering will represent warrants to purchase shares of common stock at a weighted-average exercise price of $1.58 per share; and
- 11,537,206 shares of our common stock reserved for future issuance under our stock-based compensation plans, including 5,000,000 shares of common stock reserved for issuance under our 2010 Equity Incentive Plan, 1,500,000 shares of our common stock reserved for issuance under our 2010 Employee Stock Purchase Plan, 1,000,000 shares of our common stock reserved for issuance under our 2010 Outside Director Equity Incentive Plan, and shares that become available under the 2010 Equity Incentive Plan, 2010 Employee Stock Purchase Plan and 2010 Outside Director Equity Incentive Plan pursuant to provisions thereof that automatically increase the shares reserved for issuance under such plans, as more fully described in "Executive Compensation — Employee Benefit Plans." The 2010 Equity Incentive Plan, 2010 Employee Stock Purchase Plan and 2010 Outside Direct Equity Incentive Plan will become effective in connection with this offering.

Unless otherwise noted, the information in this prospectus reflects and assumes the following:

- the conversion of all outstanding shares of our convertible preferred stock into an aggregate 73,305,523 of shares of common stock upon the closing of this offering;
- the conversion of all outstanding warrants to purchase shares of our convertible preferred stock into warrants to purchase 50,569 shares of common stock upon the closing of this offering;
- no exercise after June 30, 2010 of options or warrants outstanding;
- the effectiveness of our amended and restated certificate of incorporation upon the closing of this offering; and
- no exercise by the underwriters of their over-allotment option.

SUMMARY FINANCIAL DATA

The summary statement of operations data below for the years ended December 31, 2007, 2008 and 2009 has been derived from our audited financial statements included elsewhere in this prospectus. The summary statement of operations data for the six-month periods ended June 30, 2009 and 2010 and the balance sheet data as of June 30, 2010 have been derived from our unaudited interim financial statements included elsewhere in this prospectus. Our historical results are not necessarily indicative of the results that may be expected in the future. The following summary financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and related notes included elsewhere in this prospectus.

	Years ended December 31,			Six-month periods ended June 30,	
	2007	2008	2009	2009	2010
	(in thousands, except share and per share amounts)				
Statements of operations data:					
Revenue	$ 2,163	$ 901	$ 135	$ —	$ 1,174
Operating expenses					
Research and development	19,216	37,997	75,879	30,090	52,406
Sales, general and administrative	6,338	7,713	12,326	5,338	11,717
Total operating expenses	25,554	45,710	88,205	35,428	64,123
Loss from operations	(23,391)	(44,809)	(88,070)	(35,428)	(62,949)
Interest income (expense), net	1,940	1,157	451	327	(35)
Other income (expense), net	(67)	(102)	(84)	(10)	(55)
Net loss	$ (21,518)	$ (43,754)	$ (87,703)	$ (35,111)	$ (63,039)
Basic and diluted net loss per share[1]	$ (122.02)	$ (62.02)	$ (86.94)	$ (37.76)	$ (53.97)
Weighted-average shares outstanding used to calculate basic and diluted net loss per share[1]	176,342	705,451	1,008,781	929,856	1,168,063
Pro forma basic and diluted net loss per share (unaudited)[1]					
Pro forma weighted-average shares outstanding used to calculate basic and diluted net loss per share (unaudited)[1]					

(1) Please see the notes to our financial statements appearing elsewhere in this prospectus for an explanation of the method used to calculate basic and diluted net loss per common share, the pro forma basic and diluted net loss per common share and the number of shares used in the computation of the per share amounts.

The following table presents balance sheet data as of June 30, 2010 on an actual basis and on an as adjusted basis to reflect our sale of shares of common stock in this offering at an assumed initial public offering price of $ per share, the midpoint of the price range set forth on the front cover of this prospectus, after deducting estimated underwriting discounts and commissions and estimated offering expenses.

	As of June 30, 2010		
	Actual	Pro forma[1] (unaudited) (in thousands)	Pro forma as adjusted[2][3]
Balance sheet data:			
Cash, cash equivalents and investments	$ 138,756	$ 138,756	$
Working capital	123,896	123,896	
Total assets	152,897	152,897	
Convertible preferred stock warrant liability	282	—	
Convertible preferred stock	367,036	—	
Total stockholders' equity (deficit)	(235,650)	131,668	

(1) The pro forma balance sheet data in the table above reflects (i) the conversion of all outstanding shares of convertible preferred stock into common stock and (ii) the reclassification of the convertible preferred stock warrant liability to additional paid-in capital, each effective upon the closing of this offering.

(2) The pro forma as adjusted balance sheet data in the table above also reflects the pro forma conversions and reclassifications described immediately above plus the sale of shares of our common stock in this offering at an assumed initial public offering price of $ per share, the midpoint of the range set forth on the cover page of this prospectus, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

(3) A $1.00 increase (decrease) in the assumed initial public offering price of $ per share, the midpoint of the range set forth on the cover page of this prospectus, would increase (decrease) cash, cash equivalents and investments, and working capital, total assets and total stockholders' equity (deficit) by $ million, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same, and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us. Each increase of 1.0 million shares in the number of shares offered by us would increase cash, cash equivalents, investments, and working capital, total assets and total stockholders' equity (deficit) by approximately $ million. Similarly, each decrease of 1.0 million shares in the number of shares offered by us would decrease cash, cash equivalents and investments, and each of working capital, total assets and total stockholders' equity (deficit) by approximately $ million. The pro forma as adjusted information discussed above is only illustrative and will be adjusted based on the actual public offering price and other terms of this offering determined at pricing.

RISK FACTORS

Investing in our common stock involves a high degree of risk. You should consider carefully the risks and uncertainties described below, together with all of the other information in this prospectus, including our financial statements and related notes, before deciding whether to purchase shares of our common stock. If any of the following risks is realized, our business, financial condition, results of operations and prospects could be materially and adversely affected. In that event, the price of our common stock could decline, and you could lose part or all of your investment.

Risks Related to Our Business

We are a development stage company with limited operating history.

We may never achieve commercial success and have not yet commercially launched our first product. We have no historical financial data upon which we may base our projected revenue. We have limited historical financial data upon which we may base our planned operating expense or upon which you may evaluate us and our prospects. Based on our limited experience in developing and marketing new products, we may not be able to effectively:

- drive adoption of our products;
- attract and retain customers for our products;
- comply with evolving regulatory requirements applicable to our products;
- anticipate and adapt to changes in our market;
- focus our research and development efforts in areas that generate returns on these efforts;
- maintain and develop strategic relationships with vendors and manufacturers to acquire necessary materials for the production of our products;
- implement an effective marketing strategy to promote awareness of our products;
- scale our manufacturing activities to meet potential demand at a reasonable cost;
- avoid infringement and misappropriation of third-party intellectual property;
- obtain licenses on commercially reasonable terms to third-party intellectual property;
- obtain valid and enforceable patents that give us a competitive advantage;
- protect our proprietary technology;
- provide appropriate levels of customer training and support for our products;
- protect our products from any equipment or software-related system failures; and
- attract, retain and motivate qualified personnel.

In addition, a high percentage of our expenses is and will continue to be fixed. Accordingly, if we do not generate revenue as and when anticipated, our losses may be greater than expected and our operating results will suffer. You should consider the risks and difficulties frequently encountered by companies like ours in new and rapidly evolving markets when making a decision to invest in our common stock.

We have incurred losses to date, and we expect to continue to incur significant losses as we develop our business and may never achieve profitability.

We have incurred net losses since inception and have generated no revenue from product sales to date. We expect to incur increasing costs as we grow our business. We cannot be certain if or when we will produce sufficient revenue from our operations to support our costs. Even if profitability is achieved, we may not be able to sustain profitability. As of June 30, 2010, we had an accumulated deficit of $255.0 million. We expect to incur substantial losses and negative cash flow for the foreseeable future.

If our products fail to achieve and sustain sufficient market acceptance, we will not generate expected revenue and our business may not succeed.

Since we have not yet commercialized our products, we cannot be sure that they will gain acceptance in the marketplace. Our success depends, in part, on our ability to develop products that displace or supplement current technology, as well as to expand the market for genetic analysis to include new applications that are not practical with current technologies. To accomplish this, we must develop and successfully commercialize our SMRT technology for use in a variety of life science applications. There can be no assurance that we will be successful in securing customers for our products, in particular, our first product which is focused on DNA sequencing. Furthermore, we cannot guarantee that the design of our products, including the initial specifications and any enhancements or improvements to those specifications, will be satisfactory to potential customers in the markets we seek to reach. These markets are dynamic, and there can be no assurance that they will develop as quickly as we expect or that they will reach their full potential. As a result, we may be required to refocus our marketing efforts, and we may have to make changes to the specifications of our products to enhance our ability to enter particular markets more quickly. Even if we are able to implement our technology successfully, we may fail to achieve or sustain market acceptance of our products by academic and government research laboratories and pharmaceutical, biotechnology and agriculture companies, among others, across the full range of our intended life science applications. If the market for our products fails to develop or grows more slowly than anticipated, if competitors develop better or more cost-effective products or if we are unable to develop a significant customer base, our future sales and revenue would be materially harmed and our business may not succeed.

The products we expect to introduce involve unproven technology and are highly complex, with unknown support requirements.

In light of the unproven and highly complex technology involved in our products, there can be no assurance that we will be able to successfully complete the development or manufacture of, or to provide adequate support for, our products. If our products have reliability or other quality issues or require unexpected levels of support, our reputation and business could be harmed. We cannot estimate with any certainty the cost of service and support. We intend to ship our Pac Bio *RS* instruments with one year of service included in the purchase price with an option to purchase an additional year of service. If service and support costs are more than we anticipate, our business and operations may be adversely affected.

We may not be able to produce instruments with the specifications required by our customers.

We have developed performance standards for our commercial products that may not be achieved using our current design and manufacturing processes. If the actual performance of the commercial instrument deviates substantially from our target specifications or is below the performance mandated by our customers, customer demand may be negatively affected. Customers may refuse to accept our products in a timely manner or at all, which would adversely affect our revenue. Any inability to meet performance standards may materially impact the commercial viability of our products and harm our business.

We may be unable to manufacture our consumable kits, including SMRT Cells, to the specifications required by our customers or in quantities necessary to meet demand at an acceptable cost.

In order to successfully commercialize our products, we will need to supply our customers with consumable kits to be used with our instruments. We have limited experience manufacturing these consumable kits. For example, the manufacture of our SMRT Cells involves complex manufacturing processes. Since we are in an early phase of producing SMRT Cells, our current manufacturing yields are low and therefore the cost of manufacturing these products is high. There is no assurance that we will be able to manufacture our consumable kits or SMRT Cells so that they consistently achieve the product specifications and quality that our customers expect. There is also no assurance that we will be able to increase manufacturing yields and decrease costs. Furthermore, we may not be able to increase manufacturing capacity for our consumable kits or SMRT Cells to

meet anticipated demand. An inability to manufacture consumable kits and SMRT Cells that consistently meet specifications, in necessary quantities and at commercially acceptable costs will have a negative material impact on our business.

We may never earn revenue from our orders in backlog.

As of June 30, 2010 we had orders in backlog totaling approximately $15.0 million. This figure represents product orders from our customers that we have confirmed and for which we have not yet recognized revenue. We may never ship products represented by this backlog or receive revenue from these orders, and the order backlog we report may not be indicative of our future revenue.

Many events can cause an order not to be completed or delayed, some of which may be out of our control. If we delay fulfilling customer orders, those customers may seek to cancel their orders with us. In addition, customers may otherwise seek to cancel or delay their orders even if we are prepared to fulfill them. If our orders in backlog do not result in sales, our operating results will suffer and we may have write-offs associated with excess or obsolete inventory.

Rapidly changing technology in life sciences could make the products we are developing obsolete unless we continue to develop and manufacture new and improved products and pursue new market opportunities.

Our industry is characterized by rapid and significant technological changes, frequent new product introductions and enhancements and evolving industry standards. Our future success will depend on our ability to continually improve the products we are developing, to develop and introduce new products that address the evolving needs of our customers on a timely and cost-effective basis and to pursue new market opportunities that develop as a result of technological and scientific advances. These new market opportunities may be outside the scope of our proven expertise or in areas which have unproven market demand, and the utility and value of new products and services developed by us may not be accepted in the markets served by the new products. Our inability to gain market acceptance of new products could harm our future operating results. Our future success also depends on our ability to manufacture these new and improved products to meet customer demand in a timely and cost-effective manner, including our ability to resolve manufacturing issues that may arise as we commence production of these complex products. Unanticipated difficulties or delays in replacing existing products with new products we introduce or in manufacturing improved or new products in sufficient quantities to meet customer demand could diminish future demand for our products and harm our future operating results.

A significant portion of our potential sales depends on customers' capital spending budgets that may be subject to significant and unexpected variation.

A substantial portion of our potential product sales represent significant capital purchases by customers. Our potential customers include academic and government institutions, medical research institutions, pharmaceutical, biotechnology and chemical companies, and their capital spending budgets can have a significant effect on the demand for our products. These budgets are based on a wide variety of factors, including the allocation of available resources to make purchases, funding from government sources, the spending priorities among various types of research equipment and policies regarding capital expenditures during recessionary periods. Any decrease in capital spending or change in spending priorities of our potential customers could significantly reduce the demand for our products. Moreover, we have no control over the timing and amount of purchases by these potential customers, and as a result, revenue from these sources may vary significantly due to factors that can be difficult to forecast. We may also have to write off excess or obsolete inventory if sales of our products are not consistent with our expectations or the market requirements for our products change due to technical innovations in the marketplace. Any delay or reduction in purchases by potential customers or our inability to forecast fluctuations in demand could harm our future operating results.

We have limited experience in sales and marketing of our products and, as a result, may be unable to successfully commercialize our products.

We have limited experience in sales and marketing of our products. Our ability to achieve profitability depends on our being able to attract customers for our products. Although members of our sales and marketing team have considerable industry experience and have engaged in marketing activities for our products, in the future we must expand our sales, marketing, distribution and customer support capabilities with the appropriate technical expertise to effectively market our products. To perform sales, marketing, distribution and customer support successfully, we will face a number of risks, including:

- our ability to attract, retain and manage the sales, marketing and service force necessary to commercialize and gain market acceptance for our technology;
- the time and cost of establishing a specialized sales, marketing and service force for a particular application, which may be difficult to justify in light of the revenue generated; and
- our sales, marketing and service force may be unable to initiate and execute successful commercialization activities.

We may seek to enlist one or more third parties to assist with sales, distribution and customer support globally or in certain regions of the world. There is no guarantee, if we do seek to enter into such arrangements, that we will be successful in attracting desirable sales and distribution partners or that we will be able to enter into such arrangements on favorable terms. If our sales and marketing efforts, or those of any third-party sales and distribution partners, are not successful, our technologies and products may not gain market acceptance, which could materially impact our business operations.

We have limited experience in manufacturing our products. If we are unable to establish manufacturing capacity by ourselves or with partners in a timely manner, commercialization of our products would be delayed, which would result in lost revenue and harm our business.

In order to commercialize our products in volume, we need to either build additional internal manufacturing capacity or contract with one or more manufacturing partners, or both. Our technology and the manufacturing process for our products is highly complex, involving a large number of unique parts, and we may encounter unexpected difficulties in manufacturing our products. There is no assurance that we will be able to continue to build manufacturing capacity internally or find one or more suitable manufacturing partners, or both, to meet the volume and quality requirements necessary to be successful in the market. Manufacturing and product quality issues may arise as we increase the scale of our production. If our products do not consistently meet our customers' performance expectations, our reputation may be harmed, and we may be unable to generate sufficient revenue to become profitable. Any delay or inability in establishing or expanding our manufacturing capacity could diminish our ability to develop or sell our products, which could result in lost revenue and seriously harm our business, financial condition and results of operations.

We rely on other companies for the manufacture of components and sub-assemblies. We may not be able to successfully scale the manufacturing process necessary to build and test multiple products on a full commercial basis, in which event our business would be materially harmed.

Our products are complex and involve a large number of unique components, many of which require precision manufacturing. The nature of the products requires customized components that are currently available from a limited number of sources, and in some cases, sole or single sources. If we are unable to secure a sufficient supply of these product components, we will be unable to manufacture and sell our products in a timely fashion or in sufficient quantities or under acceptable terms. Additionally, for those components that are currently purchased from a sole or single source supplier, we have not yet arranged for alternative suppliers. It might be difficult to find alternative suppliers in a timely manner and on terms acceptable to us.

The operations of our third-party manufacturing partners and suppliers could be disrupted by conditions unrelated to our business or operations, including the bankruptcy of the manufacturer or supplier. If our manufacturing partners or suppliers are unable or fail to fulfill their obligations to us, we might not be able to manufacture our products and satisfy customer demand in a timely manner, and our business could be harmed as a result. Our current manufacturing process is characterized by long lead times between the ordering and delivery of our products. In order to sustain our commercial launch, which will involve multiple shipments of our products, we will need to take steps to scale the manufacturing process, including lowering the manufacturing costs of our products as well as improvements to our manufacturing yields and cycle times, manufacturing documentation, and quality assurance and quality control procedures. If we are unable to reduce our manufacturing costs and establish and maintain reliable high volume manufacturing as we scale our operations, our business could be materially harmed.

Delivery of our products could be delayed or disrupted by factors beyond our control, and we could lose customers as a result.

We rely on third-party carriers for the timely delivery of our products. As a result, we are subject to carrier disruptions and increased costs that are beyond our control, including employee strikes, inclement weather and increased fuel costs. Any failure to deliver products to our customers in a timely and accurate manner may damage our reputation and brand and could cause us to lose customers. If our relationship with any of these third-party carriers is terminated or impaired or if any of these third parties is unable to deliver our products, the delivery and acceptance of our products by our customers may be delayed which could harm our business and financial results. Furthermore, if the third-party carriers damage or destroy our instrument, it could take significant time to repair or replace the instrument. In addition, some of our consumable products need to be kept at a constant temperature. If our third-party carriers are not able to maintain those temperatures during shipment, our products may be rendered unusable by our customers. The failure to deliver our products in a timely manner may harm our relationship with our customers, increase our costs and otherwise disrupt our operations.

We may encounter difficulties in managing our growth, and these difficulties could impair our profitability.

We expect to experience rapid and substantial growth, which will place a strain on our human and capital resources. If we are unable to manage this growth effectively, our business and operating results could suffer. Our ability to manage our operations and costs, including research and development, costs of components, manufacturing, sales and marketing, requires us to continue to enhance our operational, financial and management controls, reporting systems and procedures and to attract and retain sufficient numbers of talented employees, including an expansion of our executive management team. If we are unable to scale up and implement improvements to our manufacturing process, develop reliable third-party manufacturers of sub-assemblies and control systems in an efficient or timely manner, or if we encounter deficiencies in existing systems and controls, we will not be able to make available the products required to commercialize our technology successfully. Failure to attract and retain sufficient numbers of talented employees will further strain our human resources and could impede our growth.

Hugh Martin, our Chief Executive Officer, has been diagnosed with a form of cancer, and the impact of this condition on his ability to lead the company in the future may be uncertain.

Mr. Martin has informed us that he has been diagnosed with multiple myeloma, a form of cancer. Although his condition has not had any impact on Mr. Martin’s performance in his role as Chief Executive Officer or on the overall management of the company, we can provide no assurance that his condition will not affect his ability to perform the role of Chief Executive Officer in the future. If Mr. Martin becomes unable to continue to perform his role as Chief Executive Officer, we would need to select a new Chief Executive Officer which we may not be able to do easily, and may require other senior management to divert part of their attention from their primary duties, which could have a material adverse effect on our business or operations.

We depend on the continuing efforts of our senior management team and other key personnel. If we lose members of our senior management team or other key personnel or are unable to successfully retain, recruit and train qualified scientists, engineering and other personnel, our ability to develop our products could be harmed, and we may be unable to achieve our goals.

Our future success depends upon the continuing services of members of our senior management team and scientific and engineering personnel. In particular, our scientists and engineers are critical to our future technological and product innovations, and we will need to hire additional qualified personnel. Our industry, particularly in the San Francisco Bay Area, is characterized by high demand and intense competition for talent, and the turnover rate can be high. We compete for qualified management and scientific personnel with other life science companies, academic institutions and research institutions, particularly those focusing on genomics. Many of these employees could leave our company with little or no prior notice and would be free to work for a competitor. If one or more of our senior executives or other key personnel were unable or unwilling to continue in their present positions, we may not be able to replace them easily or at all, and other senior management may be required to divert attention from other aspects of the business. In addition, we do not have "key person" life insurance policies covering any member of our management team or other key personnel. The loss of any of these individuals or our ability to attract or retain qualified personnel, including scientists, engineers and others, could prevent us from pursuing collaborations and adversely affect our product development and introductions, business growth prospects, results of operations and financial condition.

Adverse conditions in the global economy and disruption of financial markets may significantly harm our revenue, profitability and results of operations.

The global economy has been experiencing a significant economic downturn, and global credit and capital markets have experienced substantial volatility and disruption. Volatility and disruption of financial markets could limit our customers' ability to obtain adequate financing or credit to purchase and pay for our products in a timely manner or to maintain operations, which could result in a decrease in sales volume that could harm our results of operations. General concerns about the fundamental soundness of domestic and international economies may also cause our customers to reduce their purchases. Changes in governmental banking, monetary and fiscal policies to address liquidity and increase credit availability may not be effective. Significant government investment and allocation of resources to assist the economic recovery of sectors which do not include our customers may reduce the resources available for government grants and related funding for life sciences research and development. Continuation or further deterioration of these financial and macroeconomic conditions could significantly harm our sales, profitability and results of operations.

We may need additional financing to fund our existing operations. Securities we issue to fund our operations could dilute your ownership.

We may decide to raise additional funds through public or private debt or equity financing. Such additional funds may not be available on terms acceptable to us or at all, particularly in light of recent market conditions. If we raise funds by issuing equity securities, the percentage ownership of our stockholders will be reduced, and the new equity securities may have priority rights over your investments. We may delay, limit or eliminate some or all of our proposed operations and research and development if adequate funds are not available.

We operate in a highly competitive industry and if we are not able to compete effectively, our business and operating results will likely be harmed.

Some of our current competitors, as well as many of our potential competitors, have greater name recognition, more substantial intellectual property portfolios, longer operating histories, significantly greater resources to invest in new technologies, more substantial experience in new product development and manufacturing capabilities and more established distribution channels to deliver products to customers than we do. These competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards or customer requirements. In light of these advantages, even if our

technology is more effective than the products or service offerings of our competitors, current or potential customers might accept competitive products and services in lieu of purchasing our technology. Increased competition is likely to result in pricing pressures, which could harm our sales, profitability or market share. Our failure to compete effectively could materially and adversely affect our business, financial condition or results of operations.

We expect that our sales cycle will be lengthy and unpredictable, which will make it difficult for us to forecast revenue and may increase the magnitude of quarterly fluctuations in our operating results.

Our PacBio *RS* is expected to have a lengthy sales and purchase order cycle because it is a major capital item and generally requires the approval of our customers' senior management. This may contribute to substantial fluctuations in our quarterly operating results, particularly during the periods in which our sales volume is low. Because of these fluctuations, it is likely that in some future quarters our operating results will fall below the expectations of securities analysts or investors. If that happens, the market price of our stock would likely decrease. These fluctuations also mean that investors will not be able to rely upon our operating results in any particular period as an indication of future performance.

Our products could have unknown defects or errors, which may give rise to claims against us or divert application of our resources from other purposes.

Any product using our SMRT technology will be complex and may develop or contain undetected defects or errors. We cannot assure you that a material performance problem will not arise. Despite testing, defects or errors may arise in our products, which could result in a failure to achieve market acceptance or expansion, diversion of development resources, injury to our reputation and increased warranty, service and maintenance costs. Defects or errors in our products might also discourage customers from purchasing our products. The costs incurred in correcting any defects or errors may be substantial and could adversely affect our operating margins. In addition, such defects or errors could lead to the filing of product liability claims, which could be costly and time-consuming to defend and result in substantial damages. Although we have product liability insurance, any future product liability insurance that we procure may not protect our assets from the financial impact of a product liability claim. Moreover, we may not be able to obtain adequate insurance coverage on acceptable terms. Any insurance that we do obtain will be subject to deductibles and coverage limits. A product liability claim could have a serious adverse effect on our business, financial condition and results of operations.

Adoption of our products by customers may depend on the availability of informatics tools, some of which may be developed by third parties.

Our commercial success may depend in part upon the development of software and informatics tools by third parties for use with our products. We cannot guarantee that third parties will develop tools that will be useful with our products or be viewed as useful by our customers or potential customers. A lack of additional available complementary informatics tools may impede the adoption of our products and may adversely impact our business.

Ethical, legal and social concerns surrounding the use of genetic information could reduce demand for our technology.

Our products may be used to provide genetic information about humans, agricultural crops and other living organisms. The information obtained from our products could be used in a variety of applications, which may have underlying ethical, legal and social concerns, including the genetic engineering or modification of agricultural products or testing for genetic predisposition for certain medical conditions. Governmental authorities could, for safety, social or other purposes, call for limits on or regulation of the use of genetic testing. Such concerns or governmental restrictions could limit the use of our products, which could have a material adverse effect on our business, financial condition and results of operations.

Our products could in the future be subject to regulation by the U.S. Food and Drug Administration or other domestic and international regulatory agencies, which could increase our costs and delay our commercialization efforts, thereby materially and adversely affecting our business and results of operations.

Our products are not currently subject to U.S. Food and Drug Administration, or FDA, clearance or approval since they are not used for the diagnosis or treatment of disease. However, in the future, certain of our products or related applications could be subject to FDA regulation, or the FDA's regulatory jurisdiction could be expanded to include our products. Even where a product is exempted from FDA clearance or approval, the FDA may impose restrictions as to the types of customers to which we can market and sell our products. Such regulation and restrictions may materially and adversely affect our business, financial condition and results of operations.

Many countries have laws and regulations that could affect our products. The number and scope of these requirements are increasing. Unlike many of our competitors, this is an area where we do not have expertise. We may not be able to obtain regulatory approvals in such countries or may incur significant costs in obtaining or maintaining our foreign regulatory approvals. In addition, the export by us of certain of our products which have not yet been cleared for domestic commercial distribution may be subject to FDA or other export restrictions.

Our operations involve the use of hazardous materials, and we must comply with environmental, health and safety laws, which can be expensive and may adversely affect our business, operating results and financial condition.

Our research and development and manufacturing activities involve the use of hazardous materials, including chemicals and biological materials, and some of our products include hazardous materials. Accordingly, we are subject to federal, state, local and foreign laws, regulations and permits relating to environmental, health and safety matters, including, among others, those governing the use, storage, handling, exposure to and disposal of hazardous materials and wastes, the health and safety of our employees, and the shipment, labeling, collection, recycling, treatment and disposal of products containing hazardous materials. Liability under environmental laws and regulations can be joint and several and without regard to fault or negligence. For example, under certain circumstances and under certain environmental laws, we could be held liable for costs relating to contamination at our or our predecessors' past or present facilities and at third-party waste disposal sites. We could also be held liable for damages arising out of human exposure to hazardous materials. There can be no assurance that violations of environmental, health and safety laws will not occur as a result of human error, accident, equipment failure or other causes. The failure to comply with past, present or future laws could result in the imposition of substantial fines and penalties, remediation costs, property damage and personal injury claims, investigations, the suspension of production or product sales, loss of permits or a cessation of operations. Any of these events could harm our business, operating results and financial condition. We also expect that our operations will be affected by new environmental, health and safety laws and regulations on an ongoing basis, or more stringent enforcement of existing laws and regulations. Although we cannot predict the ultimate impact of any such new laws and regulations, or such more stringent enforcement, they will likely result in additional costs and may increase penalties associated with violations or require us to change the content of our products or how we manufacture them, which could have a material adverse effect on our business, operating results and financial condition.

Our facilities in California are located near known earthquake faults, and the occurrence of an earthquake or other catastrophic disaster could cause damage to our facilities and equipment, which could require us to cease or curtail operations.

Our facilities in the San Francisco Bay Area are located near known earthquake fault zones and are vulnerable to damage from earthquakes. We are also vulnerable to damage from other types of disasters, including fire, floods, power loss, communications failures and similar events. If any disaster were to occur, our ability to operate our business at our facilities would be seriously, or potentially completely, impaired. In addition, the nature of our activities could cause significant delays in our research programs commercial

activities and make it difficult for us to recover from a disaster. The insurance we maintain may not be adequate to cover our losses resulting from disasters or other business interruptions. Accordingly, an earthquake or other disaster could materially and adversely harm our ability to conduct business.

Doing business internationally creates operational and financial risks for our business.

Conducting and launching operations on an international scale requires close coordination of activities across multiple jurisdictions and time zones and consumes significant management resources. If we fail to coordinate and manage these activities effectively, our business, financial condition or results of operations could be adversely affected. International sales entail a variety of risks, including longer payment cycles and difficulties in collecting accounts receivable outside of the United States, currency exchange fluctuations, challenges in staffing and managing foreign operations, tariffs and other trade barriers, unexpected changes in legislative or regulatory requirements of foreign countries into which we sell our products, difficulties in obtaining export licenses or in overcoming other trade barriers and restrictions resulting in delivery delays and significant taxes or other burdens of complying with a variety of foreign laws.

Changes in the value of the relevant currencies may affect the cost of certain items required in our operations. Changes in currency exchange rates may also affect the relative prices at which we are able sell products in the same market. Our revenue from international customers may be negatively impacted as increases in the U.S. dollar relative to our international customers local currency could make our products more expensive, impacting our ability to compete. Our costs of materials from international suppliers may increase if in order to continue doing business with us they raise their prices as the value of the U.S. dollar decreases relative to their local currency. Foreign policies and actions regarding currency valuation could result in actions by the United States and other countries to offset the effects of such fluctuations. The recent global financial downturn has led to a high level of volatility in foreign currency exchange rates and that level of volatility may continue, which could adversely affect our business, financial condition or results of operations.

We are subject to existing and potential additional governmental regulation that may impose burdens on our operations, and the markets for our products may be narrowed.

We are subject, both directly and indirectly, to the adverse impact of existing and potential future government regulation of our operations and markets. For example, export of our instruments may be subject to strict regulatory control in a number of jurisdictions. The failure to satisfy export control criteria or to obtain necessary clearances could delay or prevent shipment of products, which could adversely affect our revenue and profitability. Moreover, the life sciences industry, which is expected to be one of the primary markets for our technology, has historically been heavily regulated. There are, for example, laws in several jurisdictions restricting research in genetic engineering, which may narrow our markets. Given the evolving nature of this industry, legislative bodies or regulatory authorities may adopt additional regulation that adversely affects our market opportunities. Additionally, if ethical and other concerns surrounding the use of genetic information, diagnostics or therapies become widespread, there may be less demand for our products. Our business is also directly affected by a wide variety of government regulations applicable to business enterprises generally and to companies operating in the life science industry in particular. Failure to comply with these regulations or obtain or maintain necessary permits and licenses could result in a variety of fines or other censures or an interruption in our business operations which may have a negative impact on our ability to generate revenue and could increase the cost of operating our business.

If we fail to maintain proper and effective internal controls, our ability to produce accurate financial statements on a timely basis could be impaired, which would adversely affect our business and our stock price.

Ensuring that we have adequate internal financial and accounting controls and procedures in place to produce accurate financial statements on a timely basis is a costly and time-consuming effort that needs to be re-evaluated frequently. We have in the past discovered, and may in the future discover, areas of our internal financial and accounting controls and procedures that need improvement.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. Our management does not expect that our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within our company will have been detected.

We expect that we will be required to comply with Section 404 of the Sarbanes-Oxley Act in connection with our annual report on Form 10-K for the year ending December 31, 2011. We expect to expend significant resources in developing the necessary documentation and testing procedures required by Section 404. We cannot be certain that the actions we will be taking to improve our internal controls over financial reporting will be sufficient, or that we will be able to implement our planned processes and procedures in a timely manner. In addition, if we are unable to produce accurate financial statements on a timely basis, investors could lose confidence in the reliability of our financial statements, which could cause the market price of our common stock to decline and make it more difficult for us to finance our operations and growth.

The requirements of being a public company may strain our resources, divert management's attention and affect our ability to attract and retain qualified board members.

As a public company, we will incur additional accounting, legal and other expenses that we did not incur as a private company. We will incur costs associated with our public company reporting requirements. We also anticipate that we will incur costs associated with corporate governance requirements, including requirements under the Sarbanes-Oxley Act of 2002, as well as rules and regulations implemented by the SEC and The NASDAQ Stock Market. We expect these rules and regulations to increase our legal and financial compliance costs and to make some activities more time-consuming and costly. Furthermore, these rules and regulations could make it more difficult or more costly for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. The impact of these requirements could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as executive officers. We are currently evaluating and monitoring developments with respect to these rules and regulations, and we cannot predict or estimate the amount of additional costs we may incur or the timing of such costs.

New laws and regulations as well as changes to existing laws and regulations affecting public companies, including the provisions of the Sarbanes-Oxley Act of 2002 and rules adopted by the SEC and the NASDAQ, would likely result in increased costs to us as we respond to their requirements.

Our ability to use net operating losses to offset future taxable income may be subject to substantial limitations.

In general, under Section 382 of the Internal Revenue Code, a corporation that undergoes an "ownership change" is subject to limitations on its ability to utilize its pre-change net operating losses, or NOLs, to offset future taxable income. We believe that we have had one or more ownership changes, as a result of which our existing NOLs are currently subject to limitation. In addition, if we undergo an ownership change in connection with or after this public offering, our ability to utilize our NOLs could be further limited by Section 382. Future changes in our stock ownership, some of which are outside of our control, could result in additional ownership changes under Section 382. For these reasons, we may not be able to utilize a material portion of our NOLs, even if we attain profitability.

Risks Related to Our Intellectual Property

Failure to secure patent or other intellectual property protection for our products and improvements to our products may reduce our ability to maintain any technological or competitive advantage over our competitors and potential competitors.

Our ability to protect and enforce our intellectual property rights is uncertain and depends on complex legal and factual questions. Our ability to establish or maintain a technological or competitive advantage over our competitors may be diminished because of these uncertainties. For example:

- we or our licensors might not have been the first to make the inventions covered by each of our pending patent applications or issued patents;
- we or our licensors might not have been the first to file patent applications for these inventions;
- it is possible that neither our pending patent applications nor the pending patent applications of our licensors will result in issued patents;
- our patents or the patents of our licensors may not be of sufficient scope to prevent others from practicing our technologies, developing competing products, designing around our patented technologies or independently developing similar or alternative technologies;
- our and our licensors' patent applications or patents have been, and may in the future be, subject to interference, opposition or similar administrative proceedings, which could result in those patent applications failing to issue as patents, those patents being held invalid or the scope of those patents being substantially reduced;
- we may not adequately protect our trade secrets;
- we may not develop additional proprietary technologies that are patentable; or
- the patents of others may limit our freedom to operate and prevent us from commercializing our technology in accordance with our plans.

The occurrence of any of these events could impair our ability to operate without infringing upon the proprietary rights of others or prevent us from establishing or maintaining a competitive advantage over our competitors.

Variability in intellectual property laws may adversely affect our intellectual property position.

Intellectual property laws, and patent laws and regulations in particular, have been subject to significant variability either through administrative or legislative changes to such laws or regulations or changes or differences in judicial interpretation, and it is expected that such variability will continue to occur. Additionally, intellectual property laws and regulations differ among countries. Variations in the patent laws and regulations or in interpretations of patent laws and regulations in the United States and other countries may diminish the value of our intellectual property and may change the impact of third-party intellectual property on us. Accordingly, we cannot predict the scope of patents that may be granted to us, the extent to which we will be able to enforce our patents against third parties or the extent to which third parties may be able to enforce their patents against us.

Some of the intellectual property that is important to our business is owned by other companies or institutions and licensed to us, and changes to the rights we have licensed may adversely impact our business.

We license from third parties some of the intellectual property that is important to our business. If we fail to meet our obligations under these licenses, these third parties could reduce the rights we have licensed, including terminating the licenses. If the third parties who license intellectual property to us fail to maintain the intellectual property that we have licensed, or lose rights to that intellectual property, the rights we have licensed may be reduced or eliminated, which could subject us to claims of intellectual property infringement. Termination of

these licenses or reduction or elimination of our licensed rights may result in our having to negotiate new or reinstated licenses with less favorable terms, or could subject us to claims of intellectual property infringement in litigation or other administrative proceedings that could result in damage awards against us and injunctions that could prohibit us from selling our products. In addition, we have limited rights to participate in the prosecution and enforcement of the patents and patent applications that we have licensed. As a result, we cannot be certain that these patents and applications will be prosecuted and enforced in a manner consistent with the best interests of our business. Further, because of the rapid pace of technological change in our industry, we may need to rely on key technologies developed or licensed by third parties, and we may not be able to obtain licenses and technologies from these third parties at all or on reasonable terms. The occurrence of these events may have a material adverse effect on our business, financial condition or results of operations.

The measures that we use to protect the security of our intellectual property and other proprietary rights may not be adequate, which could result in the loss of legal protection for, and thereby diminish the value of, such intellectual property and other rights.

In addition to patents, we also rely upon trademarks, trade secrets, copyrights and unfair competition laws, as well as license agreements and other contractual provisions, to protect our intellectual property and other proprietary rights. Despite these measures, any of our intellectual property rights could be challenged, invalidated, circumvented or misappropriated. In addition, we attempt to protect our intellectual property and proprietary information by requiring our employees, consultants and certain academic collaborators to enter into confidentiality and assignment of inventions agreements. There can be no assurance, however, that such measures will provide adequate protection for our intellectual property and proprietary information. These agreements may be breached, and we may not have adequate remedies for any such breach. In addition, our trade secrets and other proprietary information may be disclosed to others, or others may gain access to or disclose our trade secrets and other proprietary information. Enforcing a claim that a third party illegally obtained and is using our trade secrets is expensive and time consuming, and the outcome is unpredictable. Additionally, others may independently develop proprietary information and techniques that are substantially equivalent to ours. The occurrence of these events may have a material adverse effect on our business, financial condition or results of operations.

Our intellectual property may be subject to challenges in the United States or foreign jurisdictions that could adversely affect our intellectual property position.

Our pending, issued and granted U.S. and foreign patents and patent applications have been, and may in the future be, subject to challenges by third parties asserting prior invention by others or invalidity on various grounds, through proceedings, such as interferences, reexamination or opposition proceedings. For example, we are presently involved in a patent interference with Life Technologies Corporation, or Life, related to U.S. Patent No. 7,329,492, that was acquired by Life in its acquisition of Visigen Biotechnologies, Inc., and U.S. Patent Application Serial No. 11/459,182, owned by us, in which the parties are each claiming entitlement to patent claims directed to a type of single molecule, real-time sequencing technology. For more information on this proceeding, please see “Business — Legal Proceedings” below. Addressing these challenges to our intellectual property can be costly and distract management’s attention and resources. Additionally, as a result of these challenges, our patents or pending patent applications may be determined to be unpatentable to us, invalid or unenforceable, in whole or in part. Accordingly, adverse rulings from the relevant patent offices in these proceedings may negatively impact the scope of our intellectual property protection for our products and technology and may adversely affect our business.

We may become involved in legal proceedings to enforce our intellectual property rights.

Our intellectual property rights involve complex factual, scientific and legal questions. We operate in an industry characterized by significant intellectual property litigation. Even though we may believe that we have a valid patent on a particular technology, other companies may have from time to time taken, and may in the future

take, actions that we believe violate our patent rights. Legal actions to enforce these patent rights can be expensive and may involve the diversion of significant management time and resources. Our enforcement actions may not be successful, could give rise to legal claims against us and could result in some of our intellectual property rights being determined to be invalid or not enforceable.

We could in the future be subject to legal proceedings with third parties who may claim that our products infringe or misappropriate their intellectual property rights.

Our products are based on complex, rapidly developing technologies. We may not be aware of issued or previously filed patent applications belonging to third parties that mature into issued patents that cover some aspect of our products or their use. In addition, because patent litigation is complex and the outcome inherently uncertain, our belief that our products do not infringe third-party patents of which we are aware or that such third-party patents are invalid and unenforceable may be determined to be incorrect. As a result, third parties may claim that we infringe their patent rights and may file lawsuits or engage in other proceedings against us to enforce their patent rights. In addition, as we enter new markets, our competitors and other third parties may claim that our products infringe their intellectual property rights as part of a business strategy to impede our successful entry into those markets. In fact, several companies in our industry, such as Affymetrix, Inc., Life Technologies Corporation, Illumina, Inc. and Complete Genomics, Inc., are involved in patent litigation with each other. Additionally, we have certain obligations to many of our customers to indemnify and defend them against claims by third parties that our products or their use infringe any intellectual property of these third parties. In defending ourselves against any of these claims, we could incur substantial costs, and the attention of our management and technical personnel could be diverted. Even if we have an agreement to indemnify us against such costs, the indemnifying party may be unable to uphold its contractual obligations. To avoid or settle legal claims, it may be necessary or desirable in the future to obtain licenses relating to one or more products or relating to current or future technologies, which could negatively affect our gross margins. We may not be able to obtain these licenses on commercially reasonable terms, or at all. We may be unable to modify our products so that they do not infringe the intellectual property rights of third parties. In some situations the results of litigation or settlement of claims may require that we cease allegedly infringing activities which could prevent us from selling some or all of our products. The occurrence of these events may have a material adverse effect on our business, financial condition or results of operations.

In addition, in the course of our business we may from time to time have access or be alleged to have access to confidential or proprietary information of others, which though not patented, may be protected as trade secrets. Others could bring claims against us asserting that we improperly used their confidential or proprietary information, or misappropriated their technologies and incorporated those technologies into our products. A determination that we illegally used the confidential or proprietary information or misappropriated technologies of others in our products could result in our having to pay substantial damage awards or be prevented from selling some or all of our products, which could adversely affect our business.

We have not yet registered some of our trademarks in all of our potential markets, and failure to secure those registrations could adversely affect our business.

Some of our trademark applications may not be allowed for registration, and our registered trademarks may not be maintained or enforced. In addition, in the U.S. Patent and Trademark Office and in comparable agencies in many foreign jurisdictions, third parties are given an opportunity to oppose pending trademark applications and to seek to cancel registered trademarks. Opposition or cancellation proceedings may be filed against our trademarks, and our trademarks may not survive such proceedings.

Our use of "open source" software could adversely affect our ability to sell our products and subject us to possible litigation.

A portion of our products or technologies developed and/or distributed by us incorporate "open source" software and we may incorporate open source software into other products or technologies in the future. Some

open source software licenses require that we disclose the source code for any modifications to such open source software that we make and distribute to one or more third parties, and that we license the source code for such modifications to third parties, including our competitors, at no cost. We monitor the use of open source software in our products to avoid uses in a manner that would require us to disclose or grant licenses under our source code that we wish to maintain as proprietary, however there can be no assurance that such efforts have been or will be successful. In some circumstances, distribution of our software that includes or is linked with open source software could require that we disclose and license some or all of our proprietary source code in that software, which could include permitting the use of such software and source code at no cost to the user. Open source license terms are often ambiguous, and there is little legal precedent governing the interpretation of these licenses. Successful claims made by the licensors of open source software that we have violated the terms of these licenses could result in unanticipated obligations including being subject to significant damages, being enjoined from distributing products that incorporate open source software, and being required to make available our proprietary source code pursuant to an open source license, which could substantially help our competitors develop products that are similar to or better than ours and otherwise adversely affect our business.

Risks Relating to Owning Our Common Stock and This Offering

Our share price may be volatile, and you may be unable to sell your shares at or above the offering price.

The initial public offering price for our shares was determined by negotiations between us and representatives of the underwriters and may not be indicative of prices that will prevail in the trading market. The market price of our common stock could be subject to wide fluctuations in response to many risk factors listed in this section, and others beyond our control, including:

- actual or anticipated fluctuations in our financial condition and operating results;
- announcements of technological innovations by us or our competitors;
- overall conditions in our industry and market;
- addition or loss of significant customers;
- changes in laws or regulations applicable to our products;
- actual or anticipated changes in our growth rate relative to our competitors;
- announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments;
- additions or departures of key personnel;
- competition from existing products or new products that may emerge;
- issuance of new or updated research or reports by securities analysts;
- fluctuations in the valuation of companies perceived by investors to be comparable to us;
- disputes or other developments related to proprietary rights, including patents, litigation matters and our ability to obtain intellectual property protection for our technologies;
- announcement or expectation of additional financing efforts;
- sales of our common stock by us or our stockholders;
- share price and volume fluctuations attributable to inconsistent trading volume levels of our shares;
- the expiration of contractual lock-up agreements with our executive officers, directors and stockholders; and
- general economic and market conditions.

Furthermore, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. These broad market and industry fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations, may negatively impact the market price of our common stock. If the market price of our common stock after this offering does not exceed the initial public offering price, you may not realize any return on your investment in us and may lose some or all of your investment. In the past, companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We may be the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management's attention from other business concerns, which could seriously harm our business.

No public market for our common stock currently exists, and an active trading market may not develop or be sustained following this offering.

Prior to this offering, there has been no public market for our common stock. An active trading market may not develop following the closing of this offering or, if developed, may not be sustained. The lack of an active market may impair your ability to sell your shares at the time you wish to sell them or at a price that you consider reasonable. The lack of an active market may also reduce the fair market value of your shares. An inactive market may also impair our ability to raise capital to continue to fund operations by selling shares and may impair our ability to acquire other companies or technologies by using our shares as consideration. The initial public offering price was determined by negotiations between us and the underwriters and may not be indicative of the future prices of our common stock.

If securities or industry analysts do not publish research or reports about our business or publish negative reports about our business, our share price and trading volume could decline.

The trading market for our common stock will depend on the research and reports that securities or industry analysts publish about us or our business. We do not have any control over these analysts. If one or more of the analysts who cover us downgrade our shares or change their opinion of our shares, our share price would likely decline. If one or more of these analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our share price or trading volume to decline.

Future sales of our common stock in the public market could cause our share price to fall.

Sales of a substantial number of shares of our common stock in the public market after this offering, or the perception that these sales might occur, could depress the market price of our common stock and could impair our ability to raise capital through the sale of additional equity securities. Based on the number of shares of common stock outstanding as of June 30, 2010, upon the closing of this offering, we will have shares of common stock outstanding, assuming no exercise of our outstanding options.

All of the common stock sold in this offering will be freely tradable without restrictions or further registration under the Securities Act of 1933, as amended, referred to as the Securities Act, except for any shares held by our affiliates as defined in Rule 144 under the Securities Act. The remaining 75,227,061 common stock outstanding after this offering, based on shares outstanding as of June 30, 2010, will be restricted as a result of securities laws, lock-up agreements or other contractual restrictions that restrict transfers for at least 180 days after the date of this prospectus, subject to certain extensions.

The underwriters may, in their sole discretion, release all or some portion of the shares subject to lock-up agreements with the underwriters prior to expiration of the lock-up period. See "Shares Eligible for Future Sale" below.

The holders of 67,080,613 common stock, or 89.2% based on shares outstanding as of June 30, 2010, and holders of warrants to purchase 50,569 shares of common stock will be entitled to rights with respect to

registration of such shares under the Securities Act pursuant to an investor rights agreement between such holders and us. See "Certain Relationships and Related Party Transactions — Investor Rights Agreement" below. If such holders, by exercising their registration rights, sell a large number of shares, they could adversely affect the market price for our common stock. If we file a registration statement for the purpose of selling additional shares to raise capital and are required to include shares held by these holders pursuant to the exercise of their registration rights, our ability to raise capital may be impaired. We intend to file a registration statement on Form S-8 under the Securities Act to register 33,671,239 shares for issuance under our 2004 Equity Incentive Plan, 2005 Stock Plan, 2010 Equity Incentive Plan, 2010 Employee Stock Purchase Plan and 2010 Outside Director Equity Incentive Plan. Each of our 2010 Equity Incentive Plan, 2010 Employee Stock Purchase Plan and 2010 Outside Director Equity Incentive Plan provides for automatic increases in the shares reserved for issuance under the plan which could result in additional dilution to our stockholders. Once we register these shares, they can be freely sold in the public market upon issuance and vesting, subject to a 180-day lock-up period and other restrictions provided under the terms of the applicable plan and/or the option agreements entered into with option holders.

Our management team may invest or spend the proceeds of this offering in ways with which you may not agree or in ways which may not yield a return.

We intend to use the net proceeds from this offering to fund ongoing research and development of our products and SMRT technology, increases in our sales and marketing efforts associated with our planned commercial launch, increases in the scale of our manufacturing operations associated with producing our products and general corporate purposes, including working capital. Although we may also use a portion of the net proceeds to acquire complementary products, services, technologies or businesses, we have no current understandings, agreements or commitments to do so at this time.

Our management will have considerable discretion in the application of the net proceeds, and you will not have the opportunity, as part of your investment decision, to assess whether the proceeds are being used appropriately. The net proceeds may be used for corporate purposes that do not increase our operating results or market value. Until the net proceeds are used, they may be placed in investments that do not produce significant income or that may lose value.

Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of us, which may be beneficial to our stockholders, more difficult and may prevent attempts by our stockholders to replace or remove our current management and limit the market price of our common stock.

Provisions in our certificate of incorporation and bylaws, as amended and restated upon the closing of this offering, may have the effect of delaying or preventing a change of control or changes in our management. Our amended and restated certificate of incorporation and bylaws, which will become effective upon the closing of this offering, include provisions that:

- authorize our board of directors to issue, without further action by the stockholders, up to 50,000,000 shares of undesignated preferred stock;
- require that any action to be taken by our stockholders be effected at a duly called annual or special meeting and not by written consent;
- specify that special meetings of our stockholders can be called only by our board of directors, the Chairman of the Board, the Chief Executive Officer or the President;
- establish an advance notice procedure for stockholder approvals to be brought before an annual meeting of our stockholders, including proposed nominations of persons for election to our board of directors;
- establish that our board of directors is divided into three classes, Class I, Class II and Class III, with each class serving staggered terms;

- provide that our directors may be removed only for cause; and
- provide that vacancies on our board of directors may be filled only by a majority of directors then in office, even though less than a quorum.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management. In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which limits the ability of stockholders owning in excess of 15% of our outstanding voting stock to merge or combine with us.

We do not intend to pay dividends for the foreseeable future.

We have never declared or paid any cash dividends on our common stock and do not intend to pay any cash dividends in the foreseeable future. We anticipate that we will retain all of our future earnings for use in the operation of our business and for general corporate purposes. Any determination to pay dividends in the future will be at the discretion of our board of directors. Accordingly, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investments.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS AND INDUSTRY DATA

This prospectus contains forward-looking statements that are based on our management's beliefs and assumptions and on information currently available to our management. The forward-looking statements are contained principally in "Prospectus Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and "Compensation Discussion and Analysis." Forward-looking statements include information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, industry environment, potential growth opportunities and the effects of competition. Forward-looking statements include all statements that are not historical facts and can be identified by terms such as "anticipates," "believes," "could," "seeks," "estimates," "expects," "intends," "may," "plans," "potential," "predicts, "projects," "should," "will," "would" or similar expressions and the negatives of those terms.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. We discuss these risks in greater detail in "Risk Factors" and elsewhere in this prospectus. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our management's beliefs and assumptions only as of the date of this prospectus. You should read this prospectus and the documents that we have filed as exhibits to the registration statement, of which this prospectus is a part, completely and with the understanding that our actual future results may be materially different from what we expect.

Except as required by law, we assume no obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

This prospectus also contains estimates and other information concerning our industry, including market size and growth rates, that are based on industry publications, surveys and forecasts, including those generated by Scientia Advisors. This information involves a number of assumptions and limitations, and you are cautioned not to give undue weight to these estimates. These industry publications, surveys and forecasts generally indicate that their information has been obtained from sources believed to be reliable. The industry in which we operate is subject to a high degree of uncertainty and risk due to variety of factors, including those described in "Risk Factors."

USE OF PROCEEDS

We estimate that the net proceeds from our sale of shares of common stock in this offering at an assumed initial public offering price of $ per share, the midpoint of the price range set forth on the front cover of this prospectus, after deducting estimated underwriting discounts and commissions and estimated offering expenses, will be approximately $ million, or $ million if the underwriters' option to purchase additional shares is exercised in full. A $1.00 increase (decrease) in the assumed initial public offering price would increase (decrease) the net proceeds to us from this offering by $ million, assuming the number of shares offered by us, as set forth on the front cover of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions.

We intend to use the net proceeds from this offering to fund:

- ongoing research and development of our products and SMRT technology;
- increases in our sales and marketing efforts associated with our planned commercial launch;
- increases in the scale of our manufacturing operations associated with producing our products; and
- general corporate purposes, including working capital, business development, administrative support services and hiring of additional personnel and the costs of operating as a public company.

We also may use a portion of the net proceeds to acquire complementary products, services, technologies or businesses. However, we have no understandings, agreements or commitments with respect to any such acquisition at this time.

Pending their use, we plan to invest our net proceeds from this offering in short-term, interest-bearing obligations, investment-grade instruments, certificates of deposit or direct or guaranteed obligations of the U.S. government.

DIVIDEND POLICY

We have never declared or paid cash dividends on our common stock. We currently intend to retain all available funds and any future earnings for use in the operation of our business and do not anticipate paying any dividends on our common stock in the foreseeable future. Any future determination to declare dividends will be made at the discretion of our board of directors and will depend on our financial condition, operating results, capital requirements, general business conditions and other factors that our board of directors may deem relevant.

CAPITALIZATION

The following table sets forth our cash and cash equivalents and capitalization as of June 30, 2010 on:

- an actual basis;
- on a pro forma basis to reflect the conversion of all outstanding shares of our convertible preferred stock into 73,305,523 shares of our common stock upon the closing of this offering, the reclassification of our outstanding warrants to purchase convertible preferred stock into warrants to purchase 50,569 shares of common stock upon the closing of this offering and the effectiveness of our amended and restated certificate of incorporation upon the closing of this offering; and
- on a pro forma as adjusted basis to reflect the pro forma adjustments described above and our receipt of the net proceeds from our sale of shares of common stock in this offering at an assumed initial public offering price of $ per share, the midpoint of the price range set forth on the front cover of this prospectus, after deducting estimated underwriting discounts and commissions and estimated offering expenses.

The information below is illustrative only and our capitalization following the closing of this offering will be adjusted based on the actual initial public offering price and other terms of this offering determined at pricing. You should read this table together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and the related notes appearing elsewhere in this prospectus.

	June 30, 2010		
	Actual	Pro forma	Pro forma as adjusted[1]
		(in thousands)	
Cash, cash equivalents and investments	$ 138,756	$ 138,756	$
Facility financing obligation, less current portion	2,955	2,955	
Convertible preferred stock warrant liability	282	—	
Convertible preferred stock, $0.0001 par value: 153,394,052 shares authorized, 73,305,523 shares issued and outstanding, actual; no shares authorized, none issued or outstanding, pro forma and pro forma as adjusted	367,036	—	—
Stockholders' equity (deficit):			
Preferred stock, $0.0001 par value; no shares authorized, issued or outstanding, actual; 50,000,000 shares authorized, no shares issued or outstanding, pro forma and pro forma as adjusted	—	—	
Common stock, $0.0001 par value; 121,668,835 shares authorized, 1,921,538 shares issued and outstanding, actual; 1,000,000,000 shares authorized, 75,227,061 shares issued and outstanding, pro forma; and 1,000,000,000 shares authorized, shares issued and outstanding, pro forma as adjusted	—	8	
Additional paid-in capital[1]	19,395	386,705	
Accumulated other comprehensive income (loss)	(5)	(5)	
Accumulated deficit	(255,040)	(255,040)	
Total stockholders' equity (deficit)[1]	(235,650)	131,668	
Total capitalization[1]	$ 273,379	$ 273,379	$

(1) A $1.00 increase (decrease) in the assumed initial public offering price of $ per share, the midpoint of the range set forth on the cover page of this prospectus, would increase (decrease) each of additional paid-in capital, total stockholders' equity and total capitalization by $ million, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same, and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by

us. Each increase of 1.0 million shares in the number of shares offered by us, together with a $1.00 increase in the assumed offering price of $ per share, would increase additional paid-in capital, total stockholders' equity and total capitalization by approximately $ million.

The number of shares of our common stock that will be outstanding following this offering is based on 75,227,061 shares of our common stock outstanding as of June 30, 2010 and excludes:

- 17,575,343 shares of common stock issuable upon the exercise of options outstanding as of June 30, 2010, with a weighted-average exercise price of $2.70 per share;
- 50,569 shares of common stock issuable upon the exercise of warrants to purchase 50,569 shares of convertible preferred stock at a weighted-average exercise price of $1.58 per share that upon the closing of this offering will represent warrants to purchase shares of common stock at a weighted-average exercise price of $1.58 per share; and
- 11,537,206 shares of our common stock reserved for future issuance under our stock-based compensation plans, including 5,000,000 shares of common stock reserved for issuance under our 2010 Equity Incentive Plan, 1,500,000 shares of our common stock reserved for issuance under our 2010 Employee Stock Purchase Plan, 1,000,000 shares of our common stock reserved for issuance under our 2010 Outside Director Equity Incentive Plan, and shares that become available under the 2010 Equity Incentive Plan, 2010 Employee Stock Purchase Plan and 2010 Outside Director Equity Incentive Plan pursuant to provisions thereof that automatically increase the shares reserved for issuance under such plans, as more fully described in "Executive Compensation — Employee Benefit Plans." The 2010 Equity Incentive Plan, 2010 Employee Stock Purchase Plan and 2010 Outside Director Equity Incentive Plan will become effective in connection with this offering.

DILUTION

If you invest in our common stock, your interest will be diluted to the extent of the difference between the amount per share paid by purchasers of shares of common stock in this initial public offering and the pro forma as adjusted net tangible book value per share of common stock immediately after the closing of this offering.

At June 30, 2010, our net tangible book value was approximately $(235.7) million, or $(122.64) per share of common stock. Net tangible book value per share represents the amount of our total tangible assets less our total liabilities, divided by the shares of common stock outstanding at June 30, 2010. At June 30, 2010 our pro forma net tangible book value was $131.7 million, or $1.75 per share of common stock. Our pro forma net tangible book value per share represents the amount of our tangible total assets less our total liabilities divided by the total number of shares of our common stock outstanding at June 30, 2010, after giving effect to the conversion of our preferred stock into common stock upon the closing of this offering and the reclassification of our preferred stock warrant liability to additional paid in capital upon the conversion of warrants to purchase shares of our convertible preferred stock into warrants to purchase shares of our common stock upon the closing of this offering. After giving effect to our sale of shares of common stock in this offering at an assumed initial public offering price of $, the midpoint of the price range set forth on the front cover of this prospectus, and after deducting estimated underwriting discounts and commissions and estimated offering expenses, our pro forma as adjusted net tangible book value at June 30, 2010 would have been $, or $ per share of common stock. This represents an immediate increase in pro forma as adjusted net tangible book value of $ per share to existing stockholders and an immediate dilution of $ per share to new investors.

The following table illustrates this dilution.

Assumed initial public offering price per share		$
Pro forma net tangible book value per share as of June 30, 2010	$	
Increase per share attributable to this offering		
Pro forma as adjusted net tangible book value per share after this offering		
Pro forma net tangible book value dilution per share to new investors in this offering		$

If all our outstanding options had been exercised, the pro forma net tangible book value as of June 30, 2010 would have been $179.2 million, or $1.93 per share, and the pro forma net tangible book value after this offering would have been $ million, or $ per share, causing dilution to new investors of $ per share.

The following table summarizes, on a pro forma as adjusted basis as of June 30, 2010, the total number of shares of common stock purchased from us, the total consideration paid to us, and the average price per share paid to us by existing stockholders and by new investors purchasing shares in this offering at the initial public offering price of $, the midpoint of the price range set forth on the front cover of this prospectus, before deducting estimated underwriting discounts and commissions and estimated offering expenses.

	Shares purchased		Total consideration		Average price
	Number	Percent	Amount	Percent	Per share
Existing stockholders		%	$	%	$
New investors					
Total		%	$	%	

The foregoing calculations are based on 75,227,061 shares of our common stock outstanding as of June 30, 2010 and exclude:

- 17,575,343 shares of common stock issuable upon the exercise of options outstanding as of June 30, 2010, with a weighted-average exercise price of $2.70 per share;
- 50,569 shares of common stock issuable upon the exercise of warrants to purchase 50,569 shares of convertible preferred stock at a weighted-average exercise price of $1.58 per share that upon the closing of this offering will represent warrants to purchase shares of common stock at a weighted-average exercise price of $1.58 per share; and

- 11,537,206 shares of our common stock reserved for future issuance under our stock-based compensation plans, including 5,000,000 shares of common stock reserved for issuance under our 2010 Equity Incentive Plan, 1,500,000 shares of our common stock reserved for issuance under our 2010 Employee Stock Purchase Plan, 1,000,000 shares of our common stock reserved for issuance under our 2010 Outside Director Equity Incentive Plan, and shares that become available under the 2010 Equity Incentive Plan, 2010 Employee Stock Purchase Plan and 2010 Outside Director Equity Incentive Plan pursuant to provisions thereof that automatically increase the shares reserved for issuance under such plans; as more fully described in "Executive Compensation — Employee Benefit Plans." The 2010 Equity Incentive Plan, 2010 Employee Stock Purchase Plan and 2010 Outside Director Equity Incentive Plan will become effective in connection with this offering.

SELECTED FINANCIAL DATA

This selected statement of operations data for the years ended December 31, 2007, 2008 and 2009 and selected balance sheet data as of December 31, 2008 and 2009 have been derived from our audited financial statements and related notes included elsewhere in this prospectus. The summary statement of operations data for the six-month periods ended June 30, 2009 and 2010 and the balance sheet data as of June 30, 2010 have been derived from our unaudited financial statements included elsewhere in this prospectus. The statement of operations data for the years ended December 31, 2005 and 2006 and the balance sheet data as of December 31, 2005, 2006 and 2007 has been derived from our audited financial statements not included in this prospectus. The unaudited interim financial statements have been prepared on the same basis as the annual financial statements and reflect all adjustments necessary to fairly state our financial position as of June 30, 2010 and results of operations for the six-month periods ended June 30, 2009 and 2010.

Our historical results are not necessarily indicative of the results to be expected for any future period. The following selected financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and related notes included elsewhere in this prospectus.

	Years ended December 31,					Six-month periods ended June 30,	
	2005	2006	2007	2008	2009	2009	2010
	(in thousands, except share and per share amounts)						
Statement of Operations Data:							
Revenue	$ 1,400	$ 2,011	$ 2,163	$ 901	$ 135	$ —	$ 1,174
Operating expenses							
Research and development[1]	8,688	10,364	19,216	37,997	75,879	30,090	52,406
Sales, general and administrative[1]	3,652	3,501	6,338	7,713	12,326	5,338	11,717
Total operating expenses	12,340	13,865	25,554	45,710	88,205	35,428	64,123
Loss from operations	(10,940)	(11,854)	(23,391)	(44,809)	(88,070)	(35,428)	(62,949)
Interest income (expense), net	82	271	1,940	1,157	451	327	(35)
Other income (expense), net	(19)	(105)	(67)	(102)	(84)	(10)	(55)
Net loss	$(10,877)	$(11,688)	$ (21,518)	$ (43,754)	$ (87,703)	$ (35,111)	$ (63,039)
Basic and diluted—net loss per share[2]	(*)	(*)	$ (136.46)	$ (66.91)	$ (86.52)	$ (37.69)	$ (49.79)
Weighted-average shares outstanding used to calculate basic and diluted net loss per share[2]	—	1,993	157,683	653,910	1,013,730	931,511	1,266,038
Pro forma net loss per share basic and diluted (unaudited)[2]					$ (1.58)		$ (1.01)
Pro forma weighted-average shares outstanding used to calculate net loss per share—basic and diluted (unaudited)[2]					55,477,488		62,405,225

	As of December 31,					June 30,
	2005	2006	2007	2008	2009	2010
	(in thousands)					
Balance Sheet Data:						
Cash, cash equivalents and investments	$ 9,686	$ 50,090	$ 30,090	$106,051	$ 92,735	$ 138,756
Working capital	8,349	48,043	27,082	102,224	85,326	123,896
Total assets	11,894	52,533	34,349	113,107	101,098	152,897
Notes payable(3)	2,100	2,092	1,700	1,300	—	—
Convertible preferred stock warrant liability	—	140	151	142	226	282
Convertible preferred stock	31,649	81,154	81,222	201,085	269,101	367,036
Total stockholders' deficit	(23,019)	(32,412)	(52,135)	(93,389)	(177,123)	(235,650)

(1) Includes stock-based compensation expense. For further information, see "Stock Option Plans" in the Notes to Financial Statements of this prospectus.

(2) For further information, see "Summary of Significant Accounting Policies—Net Loss Per Share and Pro Forma Net Loss Per Share" in the Notes to Financial Statements of this prospectus for an explanation of the method used to calculate basic and diluted net loss per share of common stock, the pro forma basic and diluted net loss per share of common stock and the weighted-average number of shares used in computation of the per share amounts.

(3) For further information, see "Facility Financing and Debt Obligations" in the Notes to Financial Statements of this prospectus for an explanation of our notes payable.

(*) Due to the limited number of weighted-average unrestricted shares of our common stock outstanding during 2005 and 2006 the calculated net loss per share is not meaningful.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations together with our financial statements and the related notes appearing at the end of this prospectus. Some of the information contained in this discussion and analysis or set forth elsewhere in this prospectus, including information with respect to our plans and strategy for our business and related financing, includes forward-looking statements that involve risks and uncertainties. You should read the "Risk Factors" section of this prospectus for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

MD& A Overview

Our mission is to transform the way humankind acquires, processes and interprets data from living systems through the design, development and commercialization of innovative tools for biological research. To achieve this mission we have created a powerful platform called SMRT technology. Our initial focus is to use our SMRT technology in the DNA sequencing market where we have developed and are preparing to commercialize our first product, the PacBio *RS*, a novel third generation sequencing platform. The PacBio *RS* consists of an instrument platform that uses our proprietary consumables, including our SMRT Cells and reagent kits, providing a complete solution to the customer.

We are a development stage company with limited operating history and have not recognized any revenue from sales or related services resulting from our planned principal operations. Our revenue to date has come from U.S. government grants. Our operations to date have been primarily focused on developing our technology, undertaking engineering activities to develop our products and conducting initial marketing of our products. We operate in a single segment. From inception through June 30, 2010, we have received net proceeds of $356.0 million from the issuance of convertible preferred stock. All of our outstanding convertible preferred stock will automatically convert into common stock upon the closing of this offering.

Since our inception, we have incurred significant net losses and we expect to continue to experience significant losses as we invest in research and development, sales and administrative infrastructure. As of June 30, 2010, we had a deficit accumulated during the development stage of $255.0 million. We incurred net losses of $21.5 million, $43.8 million and $87.7 million in 2007, 2008 and 2009, respectively.

Basis of Presentation

Revenue

To date, our revenue has consisted of amounts earned from government grants. The terms of these grants generally provide for reimbursement for certain research and development expenditures incurred by us over a contractually defined period. We expect to receive continued revenue in the future from government grants. For the six-month period ended June 30, 2010 we have earned approximately $1.2 million in funding from U.S. government grants.

We will recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price to the buyer is fixed or determinable and collectability is reasonably assured.

We anticipate that our future revenue will be generated primarily from sales of our PacBio *RS* instrument and consumables including SMRT Cells, reagent kits and system service agreements. Provided the criteria for revenue recognition has been met, we generally expect to recognize instrument revenue upon delivery and customer acceptance. Service revenue is expected to consist of revenue derived from warranty and service agreements, which will be recognized in the period during which the related services are rendered. The timing of revenue recognition and the amount of revenue actually recognized in each case will be dependent upon a number of considerations and will require significant judgments and estimates based on the terms of each arrangement and the deliverables and obligations set forth therein.

Deliveries and subsequent customer acceptances of limited production release units of our PacBio *RS* will not result in revenue recognition as the contracts pursuant to which the units were delivered require the delivery of a full commercial release unit. Any amounts collected from customers will be deferred until such time as the full commercial release unit has been accepted at which time revenue will be recognized.

Operating Expenses

Research and Development Expense. Research and development expense consists primarily of expenses for personnel engaged in the development of our SMRT technology, the design and development of our products, including the PacBio *RS*, SMRT Cells and reagent kits and the scientific research necessary to produce commercially viable applications of our technology. These expenses also include prototype-related expenditures, development equipment and supplies, facilities costs and other related overhead. We generally expense research and development costs as they are incurred unless we make non-refundable upfront payments for delivery of future goods or services, in which case we capitalize the payments and recognize the expense in the statement of operations when the goods or services are delivered. In the near term, we expect to hire additional employees, as well as incur contract-related expense, as we continue to invest in the development of our products.

Since inception, we have incurred approximately $206.7 million of research and development expense. In 2010, we incurred certain prototype expenses in research and development that we do not expect to recur in 2011. In addition, manufacturing related expenses in 2010 were recorded in research and development expense as we have not yet recorded revenue. We expect that our research and development expense in 2011 will decline as compared to 2010 as we transition to commercial operations.

Sales, General and Administrative Expense. Sales, general and administrative expense consists primarily of personnel-related expense related to our executive, legal, finance, sales, marketing, human resource, information technology and operations functions, as well as fees for professional services and facility costs. Professional services consist principally of external legal, accounting and other consulting services. We expect sales, general and administrative expense to increase as we incur additional costs related to commercializing our products and operating as a publicly traded company, including increased legal fees, accounting fees and costs of compliance with securities laws and other regulations. In addition, we expect to incur additional costs as we hire personnel and enhance our infrastructure to support the anticipated growth of our business.

Other Income and Expense

Interest Income (Expense), Net. Interest income (expense), net consists primarily of interest income earned on investment balances. Our interest income will vary each reporting period depending on our average investment balances during the period and market interest rates. We expect interest income to fluctuate in the future with changes in average investment balances and market interest rates. Interest income (expense), net also includes interest expense relating to loan and debt agreements and facility financing obligations resulting from lease agreements. We expect interest expense to fluctuate in the future with changes in the obligations.

Other Income (Expense), Net. Other income (expense), net consists primarily of the change in the fair value of our convertible preferred stock warrants. Our outstanding convertible preferred stock warrants are classified as liabilities and, as such, are marked-to-market at each balance sheet date with the corresponding gain or loss from the adjustment recorded as other income (expense), net. We will continue to record adjustments to the fair value of the warrants until they are exercised, automatically converted into warrants to purchase common stock or expire, at which time the warrants will no longer be remeasured at each balance sheet date. Upon the closing of this offering, our outstanding warrants will automatically convert into warrants to purchase common stock.

Income Taxes

Provision for (Benefit From) Income Taxes. Since inception, we have incurred net losses and have not recorded any U.S. federal or state income tax benefits for such losses as they have been offset by valuation allowances.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States, or GAAP. The preparation of financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expense and related disclosures. We base our estimates and assumptions on historical experience and on various other factors that we believe to be reasonable under the circumstances. We evaluate our estimates and assumptions on an ongoing basis. The results of our analyses form the basis for making assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. Our actual results may differ, potentially materially, from these estimates under different assumptions or conditions.

We believe the following critical accounting policies involve significant areas where management applies judgments and estimates in the preparation of our financial statements.

Revenue Recognition

We currently recognize revenue from government grants. We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable and collectability is reasonably assured.

Government grants are made pursuant to agreements that generally provide cost reimbursement for certain types of expenditures in return for research and development activities over a contractually defined period. Revenue from government grants are recognized in the period during which the related costs are incurred, provided that the conditions under which the government grants were issued have been met.

Convertible Preferred Stock Warrants

We classify freestanding warrants to purchase shares of our convertible preferred stock as liabilities on our balance sheets at fair value because the warrants may conditionally obligate us to redeem the underlying convertible preferred stock at some point in the future. The warrants are subject to remeasurement at each balance sheet date, and any change in fair value is recognized as a component of other income (expense), net in the statements of operations. We estimate the fair value of these warrants at the respective balance sheet dates using the Black-Scholes option pricing model. We use a number of assumptions to estimate the fair value, including the remaining contractual terms of the warrant, risk-free interest rates, expected dividend yield and expected volatility of the price of the underlying common stock. These assumptions are highly judgmental and could differ significantly in the future.

During 2007, 2008 and 2009, we recorded charges (gains) of $10,000, $(9,000) and $84,000, respectively, through other income (expense), net to reflect the change in the fair value of the warrants. For the six-month periods ended June 30, 2009 and 2010 we recorded charges of $10,000 and $56,000, respectively, as a result of an increase in the fair value of the warrants.

Valuation of Stock-based Awards, Common Stock and Warrants

Stock-based Compensation

Prior to January 1, 2006, we accounted for our stock options granted to employees using the intrinsic value method. The intrinsic value method requires the recognition of compensation expense for stock options granted to employees based on differences between the exercise price of the stock options granted and the fair value of the underlying common stock. Pursuant to the intrinsic value method, any compensation cost relating to stock options was recorded on the date of the grant as a component of stockholders' equity as deferred compensation and was subsequently amortized to expense over the vesting period of the award. We generally did not recognize stock-based compensation for stock options granted to our employees prior to January 1, 2006 as we granted stock options with an exercise price equal to the fair value of the underlying common stock.

Effective January 1, 2006, we adopted the fair value method of accounting for our stock options granted to employees which requires us to measure the cost of employee services received in exchange for the stock options based on the grant date fair value of the award. We estimated the value, and resulting cost, of stock-based compensation awards using the Black-Scholes option pricing model. The resulting cost is recognized over the period during which an employee is required to provide service in exchange for the award, generally the vesting period, which is four to five years.

We adopted the fair value method using the prospective transition method as prior to adoption we used the minimum value method for the previously required pro forma disclosures. The prospective transition method requires us to continue to apply the intrinsic value method in future periods to equity awards outstanding as of January 1, 2006. Under the prospective transition method, any compensation costs that will be recognized from January 1, 2006 will include only (i) compensation cost for all stock-based awards granted prior to, but not yet vested as of December 31, 2005, based on the intrinsic value method and (ii) compensation cost for all stock-based awards granted or modified subsequent to December 31, 2005, net of estimated forfeitures, based on the fair value method. We amortize the fair value of our stock-based compensation for the equity awards granted after January 1, 2006 on a straight-line basis, which reflects the length of service to be provided by our employees over the vesting period of the awards.

The fair values of each new employee option awarded were estimated on the grant date for the periods below using the Black-Scholes option pricing model with the following assumptions.

	Years ended December 31,			Six-month periods ended June 30,	
	2007	2008	2009	2009	2010
				(unaudited)	
Expected term	7.0 years	7.0 years	5.7 years	5.7 years	5.9 years
Expected volatility	60%	50 - 52%	46 - 48%	48%	46 - 55%
Risk-free interest rate	3.5 - 5.1%	2.8 - 3.5%	1.8 - 3.0%	1.8 - 3.0%	2.2 - 2.6%
Dividend yield	—	—	—	—	—

If in the future we determine that another method for calculating the fair value of our stock options is more reasonable, or if another method for calculating the above input assumptions is prescribed by authoritative guidance, the fair value calculated for our employee stock options could change significantly.

The Black-Scholes option pricing model requires inputs such as the risk-free interest rate, expected term and expected volatility. Further, the forfeiture rate also affects the amount of aggregate compensation. These inputs are subjective in nature and generally require us to apply significant judgment.

The risk-free interest rate that we use is based on the U.S. Treasury yield in effect at the time of grant with maturities approximating each grant's expected life. The expected term for our employee grants is based on our historic cancellation and exercise experience and trends as well as our expectations for future periods.

Our expected volatility is derived from the historical volatilities of several unrelated public companies within industries comparable to our business, including companies providing genetic sequencing equipment, supplies and services, because we have no trading history on our common stock. When making the selections of our peer companies and considering factors relating to volatility, we also considered the historical development of the peer enterprises relative to our planned development as it pertains to the expected term of our option grants as well as the size and financial leverage of potential comparable companies. The peer companies used in determining our expected volatility were, at the time of volatility determination, significantly larger and operationally further developed than us. However, the operational and financial growth and development of the peer companies during the period in which historical volatility were considered, were determined to be sufficiently similar to our expectations for future growth to provide a reasonable basis on which to establish our expected volatility. After considering both quantitative and qualitative factors, we combined the various factors to conclude a single volatility factor.

We estimate our forfeiture rate based on an analysis of our actual forfeitures and will continue to evaluate the appropriateness of the forfeiture rate based on actual forfeiture experience, analysis of employee turnover behavior and other factors. Quarterly changes in the estimated forfeiture rate can have a significant effect on reported stock-based compensation expense, as the cumulative effect of adjusting the rate for all expense amortization is recognized in the period the forfeiture estimate is changed. If a revised forfeiture rate is higher than the previously estimated forfeiture rate, an adjustment is made that will result in a decrease to the stock-based compensation expense recognized in the financial statements. If a revised forfeiture rate is lower than the previously estimated forfeiture rate, an adjustment is made that will result in an increase to the stock-based compensation expense recognized in the financial statements. The effects of forfeiture adjustments during the years ended December 31, 2007, 2008, 2009 and the six-month period ended June 30, 2010 have not been significant.

We will accumulate additional employee option data over time and incorporate market data related to our common stock which may result in future refinements to our estimates of volatility, expected lives and forfeiture rates, which could materially impact the future valuation of our stock-based awards and the future stock-based compensation expense that we recognize.

We recognized stock-based compensation expense related to employees and non-employees as follows:

	Years ended December 31,			Six-month periods ended June 30, (unaudited)	
	2007	2008	2009	2009	2010
			(in thousands)		
Research and development	$398	$1,183	$2,314	$ 1,062	$ 2,498
Sales, general and administrative	184	387	748	332	1,242
Total stock-based compensation expense	$582	$1,570	$3,062	$ 1,394	$ 3,740

As of June 30, 2010, we had $15.8 million of unrecognized stock-based compensation expense, net of estimated forfeitures, that is expected to be recognized over a weighted-average period of 3.3 years. In future periods, our stock-based compensation expense is expected to increase as a result of our existing unrecognized stock-based compensation and as we issue additional stock-based awards to attract and retain employees and non-employee directors.

We also account for stock options issued to non-employees based on their estimated fair value determined using the Black-Scholes option pricing model. However, the fair value of the equity awards granted to non-employees is remeasured as the awards vest, and the resulting increase in value, if any, is recognized as expense during the period the related services are rendered.

Common Stock Valuation

The fair values of the common stock underlying stock options granted through 2010 were estimated by our board of directors, which intended all options granted to be exercisable at a price per share not less than the per share fair value of our common stock underlying those options on the date of grant. Our board of directors is comprised of a majority of non-employee directors with significant experience in the technology industry. We believe that the composition of our board of directors resulted in a fair and reasonable view of the stock value and, together with the board of directors' cumulative knowledge of, and experience with, similar companies, resulted in a fair valuation of our common stock.

Given the absence of a public trading market, and in accordance with the American Institute of Certified Public Accountants Practice Aid, our board of directors exercised its reasonable judgment and considered numerous objective and subjective factors to determine the best estimate of the fair value of our common stock at each meeting at which stock option grants were approved. These factors included, among other factors, contemporaneous, independent valuations of our common stock, the rights and preferences of our convertible preferred stock relative to our common stock, the lack of marketability of our common stock, developments in our business, recent issuances of our convertible preferred stock and the likelihood of achieving a discrete

liquidity event, such as an initial public offering, or IPO, given prevailing market conditions. If we had made different assumptions and estimates, the amount of our stock-based compensation expense could have been materially different. We believe that we have used reasonable methodologies, approaches and assumptions in determining the fair value of our common stock.

Factors Considered and Methodologies Used in Determining Common Stock Fair Value

In valuing our common stock, we determine our business equity value by taking a weighted combination of the value indications using two valuation approaches, an income approach and a market approach.

The income approach estimates the present value of future estimated cash flows, based upon forecasted revenue and costs. These discounted cash flows are added to the present value of our estimated enterprise terminal value. These future cash flows are discounted to their present values using a discount rate corresponding to our estimated required rate of return. The discount rate is derived from an analysis of the cost of capital of our publicly traded peer group as of each valuation date and is adjusted to reflect the risks inherent in our cash flows.

The market approach estimates the fair value of a company by applying the market multiples of comparable publicly traded companies. We calculate a multiple of key metrics implied by the enterprise values or acquisition values of our publicly traded peers. Based on the range of these observed multiples, we apply judgment in determining an appropriate multiple to apply to our metrics in order to derive an indication of value.

Once we determine the fair value, we use two methods to allocate our company value to each of our classes of stock, the Option Pricing Method and the Probability Weighted Expected Return Method.

- The Option Pricing Method values each equity class by creating a series of call options on our enterprise value, with exercise prices based on the liquidation preferences, participation rights and strike prices of derivatives. This method is generally preferred when future outcomes are difficult to predict and dissolution or liquidation is not imminent.
- The Probability Weighted Expected Return Method involves a forward-looking analysis of the possible future outcomes of the enterprise. This method is particularly useful when discrete future outcomes can be predicted at a high confidence level with a probability distribution. Discrete future outcomes considered under the Probability Weighted Expected Return Method included non-IPO market based outcomes as well as IPO scenarios. In the non-IPO scenario, a large portion of our equity value is allocated to our convertible preferred stock as the aggregate liquidation preference was approximately $258.8 million at December 31, 2009. In the IPO scenario, the equity value is allocated pro rata among the shares of common stock and each series of convertible preferred stock, which causes our common stock to have a higher relative value per share than under the non-IPO scenario.

Over time, as certainty developed regarding possible discrete events, including an IPO, the allocation methodology utilized to allocate our value transitioned from the Option Pricing Method to the Probability Weighted Expected Return Method.

Information regarding our stock option grants to our employees and certain non-employee members of our board of directors since January 1, 2009 is summarized as follows:

Date of issuance	Number of options granted	Exercise price	Common stock value	Option fair value[1]
March 19, 2009	1,462,500	$ 1.93	$ 1.93	$ 0.89
April 21, 2009	43,000	$ 1.93	$ 1.93	$ 0.90
May 19, 2009	40,000	$ 1.93	$ 1.93	$ 0.91
June 10, 2009	505,000	$ 2.82	$ 2.82	$ 1.36
July 21, 2009	206,000	$ 2.82	$ 2.82	$ 1.31
July 24, 2009	330,000	$ 2.82	$ 2.82	$ 1.32
December 15, 2009	986,000	$ 4.25	$ 4.25	$ 1.94
February 3, 2010	2,203,555	$ 4.25	$ 4.25	$ 2.00
February 17, 2010	1,095,000	$ 4.25	$ 4.25	$ 2.00
February 22, 2010	750,000	$ 4.25	$ 4.25	$ 2.01
June 3, 2010	1,147,500	$ 5.42	$ 5.42	$ 2.77
July 8, 2010	74,500	$ 6.37	$ 6.37	$ 3.32
July 19, 2010	573,000	$ 6.37	$ 6.37	$ 3.32
July 29, 2010	360,000	$ 6.37	$ 6.37	$ 3.32
August 4, 2010	218,583	$ 6.71	$ 6.71	$ 3.50
August 12, 2010	500,000	$ 6.71	$ 6.71	$ 3.50

(1) Option fair value determined using the Black-Scholes option pricing model using the input assumptions outlined above.

We granted stock options with exercise prices between $4.25 and $6.71 per share during 2010 while stock options with exercise prices between $1.93 and $4.25 per share were granted during 2009. No single event caused the valuation of our common stock to increase or decrease from January 2009 to August 2010, rather, it has been a combination of the following factors that led to the changes in the fair value of the underlying common stock.

March 2009 to May 2009. After a period of significant volatility in the U.S. and global capital markets during the third and fourth quarters of 2008, U.S. capital market conditions began to stabilize and recover in early 2009. During this time period, we introduced our SMRT technology and began to successfully manufacture key aspects of our system consumables in-house. Although the progression towards a commercial product continued to track to established timeframes, the depth and residual impacts of the economic turmoil of 2008, coupled with an inactive private capital market during early 2009, required us to reassess our potential exit scenarios, which had a material adverse effect on our value conclusions when compared to prior periods. For options granted during this period, we estimated the fair value of our common stock to be $1.93 per share compared to the previous estimate of $3.48 per share in December 2008.

June 2009 to July 2009. Between June 2009 and July 2009, the weak recovery of the U.S. economy continued and, although signs of stability were becoming evident, access to private and public capital remained challenging. During this period, however, enterprise values of our publicly-traded peers outperformed the broader market. Our operational and development progress continued as expected and internal commercial launch timelines remained on schedule. For options granted during this period, we estimated the fair value of our common stock to be $2.82 per share.

December 2009 to February 2010. Between December 2009 and February 2010, the U.S. economy and U.S. capital markets began to stabilize. During the period leading up to December 2009, our peer group underperformed the market and experienced significant value declines as evidenced by decreases in the trading prices of their stocks. As a result, certain market multiples used as assumption inputs into our valuation models decreased. During this time period, however, we identified and entered into sales agreements with customers for our initial nine limited production release units of the PacBio *RS* instrument with expected deliveries commencing during mid-2010. We also continued to make progress in developing our full commercial release

units. The combination of these factors supported our improved outlook regarding the fair value of our common stock under various IPO scenarios. For options granted during this period, we estimated the fair value of our common stock to be $4.25 per share.

June 2010. During June 2010, the equity markets demonstrated modest weakness as the broader markets and the stock prices of our peer companies declined in May and into June. However, through June, we secured multiple orders for the full commercial release of the PacBio *RS*, as well as an order for an additional limited production release unit. For options granted June 3, 2010, we estimated the fair value of our common stock to be $5.42 per share.

July 2010. During late June and early July 2010 the U.S. capital markets and the trading prices of our peer companies demonstrated modest stability. During this period, we completed our Series F convertible preferred stock financing raising a total of $108.8 million. During July we also shipped three limited production release units to customers and commenced installation and testing of two of these units at customer locations. Finally, during July we conducted our IPO organizational meeting, which impacted our probability weightings regarding the timing of the IPO. For options granted during July 2010, we estimated the fair value of our common stock to be $6.37 per share.

August 2010. During mid- to late-July 2010, the U.S. capital markets weakened and, as a result, certain equity values and multiples of our peer public companies on which we base certain valuation calculations declined. The value we achieved as a company through research and commercial milestones more than offset the general declines in the markets and our peer companies. Specifically, during the first week of August, our first limited production release unit of the PacBio *RS* was accepted by a customer while additional units were being installed at customer sites. For options granted during August 2010, we estimated the fair value of our common stock to be $6.71 per share.

As noted above, our board of directors estimated the fair value of our common stock during these periods. We believe that the composition of our board of directors resulted in a fair and reasonable view of the stock value and, together with the board of directors' cumulative knowledge of, and experience with, similar companies, resulted in a fair valuation of our common stock.

Non-employee Stock-based Compensation

We account for stock options issued to non-employees based on the estimated fair value of the awards using the Black-Scholes option pricing model. The measurement of stock-based compensation expense is subject to periodic adjustments as the underlying equity instruments vest, and the resulting change in value, if any, is recognized in our statement of operations during the period the related services are rendered.

Stock-based compensation expense for options granted to non-employees for 2007, 2008 and 2009 was $0.2 million, $0.3 million and $0.4 million, respectively. Stock-based compensation expense of $0.1 million and $0.6 million was recorded for the six-month periods ended June 30, 2009 and 2010, respectively.

There is inherent uncertainty in these estimates and if different assumptions had been used, the fair value of the equity instruments issued to non-employee consultants could have been significantly different.

Impairment of Long-lived Assets

We assess impairment of long-lived assets, which include property and equipment, on at least an annual basis and test long-lived assets for recoverability when events or changes in circumstances indicate that their carrying amount may not be recoverable. Circumstances which could trigger a review include, but are not limited to, significant decreases in the market price of the asset, significant adverse changes in the business climate or legal factors, accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of the asset, current period cash flow or operating losses combined with a history of losses or a forecast of continuing losses associated with the use of the asset, or expectations that the asset will more likely than not be sold or disposed of significantly before the end of its estimated useful life. To date we have not recorded any impairment charges.

Leases

We categorize leases at their inception as either operating or capital leases. On certain of our lease agreements, we may receive tenant improvement allowances, rent holidays and other incentives. Rent expense is recorded on a straight-line basis over the term of the lease. The difference between rent expense accrued and amounts paid under the lease agreement is recorded as lease incentives in the accompanying balance sheets. Leasehold improvements are capitalized at cost and depreciated over the lesser of their expected useful life or the life of the lease. To the extent leasehold improvement allowances are afforded to us by the landlord, we record the tenant improvements as leasehold improvement assets with a corresponding lease incentive liability. We establish assets and liabilities for the construction costs incurred under build-to-suit lease arrangements to the extent we are involved in the construction of structural improvements or take some level of financial or construction risk prior to commencement of a lease. For further information, see “Facility Financing and Debt Obligations” in the Notes to Financial Statements of this prospectus.

For build-to-suit lease arrangements, we evaluate the extent of our financial and operational involvement in the tenant improvements to determine whether we are considered the owner of the construction project under GAAP. When we are considered the owner of a project, we record the shell of the facility at its fair value at the date construction commences with a corresponding facility financing obligation. Improvements to the facility during the construction project are capitalized and, to the extent funded by lessor afforded incentives, with corresponding increases to the facility financing obligation. Payments we make under leases in which we are considered the owner of the facility are allocated to land rental expense, based on the relative values of the land and building at the commencement of construction, reductions of the facility financing obligation and interest expense recognized on the outstanding obligation. To the extent gross future payments do not equal the recorded liability, the liability is settled upon return of the facility to the lessor. Any difference between the book value of the assets and remaining facility obligation are recorded in other income (expense), net. For existing arrangements, the differences are expected to be immaterial.

Income Taxes

We are subject to income taxes in the U.S. and certain states in which we operate, and we use estimates in determining our provisions for income taxes. We use the liability method of accounting for income taxes, whereby deferred tax asset or liability account balances are calculated at the balance sheet date using current tax laws and rates in effect for the year in which the differences are expected to affect taxable income.

Recognition of deferred tax assets is appropriate when realization of such assets is more likely than not. We recognize a valuation allowance against our net deferred tax assets if it is more likely than not that some portion of the deferred tax assets will not be fully realizable. This assessment requires judgment as to the likelihood and amounts of future taxable income by tax jurisdiction. At December 31, 2009, we had a full valuation allowance against all of our deferred tax assets. At December 31, 2009, we had a full valuation allowance against all of
our deferred tax assets which totaled $74.0 million, including net operating loss carryforwards and research and development tax credits of $60.5 million and $7.6 million, respectively.

Effective January 1, 2007, we adopted the provisions of the Financial Accounting Standard Board, or FASB, Accounting Standards Codification, or ASC, Topic 740-10, Accounting for Uncertainty in Income Taxes. The cumulative effect of adoption resulted in no adjustment of accumulated deficit as of January 1, 2007. As of December 31, 2007, 2008, and 2009, our total unrecognized tax benefits were $0.9, $2.0, and $3.9 million, respectively, of which none of the tax benefits, if recognized, would affect the effective income tax rate due to the valuation allowance that currently offsets deferred tax assets. We do not anticipate the total amount of unrecognized income tax benefits to significantly increase or decrease in the next 12 months.

We assess all material positions taken in any income tax return, including all significant uncertain positions, in all tax years that are still subject to assessment or challenge by relevant taxing authorities. Assessing an uncertain tax position begins with the initial determination of the position’s sustainability and is measured at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. As of each balance sheet date, unresolved uncertain tax positions must be reassessed, and we will determine whether the factors underlying the sustainability assertion have changed and the amount of the recognized tax benefit is still

appropriate. The recognition and measurement of tax benefits require significant judgment. Judgments concerning the recognition and measurement of a tax benefit might change as new information becomes available.

Results of Operations

Comparison of the Six-month Periods Ended June 30, 2009 and 2010

	Six-month periods ended June 30,		Increase/ (decrease)	% Increase/ (decrease)
	2009	2010		
	(unaudited)		(in thousands, except percentages)	
Revenue	$ —	$ 1,174	$ 1,174	—
Research and development	30,090	52,406	22,316	74%
Sales, general and administrative	5,338	11,717	6,379	120%
Interest income (expense), net	327	(35)	(362)	(111)%
Other income (expense), net	(10)	(55)	45	450%

Revenue

Revenue is comprised solely of government grant revenue. This revenue is dependent on the grant received, the amount of the grant and subsequent work performed pursuant to the grant. The increase in revenue realized was due to an increase in the amount of awarded government grants.

Research and Development Expense

The $22.3 million increase in research and development expense was driven primarily by a $12.3 million increase to laboratory and equipment expense, including prototypes, a $6.7 million increase in personnel-related expense from increased headcount and an increase in facility and information technology expense of $1.1 million. Research and development expense included stock-based compensation expense of $1.1 million and $2.5 million during the six-month periods ended June 30, 2009 and 2010, respectively.

Sales, General and Administrative Expense

The $6.4 million increase in sales, general and administrative expense was driven primarily by a $3.4 million increase in personnel related expense resulting from increased headcount, a $1.5 million increase in customer application, demonstration and marketing initiatives and a $1.2 million increase in equipment expense and depreciation. Furthermore, sales, general and administrative expense included stock-based compensation expense of $0.3 million and $1.2 million during the six-month periods ended June 30, 2009 and 2010, respectively.

Interest Income (Expense), Net

The decrease in interest income was due primarily to lower investment balances and lower interest rates on our investments. In addition we recorded interest expense as a result of the financing obligation under a lease agreement.

Other Income (Expense), Net

The change in other income (expense), net primarily reflects the remeasurement of our warrant liabilities.

Comparison of the Years Ended December 31, 2008 and 2009

	Years ended December 31,		Increase/ (decrease)	% Increase/ (decrease)
	2008	2009		
	(in thousands, except percentages)			
Revenue	$ 901	$ 135	$ (766)	(85)%
Research and development	37,997	75,879	37,882	100%
Sales, general and administrative	7,713	12,326	4,613	60%
Interest income (expense), net	1,157	451	(706)	(61)%
Other income (expense), net	(102)	(84)	(18)	(18)%

Revenue

Revenue is comprised solely of government grant revenue. This revenue is dependent on the grant received, the amount of the grant and subsequent work performed pursuant to the grant. The $0.8 million decrease in revenue realized was due to a reduction in the amount of awarded government grants in 2009 as compared to 2008.

Research and Development Expense

The $37.9 million increase in research and development expense was driven primarily by an $18.9 million increase in prototype-related expenditures, equipment and development supplies, and an $11.9 million increase in personnel-related expense resulting from increased headcount. In addition, contract services and other professional services increased $3.0 million and information technology and facility expense increased by $2.2 million. Research and development expense included stock-based compensation expense of $1.2 million and $2.3 million during 2008 and 2009, respectively.

Sales, General and Administrative Expense

The $4.6 million increase in sales, general and administrative expense was driven primarily by a $2.8 increase in professional services mainly due to higher legal costs and a $1.7 million increase in personnel-related expense resulting from a significant increase in headcount for operations activities and the expansion of the marketing team to support increased public relations and market research activities. Sales, general and administrative expense included stock-based compensation expense of $0.4 million and $0.7 million during 2008 and 2009, respectively.

Interest Income (Expense), Net

The decrease in interest income was primarily a result of lower average investment balances and lower interest rates in 2009 as compared to 2008.

Other Income (Expense), Net

The change in other income (expense), net reflects the remeasurement of our convertible preferred stock warrant liability.

Comparison of the Years Ended December 31, 2007 and 2008

	Years ended December 31,		Increase/ (decrease)	% Increase/ (decrease)
	2007	2008		
	(in thousands, except percentages)			
Revenue	$ 2,163	$ 901	$ (1,262)	(58)%
Research and development	19,216	37,997	18,781	98%
Sales, general and administrative	6,338	7,713	1,375	22%
Interest income (expense), net	1,940	1,157	(783)	(40)%
Other income (expense), net	(67)	(102)	35	52%

Revenue

Revenue is comprised solely of government grant revenue. This revenue is dependent on the grant received, the amount of the grant and subsequent work performed pursuant to the grant. The $1.3 million decrease in revenue realized was due to a reduction in the amount of awarded government grants in 2008 as compared to 2007.

Research and Development Expense

The $18.8 million increase in research and development expense was driven primarily by a $10.3 million increase in personnel related expense resulting from increased headcount, a $4.4 million increase in prototype-related expenditures, equipment and development supplies, a $2.3 million increase in information technology and facility expense and a $0.9 million increase in contract services and other professional services. Research and development expense included stock-based compensation expense of $0.4 million and $1.2 million during 2007 and 2008, respectively.

Sales, General and Administrative Expense

The $1.4 million increase in sales, general and administrative expense was driven primarily by a $1.9 million increase in personnel related expense resulting from increased headcount primarily in operations and recruiting activities and a $0.2 million increase in trade show and promotional expense related to increased public relations and market research activities, offset by a $1.0 million decrease in professional services primarily driven by non-recurring legal fees. Sales, general and administrative expense included stock-based compensation expense of $0.2 million and $0.4 million during 2007 and 2008, respectively.

Interest Income (Expense), Net

The decrease in interest income was due primarily to lower investment balances and lower interest rates on our investments.

Other Income (Expense), Net

The change in other income (expense), net was insignificant.

Liquidity and Capital Resources

Since our inception, and as of June 30, 2010, we have financed our operations primarily through an aggregate of $356.0 million from private placements of convertible preferred stock.

As of June 30, 2010, we had cash, cash equivalents and investments of $138.8 million and no debt obligations. For the six-month period ended June 30, 2010, we closed private placements of convertible preferred stock with net proceeds of $97.9 million.

The following table summarizes our working capital and cash, cash equivalents and investments for the periods indicated.

	As of December 31,		June 30, 2010
	2008	2009	(unaudited)
		(in thousands)	
Working capital	$ 102,224	$ 85,326	$ 123,896
Cash, cash equivalents and investments	106,051	92,735	138,756

The following table summarizes our cash flows activities for the periods indicated.

	Years ended December 31,			Six-month periods ended June 30, (unaudited)	
	2007	2008	2009	2009	2010
			(in thousands)		
Net cash used in operating activities	$(16,732)	$(38,303)	$(74,838)	$(29,374)	$(49,595)
Net cash provided by (used in) investing activities	(18,338)	(10,393)	18,594	160	(48,227)
Net cash provided by (used in) financing activities	(225)	119,927	67,014	(394)	98,734

During the years ended December 31, 2007, 2008 and 2009 and in the six-month period ended June 30, 2010, we used $3.0 million, $5.7 million, $5.2 million and $3.0 million in cash, respectively, to fund capital expenditures. We currently anticipate making significant capital expenditures in the future primarily for purchases of equipment to be used in research and manufacturing scale-up.

Beyond our investment in research and manufacturing equipment, we expect to invest capital in additional production arrangements, the timing and amount of which will depend on our business and financial outlook and the specifics of the opportunity. We may also consider additional strategic investments or acquisitions. This may require us to access additional capital through equity or debt offerings. If we are unable to access additional capital, our growth will be limited due to the inability to invest in additional production facilities.

We believe that the net proceeds from this offering, existing cash, cash equivalents and investments will be sufficient to fund our projected operating requirements for at least 12 months. Until we can generate a sufficient amount of product revenue, we expect to finance future cash needs through public or private equity offerings, debt financings or corporate collaboration and licensing arrangements. Such additional funds may not be available on terms acceptable to us or at all, particularly in light of recent market conditions. If we raise funds by issuing equity securities, the ownership of our stockholders will be diluted and the new equity securities may have priority rights over existing stockholders.

Cash Flows From Operating Activities

Our primary uses of cash from operating activities are for personnel-related expenditures and equipment related to research and development activities. Cash used in operating activities was $16.7 million, $38.3 million and $74.8 million for the years ended December 31, 2007, 2008 and 2009, respectively and $29.4 million and $49.6 million for the six-month periods ended June 30, 2009 and 2010, respectively.

Cash used in operating activities of $49.6 million for the six-month period ended June 30, 2010 reflected a net loss of $63.0 million, partially offset by aggregate non-cash charges of $6.3 million and a net change of $7.1 million in our net operating assets and liabilities. Non-cash charges primarily included $2.3 million of depreciation and $4.0 million in stock-based compensation. The net change in our operating assets and liabilities was primarily a result of the increase in accrued expenses and other current liabilities of $5.5 million.

Cash used in operating activities of $74.8 million in 2009 reflected a net loss of $87.7 million, partially offset by aggregate non-cash charges of $7.9 million and a net change of $4.9 million in our net operating assets and liabilities. Non-cash charges primarily included $4.1 million of depreciation and $3.6 million of stock-based compensation. The net change in our operating assets and liabilities was primarily a result of an increase in accounts payable of $3.9 million and the increase in accrued and other liabilities of $1.2 million.

Cash used in operating activities of $38.3 million in 2008 reflected a net loss of $43.8 million, partially offset by aggregate non-cash charges of $5.1 million and a net change of $0.3 million in our net operating assets and liabilities. Non-cash charges primarily included $3.0 million of depreciation and $2.1 million of stock-based compensation. The net change in our operating assets and liabilities was primarily a result of the increase in lease incentives and other long-term liabilities of $0.5 million.

Cash used in operating activities of $16.7 million in 2007 reflected a net loss of $21.5 million, partially offset by aggregate non-cash charges of $3.2 million and a net change of $1.6 million in our net operating assets and liabilities. Non-cash charges primarily included $1.6 million of depreciation and $1.7 million of stock-based compensation. The net change in our operating assets and liabilities was primarily a result of the increase in accounts payable of $1.4 million.

Cash Flows From Investing Activities

Our investing activities consist primarily of net investment purchases, maturities and sales and capital expenditures.

For the six-month period ended June 30, 2010, cash used in investing activities was $48.2 million as a result of $45.2 million in net investment purchases and $3.0 million of capital expenditures.

In 2009, cash provided by investing activities was $18.6 million as a result of $23.8 million in net investment maturities, partially offset by $5.2 million of capital expenditures.

In 2008, cash used in investing activities was $10.4 million as a result of $5.7 million of capital expenditures and $4.7 million in net investment purchases.

In 2007, cash used in investing activities was $18.3 million as a result of $15.3 million in net investment purchases and $3.0 million of capital expenditures.

Cash Flows From Financing Activities

For the six-month period ended June 30, 2010, cash provided by financing activities was $98.7 million, primarily as a result of the receipt of $97.9 million from our sale of Series F convertible preferred stock.

In 2009, cash provided by financing activities was $67.0 million, primarily as a result of the net receipt of $68.0 million from our sale of Series E convertible preferred stock, partially offset by principal repayments on our debt of $1.3 million.

In 2008, cash provided by financing activities was $119.9 million, primarily as a result of the receipt of $119.8 million from our sale of Series E convertible preferred stock.

In 2007, cash used in financing activities was $0.2 million, primarily as a result of net repayments on our debt of $0.4 million.

Contractual Obligations, Commitments and Contingencies

The following table provides summary information concerning our future contractual obligations as of June 30, 2010.

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
			(in thousands)		
Operating lease obligations[1]	$7,111	$ 2,586	$ 2,543	$ 1,920	$ 62
Total contractual obligations	7,111	2,586	2,543	1,920	62

(1) Maintenance, insurance, taxes and contingent rent obligations are excluded. See our financial statements and related notes included elsewhere in this prospectus for a discussion of our operating leases.

Facility Financing Obligation

In December 2009 we entered into a build-to-suit lease agreement for a manufacturing and office facility where we are considered the owner of the project under GAAP. When we are considered the owner of a project, we record the shell of the facility at its fair value at the date construction commences with a corresponding facility financing obligation. Accordingly, we recorded $3.0 million of building and leasehold improvement assets and a corresponding liability to facility financing obligation on the balance sheet as of June 30, 2010. There are minimum payments due under the facility financing obligation totaling $2.0 million payable through 2014. See our financial statements and related notes included elsewhere in this prospectus for a discussion of this commitment.

In addition to the obligations above, we have future minimum royalty and license fee commitments. See our financial statements and related notes included elsewhere in this prospectus for a discussion of these commitments.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Quantitative and Qualitative Disclosures About Market Risk

Our exposure to market risk is confined to our cash, cash equivalents and our investments, all of which have maturities of less than one year. The goals of our investment policy are preservation of capital, fulfillment of liquidity needs and fiduciary control of cash and investments. We also seek to maximize income from our investments without assuming significant risk. To achieve our goals, we maintain a portfolio of cash equivalents and investments in a variety of securities of high credit quality. The securities in our investment portfolio are not leveraged, are classified as available for sale and are, due to their very short-term nature, subject to minimal interest rate risk. We currently do not hedge interest rate exposure. Because of the short-term maturities of our investments, we do not believe that an increase in market rates would have any material negative impact on the value of our investment portfolio.

Recent Accounting Pronouncements

In October 2009, the FASB issued an accounting standards update that provides application guidance on whether multiple deliverables exist, how the deliverables should be separated and how the consideration should be allocated to one or more units of accounting. This update establishes a selling price hierarchy for determining the selling price of a deliverable. The selling price used for each deliverable will be based on vendor-specific objective evidence, if available, third-party evidence if vendor-specific objective evidence is not available, or estimated selling price if neither vendor-specific nor third-party evidence is available. We will be required to apply this guidance prospectively for revenue arrangements entered into or materially modified after January 1, 2011. Our revenue to date has been limited to government grant revenue and no revenue has been recognized from the sale of our products. Therefore, adoption of this guidance is not expected to have a material impact on our financial statements.

In April 2010, the FASB issued an accounting standards update which provides guidance on the criteria to be followed in recognizing revenue under the milestone method. The milestone method of recognition allows a vendor who is involved with the provision of deliverables to recognize the full amount of a milestone payment upon achievement, if, at the inception of the revenue arrangement, the milestone is determined to be substantive as defined in the standard. The guidance is effective on a prospective basis for milestones achieved in fiscal years and interim periods within those fiscal years, beginning on or after June 15, 2010. The adoption of this guidance is not expected to have a material impact on our financial statements.

BUSINESS

Overview

Our mission is to transform the way humankind acquires, processes and interprets data from living systems through the design, development and commercialization of innovative tools for biological research. We have developed a novel approach to studying the synthesis and regulation of DNA, RNA and protein. Combining recent advances in nanofabrication, biochemistry, molecular biology, surface chemistry and optics, we created a powerful technology platform called single molecule, real-time, or SMRT, technology. SMRT technology enables real-time analysis of biomolecules with single molecule resolution, which has the potential to transform scientific understanding by providing a window into biological processes that has not previously been open for study.

In the past fifteen years, there have been a number of important advances in the understanding of biological systems, including the initial characterization of the cellular blueprints, or genomes, of humans and a number of other organisms. These discoveries which were expected to herald a new age in science and medicine have yet to deliver on their promise, due in part to the limitations of currently available life science tools that rely on averages and aggregates. These techniques often mask potentially important sources of variation that are believed to underlie diseases such as cancer. We believe our technology addresses these limitations and may lead to important new advances in the understanding of biological systems.

Our initial focus is on the DNA sequencing market where we have developed and introduced the PacBio *RS*, a novel third generation sequencing platform. We believe that the PacBio *RS*, which uses our proprietary SMRT technology, maintains many of the key attributes of currently available sequencing technologies while solving many of the inherent limitations of previous technologies. Our system provides long readlengths, flexibility in experimental design, fast time to result and is easy to use. The PacBio *RS* consists of an instrument platform that uses our consumables including our proprietary SMRT Cell. The system is designed to be integrated into existing laboratory workflows and information systems, which should facilitate rapid adoption. Currently, our focus is on applications for clinical, basic and agricultural research, with potential uses in molecular diagnostics, drug discovery and development, food safety, forensics, biosecurity and bio-fuels.

Our SMRT technology has the potential to impact scientific study far beyond DNA sequencing. We, and our scientific collaborators, have published a number of peer-reviewed articles in journals including *Science*, *Nature* and *Nature Methods* highlighting the power and potential applications of the SMRT platform. These papers demonstrate the ability of our SMRT technology to answer additional biological questions not adequately addressed by currently available technologies. Those questions include chemical and structural modifications of DNA and the processing of RNA and proteins. Our research and development efforts are focused on expanding our DNA sequencing capabilities and commercializing products based on these research findings. We believe that our SMRT platform represents a new paradigm in biological science, which we refer to as SMRT Biology, that has the potential to significantly impact a number of areas critical to humankind, including the diagnosis and treatment of disease as well as efforts to improve the world's food and energy supply.

Evolution of Biology

Classical Biology

Genetic inheritance in living systems is conveyed through a naturally occurring information storage system known as deoxyribonucleic acid, or DNA. DNA stores information in a linear sequence of the chemical bases adenine, cytosine, guanine and thymine, represented by the symbols, A, C, G and T. These bases are attached to a repeating linear chain made up of alternating sugar and phosphate segments. Inside living cells, these chains usually exist in pairs bound together in a double helix by complementary bases, with A of one strand always binding to a T of the other strand and C always binding to G.

In humans, there are approximately three billion DNA base-pairs in the molecular blueprint of life, called the genome. These three billion bases are divided into 23 chromosomes ranging in size from 50 million to 250 million bases. Normally, there are two complete copies of the genome contained in each cell, one of

maternal origin and the other of paternal origin. When cells divide, the genomes are replicated by an enzyme called the DNA polymerase, which visits each base in the sequence, creating a complementary copy of each chromosome using building blocks called nucleotides. Contained within these chromosomes are approximately 23,000 smaller regions, called genes, each one containing the recipe for a protein or group of related proteins. The natural process of protein production takes place in steps. In a simplified model, the first step is transcription, a process in which an enzyme called the RNA polymerase converts the DNA strand base for base into an RNA message or mRNA. The mRNA carries the same sequence as the DNA, except that the DNA base thymine is replaced by uracil, so that the RNA alphabet is A, C, G and U. These messages are taken to the cellular protein factories, called ribosomes, for translation into proteins. These proteins go on to play crucial roles in the structure and function of the cell, including the regulation and execution of transcription and translation. The characterization of these events as a simple multi-step linear process from DNA to RNA to protein has been referred to as the Central Dogma of Molecular Biology and has formed the backbone of classical biology.

The linear process implied by the Central Dogma led to the development of tools that focused on isolated elements of living systems. These tools collect data reflecting averages of isolated events at static points in time, missing many of the complex dynamics and biological contexts critical to a full understanding of biological processes. Therefore, the study of biology is predisposed towards incomplete and deterministic pictures of biological systems.

Based on the Central Dogma, a common expectation developed that once the full genetic code of a human was available, the mechanisms of human biology would be substantially revealed. The International Human Genome Project, designed to map the human genome, took 13 years at a cost of over $3 billion and resulted in only approximately 92% coverage of the genome at its conclusion in 2004. The project resulted in many important insights regarding human biology, including a reduction in the number of estimated genes in the human genome from 100,000 or more to approximately 23,000. The data analysis techniques available at the time were able to identify single-nucleotide polymorphisms, or SNPs, places in the genome where individuals commonly differ by a single letter. This resulted in a view that there is a “reference genome” approximating all humans, with SNPs representing the dominant source of genetic variation. This view fostered an expectation that a new era of diagnosing and treating disease would emerge.

However, this promise has not been delivered due to our incomplete understanding of biological mechanisms underlying human disease. With the expectation that knowledge of the genome would guide the process towards safe and effective drugs, the pharmaceutical industry has spent billions of dollars on high-throughput screening of potential drug compounds without a significant increase in research productivity. Today, biological science remains largely unable to effectively determine which proteins should be targeted in order to treat disease.

Numerous scientific approaches have evolved to adapt to the emerging awareness of the magnitude of complexity embedded in biological systems. The field of genomics developed to study the interactions among components in the genome, and the massive quantities of associated data. Subsequently, proteomics, transcriptomics and a number of other related fields emerged.

The genomics research community has realized that a single reference sequence is not sufficient to decipher the inner workings of life. This led to a new type of study, commonly called genome-wide association studies, or GWAS, in which the genomes of large numbers of individuals are checked at known SNPs, and these findings are correlated with specific conditions, such as disease. While these studies have advanced our general understanding, in most cases they have not improved diagnosis and treatment as hoped. The correlations found by these methods are generally not large enough to be useful in detecting or treating human disease. Further, the research community has developed a deeper appreciation for the importance of additional sources of genomic variation, including chemical, structural and functional genomic modifications.

Future Biology

Advances in biology over the next decade are expected to be shaped by a more detailed understanding of the fundamental complexity of biological systems. These systems vary among individuals in previously unrecognized ways and are influenced by factors including time, molecular interactions and cell type.

Importantly for the future of genomics, the first few whole-genome sequencing studies of disease have shown that rare mutations play a critical role in human disease. These mutations would not have been detected in GWAS because too few people, or perhaps only one person, carry the specific mutation. In addition, it is now understood that structural changes to the genome in which whole sections are deleted, inverted, copied or moved may be responsible for a significant fraction of variation among individuals. The scope of these structural changes challenges the very idea of a reference genome.

Differences between genomes at different positions can be highly interactive, for example, a mutation that increases lifetime risk of cancer in one genomic context may decrease risk in another context. While the two copies of the 23 chromosomes we inherit from our parents are enormously important in determining who we are, our genomes continue to change as we age. Understanding the genetic makeup of an individual, including mutations that take place after conception, is key to understanding and treating diseases. For example, the genomes of cells within a particular individual's tumor may show significant variation from one cell to the next and from one time-point to the next.

Recent discoveries have highlighted additional complexities in the building blocks of DNA (A, C, G and T) and RNA (A, C, G and U), including the presence of additional bases. It has long been known that in humans and many other multicellular organisms the C bases can be chemically modified through the addition of a methyl group in a process called methylation. These chemical modifications have been shown to play a role in embryonic development, have important impacts on diseases such as cancer and can even affect the characteristics of offspring for multiple generations. More recently, it has been discovered that other bases, such as hydroxymethylcytosine, or hmC, 8-Oxoguanine and many others, play important physiological roles. In RNA, dozens of chemical modifications play important roles in cellular function.

Another source of complexity derives from the processing of RNA molecules after being transcribed from the genome. The majority of all genes have different forms of the protein that can be made depending on the structure of the RNA molecule, referred to as splice variants. A detailed understanding of both the expression pattern and regulation of these variants is believed to play an important role in a number of critical biological processes.

It is now understood that the role of RNA as detailed in the Central Dogma requires significant revision. The RNA components of the cell, which were originally thought only to relate to the production of proteins, are now known to play important regulatory roles. Numerous functional elements have been identified and located in regions far from any protein-coding sequence, many with no indications of how they might function. Not surprisingly, significant discrepancies have been found between the levels of mRNAs and the levels of the proteins for which they code. This is caused by regulation of the translation process that takes place after the mRNA is made. For example, binding of short RNA segments called micro-RNAs or miRNAs to mRNA have been shown to inhibit translation of their mRNA target.

Recent advances in our understanding of biological complexity have highlighted the need for new tools to study DNA, RNA and proteins. In the field of DNA sequencing incremental technological advances have provided novel insights into the structure and function of the genome. Despite these advances, researchers have not been able to fully characterize the human genome because of inherent limitations in these tools.

Evolution of Sequencing

In order to understand the limitations of current DNA sequencing technologies, it is important to understand the sequencing process. This consists of three phases comprising sample preparation, physical sequencing and re-assembly. The first step of sample preparation is to break the target genome into multiple small fragments. Depending on the amount of sample DNA, these fragments may be amplified into multiple copies using a variety of molecular methods. In the physical sequencing phase, the individual bases in each fragment are identified in order, creating individual reads. The number of individual bases identified contiguously is defined as readlength. In the re-assembly phase, bioinformatics software is used to align overlapping reads, which allows the original genome to be assembled into contiguous sequence. The longer the readlength the easier it is to reassemble the

genome. The ability to use sequence-based information is contingent not only on assembly, but the accuracy of the assembled sequence. There are two principal forms of accuracy that are commonly cited, referred to as raw read accuracy and finished or consensus accuracy. The former can be a platform specific performance metric while consensus accuracy is critical to successful reassembly.

First Generation Sequencing

First generation sequencing, also called "Sanger sequencing," was originally developed by Frederick Sanger in 1977. With this technology, during sample preparation, scientists first make different sized fragments of DNA each starting from the same location. Each fragment ends with a particular base that is labeled with one of four fluorescent dyes corresponding to that particular base. Then all of the fragments are distributed in order of their length by driving them through a gel. Information regarding the last base is used to determine the original sequence. Under standard conditions, this method results in a readlength that is approximately 700 bases on average, but may be extended to 1,000 bases. These are relatively long readlengths compared with other sequencing methods. However, first generation sequencing is limited by the small amounts of data that can be processed per unit of time, referred to as throughput.

Second Generation Sequencing

Commercial second generation DNA sequencing tools emerged in 2005 in response to the low throughput of first generation methods. To address this problem, second generation sequencing tools achieve much higher throughput by sequencing a large number of DNA molecules in parallel. In order to generate this large number of DNA molecules, a copying method called PCR amplification is required. This amplification process can introduce errors known as amplification bias. The effect of this bias is that the resulting copies are not uniformly representative of the original template DNA. In addition to introducing errors in the sequence, the process of amplification increases the complexity and time associated with sample preparation.

In most second generation tools, tens of thousands of identical strands are anchored to a given location to be read in a process consisting of successive flushing and scanning operations. The "flush and scan" sequencing process involves sequentially flushing in reagents, such as labeled nucleotides, incorporating nucleotides into the DNA strands, stopping the incorporation reaction, washing out the excess reagent, scanning to identify the incorporated base and finally treating that base so that the strand is ready for the next "flush and scan" cycle. This cycle is repeated until the reaction is no longer viable.

Due to the large number of flushing, scanning and washing cycles required, the time to result for second generation methods is generally long, usually taking days. This repetitive process also limits the average readlength produced by most second generation systems under standard sequencing conditions to approximately 35 to 400 bases. The array of DNA anchor locations can have a high density of DNA fragments, leading to extremely high overall throughput and a resultant low cost per identified base when the machine is run at high capacity. However, the disadvantages of second generation sequencing include short readlength, complex sample preparation, the need for amplification, long time to result, the need for many samples to justify machine operation and significant data storage and interpretation requirements.

First and second generation sequencing technologies have led to a number of scientific advances. However, given the inherent limitations of these technologies, researchers still have not been able to unravel the complexity of genomes.

Pacific Biosciences' Solution — The Third Generation

We have developed a novel technology platform that enables single molecule, real-time, or SMRT, detection of biological processes. Our SMRT technology harnesses the natural activity of key enzymes involved in the synthesis and regulation of biomolecules including DNA, RNA and protein. We have introduced a third generation DNA sequencing system, the PacBio *RS*, that not only addresses many of the limitations of the first and second generation technologies, but also enables new types of biological research. We refer to this new paradigm of study as SMRT Biology.

Pacific Biosciences' SMRT Technology

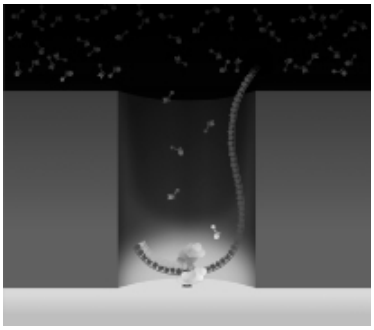
Our SMRT technology harnesses the natural process of DNA replication, which is a highly efficient and accurate process. The enzyme responsible for replicating DNA in nature is called the DNA polymerase. The DNA polymerase attaches itself to a strand of DNA to be replicated, examines the individual base at the point it is attached, and then determines which of four building blocks, or nucleotides, is required to replicate that individual base. After determining which nucleotide is required, the polymerase incorporates that nucleotide into the growing strand that is being produced. After incorporation, the enzyme advances to the next base to be replicated and the process is repeated.

Our SMRT technology enables the observation of DNA synthesis as it occurs in real time. To overcome the challenges inherent in observing an enzyme that is 15 nanometers, or nm, in diameter running in real time, we developed three key innovations:

- The SMRT Cell
- Phospholinked nucleotides
- The PacBio *RS*

The SMRT Cell

One of the fundamental challenges with observing a DNA polymerase working in real time is the ability to detect the incorporation of a single nucleotide, taken from a large pool of potential nucleotides, during DNA synthesis. To resolve this problem, we applied the same principle that operates in the metallic screen of a microwave oven door. In a microwave oven, the screen is perforated with holes that are much smaller than the wavelength of the microwaves. Because of their relative size, the holes prevent the much longer microwaves from passing through and penetrating the glass. However, the much smaller wavelength visible light is able to pass through the holes in the screen, allowing food to be visible. We have reduced this same principle to the nanoscale and we call our innovation a zero-mode waveguide, or ZMW.



A ZMW is a hole, tens of nanometers in diameter, fabricated in a 100nm metal film deposited on a glass substrate. The small size of the ZMW prevents visible laser light, which has a wavelength of approximately 600nm, from passing entirely through the ZMW. Rather than passing through, the light exponentially decays as it enters the ZMW. Therefore, by shining a laser through the glass into the ZMW, only the bottom 30nm of the ZMW becomes illuminated. Within each ZMW, a single DNA polymerase molecule is anchored to the bottom glass surface using a proprietary technique. Nucleotides, each type labeled with a different colored fluorophore, are then flooded above an array of ZMWs at the required concentration. Diffusion at the nanoscale is incredibly fast. Within microseconds, labeled nucleotides travel down into the ZMW, surround the DNA polymerase, then diffuse back up and exit the hole. As no laser light penetrates up through the holes to excite the fluorescent labels, the labeled nucleotides above the ZMWs are dark. Only when they diffuse through the bottom 30nm of the ZMW do they fluoresce. When the correct nucleotide is detected by the polymerase, it is incorporated into the growing DNA strand in a process that takes milliseconds in contrast to simple diffusion which takes microseconds. This difference in time results in higher signal intensity for incorporated versus unincorporated nucleotides, which creates a high signal-to-noise ratio. Thus, the ZMW has the ability to detect a single incorporation event against the background of fluorescently labeled nucleotides at biologically relevant concentrations.

Our DNA sequencing is performed on proprietary SMRT Cells, each having an array of approximately 75,000 ZMWs. Each ZMW is capable of containing a DNA polymerase loaded with a different strand of DNA sample. As a result, the SMRT Cell enables the potential detection of approximately 75,000 single molecule sequencing reactions in parallel.

Phospholinked Nucleotides

Previous labeling technologies for nucleotides attach a fluorescent label to the base of the nucleotide, which is incorporated into the DNA strand. This is problematic for any system attempting to observe DNA synthesis in real time because the dye's large size relative to the DNA can interfere with the activity of the DNA polymerase. Typically, a DNA polymerase can incorporate only a few base-labeled nucleotides before it halts. Our proprietary phospholinked nucleotides have a fluorescent dye attached to the phosphate chain of the nucleotide rather than to the base. As a natural step in the synthesis process, the phosphate chain is cleaved when the nucleotide is incorporated into the DNA strand. Thus, upon incorporation of a phospholinked nucleotide, the DNA polymerase naturally frees the dye molecule from the nucleotide when it cleaves the phosphate chain. Upon cleaving, the label quickly diffuses away, leaving a completely natural piece of DNA with no evidence of labeling remaining.

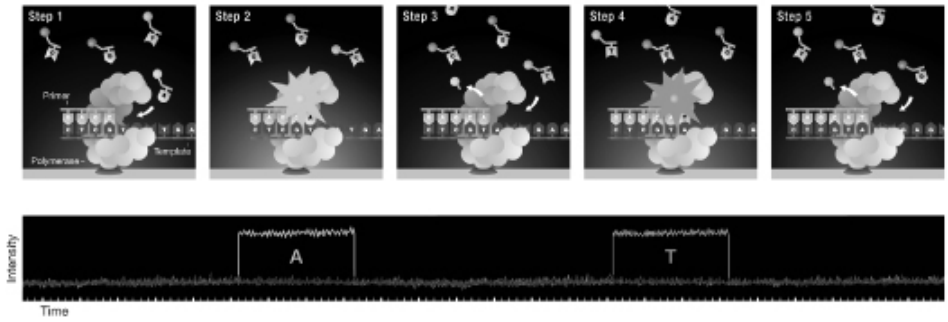
The PacBio RS

The PacBio *RS* is a user-friendly instrument that conducts, monitors and analyzes single molecule biochemical reactions in real time. The PacBio *RS* uses a high numerical aperture objective lens and four single-photon sensitive cameras to collect the light pulses emitted by fluorescent reagents allowing the observation of biological processes. An optimized set of algorithms is used to translate the information that is captured by the optics system. Using the recorded information, light pulses are converted into either an A, C, G or T base call with associated quality metrics. Once sequencing is started, the real-time data is delivered to the system's primary analysis pipeline, which outputs base identity and quality values, or QVs. To generate a consensus sequence from the data, an assembly process aligns the different fragments from each ZMW based on common sequences.

Putting the Three Innovations Together

Our three innovative technologies work together to allow researchers to sequence long reads of DNA in minutes. As discussed above, the DNA polymerase is immobilized on the floor of the ZMW. Phospholinked nucleotides are introduced into the SMRT Cell from above. As the nucleotides diffuse through the bottom 30nm of each ZMW in the SMRT Cell, a small noise signal is generated. When the DNA polymerase encounters the nucleotide complementary to the next base in the template, it is incorporated into the growing DNA chain. During incorporation, the DNA polymerase holds the nucleotide for tens of milliseconds, orders of magnitude longer than the average diffusing nucleotide. While held by the polymerase, the fluorescent label emits colored light. The PacBio *RS* detects this as a flash whose color corresponds to the base identity, which is recorded. Following incorporation, the signal immediately returns to baseline and the process repeats, with the DNA polymerase continuing to incorporate multiple bases per second.

SMRT Sequencing



Step 1: Fluorescent phospholinked labeled nucleotides are introduced to the polymerase.

Step 2: The base being incorporated is held in the detection volume for tens of milliseconds, producing a bright flash of light.

Step 3: The phosphate chain is cleaved, releasing the attached dye molecule.

Steps 4 and 5: The process repeats.

SMRT Sequencing Advantages

Sequencing with the PacBio *RS* system based on our SMRT technology offers the following key benefits:

- ***Single molecule, real-time analysis.*** SMRT technology harnesses the power of the DNA polymerase to enable single molecule, real-time sequencing. The ability to resolve single molecules in real time allows our system to observe structural and cell type variation not accessible with other technologies. Unlike existing sequencing platforms, minimal amounts of reagent and sample preparation are required and there are no time-consuming flushing, scanning and washing steps. In addition, our platform does not require the routine PCR amplification needed by most second generation sequencing systems thereby avoiding systematic amplification bias.
- ***Longer readlengths.*** The PacBio *RS* is designed to produce readlengths greater than 1,000 base pairs on average with instances of over 10,000 base pairs which facilitates mapping and assembly. Longer readlengths require the sequencing of fewer overlapping segments, referred to as coverage, to efficiently assemble the underlying genomic structure. Most second generation technologies require higher coverage to compensate for short readlengths. However, even with high coverage, short readlengths are difficult to assemble, especially in highly repetitive areas of the genome. In addition, long readlengths are an important factor in enabling a comprehensive view of the genome, as they can reveal multiple types of genetic variation, such as large-scale rearrangements as observed in cancer. We believe that the long readlengths produced by the PacBio *RS* will allow insights into biology that are not possible with existing technologies.

- ***Faster time to result.*** With the PacBio *RS*, sample preparation to sequencing results can take less than one day. A typical sequencing run can require as little as 30 minutes of instrument time. Sequence data is produced in minutes rather than days, potentially enabling important applications including infectious disease monitoring and molecular pathology.
- ***Ease of use.*** Our system is easy to use and adopt because it is compatible with existing lab workflows and informatics infrastructures. Our SMRTbell sample preparation protocol is simple and fast. It can be used with a variety of sample types and can generate a range of library sizes. Sample preparation processes for second generation technology often involve costly additional capital equipment, reagents, supplies and physical space. This process can take multiple days. The PacBio *RS* is equipped with a simple touchscreen interface that requires minimal user intervention. The data format has been designed to be compatible with standard informatics systems. These attributes allow for easy training and rapid adoption at customer sites.
- ***Flexibility and granularity.*** The PacBio *RS* system is highly versatile. The system offers multiple protocols, including standard, circular consensus and strobe sequencing, enabling the user to optimize performance based on the needs for a particular project. The system also has the ability to scale the throughput and cost of sequencing across a range of small and large projects. We call this granularity, and it results from our high speed chemistry and flexible consumables format. The ability to run a single SMRT Cell, or batch multiple SMRT Cells in a single run, provides enormous flexibility in experiment design and implementation.
- ***Ability to observe and capture kinetic information.*** The ability to observe the activity of a DNA polymerase in real time enables the PacBio *RS* to collect, measure and assess the dynamics and timing of enzymatic incorporation, referred to as kinetics. It has been shown that changes in the kinetics of incorporation may be associated with DNA methylation which is believed to play a critical role in diseases such as cancer. The PacBio *RS* is designed to generate this kinetic information automatically.

Our Products

We are preparing to enter the market with our first product, the PacBio *RS*, a third generation sequencing instrument that provides real-time information at the single molecule level. The initial application for the system is DNA sequencing, and the architectural design of the system will enable a broader range of applications over time. The instrument is designed for expandable capability to permit performance improvements and new applications to be delivered through chemistry and software enhancements without changes to the hardware.

While delivering novel performance, the PacBio *RS* is compatible with existing customer infrastructure, from sample preparation to biological results and analysis. This includes our SMRTbell sample preparation protocol, remote experimental management, touchscreen instrument operation, integration with preferred IT infrastructures, and backwards-compatibility with existing informatics pipelines. Together, this results in quick system setup times, fast scaling to multi-unit configurations and short turnover time between experiments. We believe these factors will result in a new paradigm for sequencing experiments from days and weeks to minutes and hours.

Our sequencing system includes the PacBio *RS* instrument and proprietary consumables, including SMRT Cells and reagent kits, providing a complete solution to the customer.

The PacBio RS

The PacBio *RS* is a user-friendly instrument that conducts, monitors and analyzes biochemical sequencing reactions. The instrument includes high performance optics, automated liquid handling, a touchscreen control interface, a computational Blade Center and software. A comprehensive informatics tools suite that enables users to generate finished sequence data is also included. The list price for the PacBio *RS* will be $695,000 in the United States.

Consumables

Our consumable products include our proprietary SMRT Cells and reagent kits. One SMRT Cell is consumed per sequencing reaction on the PacBio *RS*. Eight SMRT Cells are individually hermetically sealed and packaged together into a streamlined 8Pac format. This enables a researcher to use one or more SMRT Cells per run. For ease of use, as many as twelve 8Pacs can be placed in a tray and experiments can be designed to run 96 SMRT Cells. A single SMRT Cell will be priced at approximately $99 in the United States, though they will be packaged only as 8Pacs, selling for under $800.

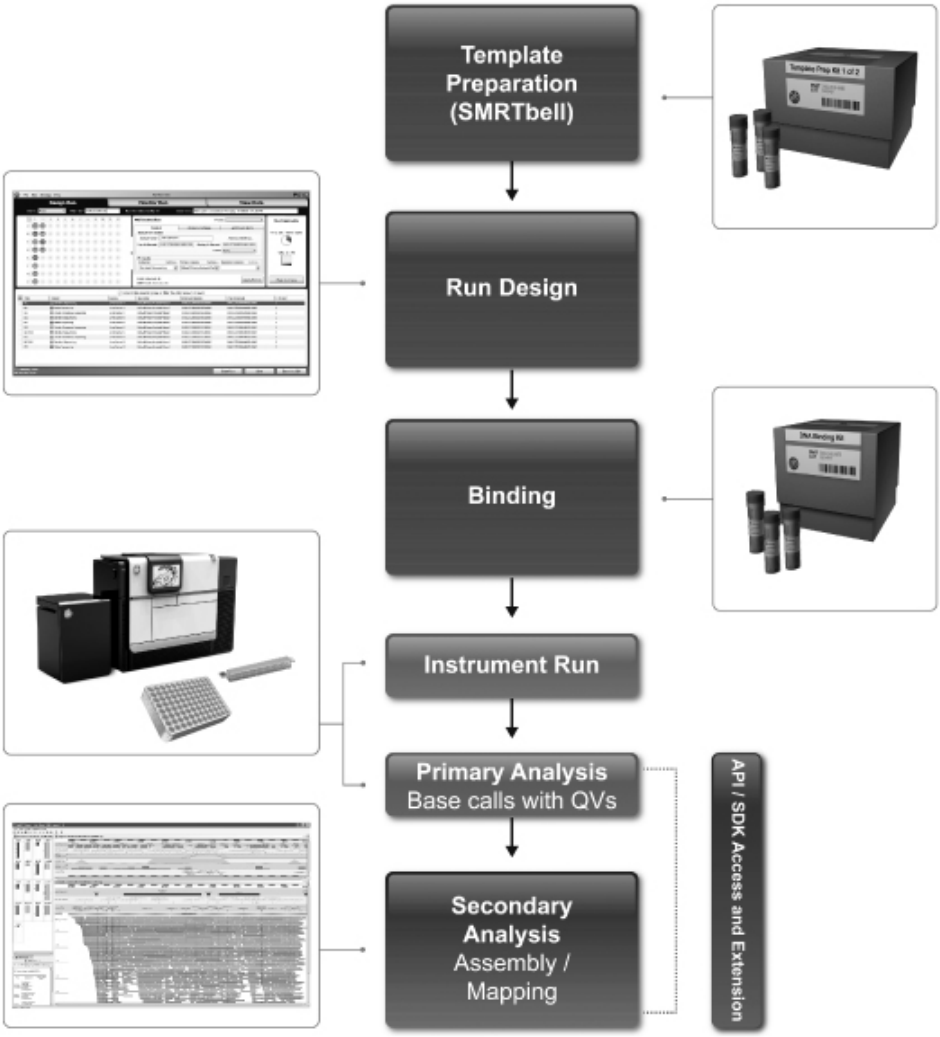
We offer three reagent kits, each designed to address a specific step in the workflow. The Template Preparation Kit is used to convert DNA into our SMRTbell library format. The Binding Kit is then used to bind this library to the polymerase in preparation for sequencing. The Sequencing Kit contains the reagents required for on-instrument, real-time sequencing, including the phospholinked nucleotides. Each sample can be sequenced in a single SMRT Cell or across many SMRT Cells depending on the needs of the project. As a result, the price per reaction is dependent on the experiment design.

Using the PacBio RS

The PacBio *RS* delivers a complete product solution from sample preparation to biological results. The instrument has the capability for multiple sequencing protocols, enabling a high degree of flexibility in experimental design.

- ***Standard sequencing.*** The standard SMRT sequencing protocol is designed to generate single pass long reads. The protocol uses long insert lengths so that the polymerase can continuously synthesize along a single strand. As with all protocols, this process runs in parallel across thousands of ZMWs in a single SMRT Cell at the same time. This protocol has utility for a range of both resequencing and *de novo* applications. Our system achieves consensus accuracy of 99.99% which is commensurate with leading second generation sequencing systems.
- ***Circular consensus sequencing.*** The PacBio *RS* has the capability for circular consensus sequencing. The circular consensus sequencing protocol uses a circular DNA template which enables multiple reads across the same sequence to achieve 99.99% accuracy at single molecule resolution from a single DNA strand. Furthermore, this approach provides reads on both the forward and reverse strands of a double stranded template. This type of accuracy at a single molecule level is novel, as it is impossible to achieve with multi-molecule approaches. This method also offers potential advantages for the discovery and confirmation of rare variants.
- ***Strobe sequencing.*** The PacBio *RS* also has the capability for strobe sequencing. Using this protocol, the physical coverage and effective readlength of the system can be increased by “strobing” the illumination on and off. When the illumination is on, sequence data is collected, but when the illumination is off, the polymerase continues to synthesize in the dark at a predictable speed for thousands of bases. After a user-defined interval, the illumination can be turned back on and the system can resume collecting data. Multiple sub-reads at varying sequence advance lengths can be generated from a single molecule. The length of the strobe sub-reads and advances can be controlled dynamically as a run parameter, thereby eliminating the need to create multiple libraries of different sizes. This method will be useful for scaffolding, or mapping a series of short fragments on a longer DNA strand, genomic assembly and identifying and resolving structural variation.
- ***Combining sequencing modes.*** The system’s flexibility also offers the ability to approach a problem in multiple ways. For example, users may first want to scaffold the sequence using the strobe sequencing protocol, then generate long linear single molecule reads, and finally, apply circular consensus sequencing to identify rare sequence variants.

The PacBio *RS* is user-friendly and requires limited manual intervention. The illustration below outlines the flow of the process from sample preparation to sequencing results.



The sample preparation protocol employs simple, standard molecular biology techniques and can be completed in hours. The same protocol can be used with a variety of sample types and can generate a range of library sizes. The Template Preparation Kit is used to convert DNA into our SMRTbell library format. The Binding Kit is then used to bind this library to the polymerase in preparation for sequencing.

Customers design, manage and monitor experiments from their desktop. This experimental information can be seamlessly integrated with internal laboratory information management systems, or LIMS, or other tracking systems.

Instrument operation occurs through an easy-to-use touchscreen interface, *RS* Touch, and requires minimal user intervention. The instrument is both an automated liquid handling and detection platform. Customers load SMRT Cells and the sequencing kit components directly into two drawers on the instrument, from which point dispensing and handling are automated. Barcode tracking provides efficient management of samples and reagents.

Once the sequencing reaction has been initiated, the high performance optics monitor the thousands of ZMWs in real time. Throughout the sequencing process, the *RS* Touch provides feedback on the status of the PacBio *RS*, its contents and the experimental progress.

Concurrent with the sequencing process, base calling and quality assessment are performed through the Blade Center, the computational brain of the PacBio *RS*. Primary analysis data can be streamed directly to the secondary analysis system as well as visualized. Secondary analysis provides data-rich reports for the user, including informative quality and application-specific metrics. Users can then interact visually with the data at all relevant levels, from the genome view to individual SNPs.

We are committed to providing users with access to the right types of high-performance computing environments to not only store and organize the data, but to also interact with and analyze the data on different levels. These informatics solutions are designed to efficiently integrate with on-premises or cloud-based LIMS systems making these solutions accessible not only to high-end informatics researchers, but also to biologists and clinicians.

Developer tools enable seamless integration with existing bioinformatics pipelines. All data files are directly accessible, giving the user flexibility to perform further analysis through third-party software or share data with collaborators. To maximize the flexibility and functionality for all users, all of the secondary analysis algorithms are open source.

Market Opportunity

Despite the limitations of currently available sequencing platforms, the market for sequencing products is large and is expected to grow significantly. In 2009, the sequencing market was estimated to be $1.2 billion, which is comprised of $600 million and $600 million for first and second generation sequencing, respectively, and is expected to grow to more than $3.6 billion by 2014 according to Scientia Advisors, a market research firm. The growth in this market is expected to be driven by increases in the demand for sequencing products from both research and commercial users, including academic institutions, reference labs and genomics service providers, pharmaceutical companies and agriculture biology, or AgBio, companies. The primary areas of market growth are expected to be genomics, increasing from approximately $700 million in 2009 to $1.9 billion by 2014, and AgBio, increasing from approximately $200 million in 2009 to $1.3 billion by 2014. Historically, improvements in tools have driven growth in demand. We believe the emergence of third generation sequencing products, including our products, along with improvements in existing second generation products, will accelerate this growth.

There are a number of emerging markets for sequencing-based tests, including molecular diagnostics, which represent significant potential opportunities for our products. For example, the market for sequence-based molecular diagnostics is estimated to be $1.6 billion in 2014 according to Scientia Advisors.

Pacific Biosciences' Strategy

Our mission is to transform the way humankind acquires, processes and interprets data from living systems. To achieve this mission, we plan to:

- ***Define the future of biological analysis based on SMRT technology.*** Our SMRT technology provides a window into biological processes that has not previously been available. We have and will continue to communicate the benefits and advantages of our SMRT technology platform through our commercial and marketing activities. In addition, we will continue to pursue publication of novel biological insights using our SMRT technology in top-tier scientific, peer-reviewed journals. For example, a recent publication in *Nature* demonstrated the broad applicability of the SMRT detection technology by enabling new, high resolution insights into ribosome function and composition during translation at physiological concentrations of transfer RNAs. We plan to continue to develop the applications of our SMRT technology in the fields of DNA, RNA and protein biology.
- ***Focus initially on the DNA sequencing market.*** We will initially sell our products into the rapidly growing DNA sequencing market. We believe our third generation sequencing technology will address

most of the limitations in current sequencing technologies and enable a wide range of experiments and applications that were previously not feasible for researchers. We believe that the introduction of the PacBio *RS* will expand the market for genetic analysis tools. Our initial customers include genome centers, clinical, government and academic institutions, genomics service providers and agricultural companies. SMRT technology has the potential to address a broad range of expanded markets, including drug development, diagnostics, food, forensics, biosecurity and bio-fuels.

- ***Continually enhance product performance to increase market share.*** The design of the PacBio *RS* will allow for significant performance improvements without an upgrade or replacement of the instrument hardware. These performance enhancements will be delivered through software upgrades and new consumables. Our flexible platform is designed to generate a recurring revenue stream through the sale of proprietary SMRT Cells and reagent kits. Our research and development efforts are focused on product enhancements to reduce DNA sequencing cost and time as well as expand capabilities. We believe that our ability to offer performance improvements without requiring new hardware investment by our customers will increase the attractiveness of our products.
- ***Leverage platform to develop and launch additional applications.*** We plan to leverage our SMRT technology platform to develop new applications targeting kinetic detection, RNA transcription monitoring, RNA sequencing, protein translation and ligand binding. We believe these applications will create substantial new markets for our technology.
- ***Create a global community of users to enhance informatics capabilities and drive adoption of our products.*** We have worked closely with members of the informatics community to develop and define standards for working with single molecule, real-time sequence data. We have launched the PacBio DevNet, a software developer's open network to support academic informatics developers, life scientists and independent software vendors interested in creating tools to work with our third generation sequencing data. This gives the user flexibility to perform further analysis of the sequencing data through third-party software or share data with collaborators. To maximize the flexibility and functionality for all users, all of the secondary analysis algorithms are open source.

Future Commercial Applications

The power of SMRT detection extends beyond DNA sequencing to the detection and characterization of other fundamental biological functions. We believe that the SMRT platform will define a new paradigm in biological science that we refer to as SMRT Biology. The ability of the SMRT technology to observe kinetic information of individual molecules provides the ability to detect nucleic acid variations, including detection of base modifications and the detection of binding of biomolecules to DNA. SMRT detection has been applied by researchers to directly observe, on a single molecule basis, transcription, reverse transcription, translation and ligand-protein binding. We plan to further develop these applications and, if successful, we may commercially introduce them in the future.

SMRT Kinetic Detection. SMRT analysis enables the observation of the kinetics of DNA and RNA synthesis. Kinetic analysis may permit detection of base modifications in DNA and RNA beyond simple methylation. These modifications, which are hypothesized to play an important role in diseases such as cancer, have not been systematically studied due to a lack of efficient tools. The analysis of synthesis kinetics is not limited to studies of molecular structure, but is also applicable to the detection of inter-molecular interactions, for example, detecting kinetic impacts of protein-DNA interactions. Both of these applications of the SMRT platform may have important applications in disease characterization, diagnosis and treatment.

SMRT Transcription. By replacing the DNA polymerase with an RNA polymerase, SMRT detection provides the ability to directly observe in real time the regulation of transcription of a gene into an RNA message, the first phase of protein expression. The combined power of direct observation of transcription and the sequence context that SMRT sequencing provides has the potential to replace present transcription assays and enable transcription analysis on a whole genome scale, resulting in information on this crucial life process.

SMRT RNA Sequencing. By replacing the DNA polymerase with a reverse transcriptase in the ZMW, SMRT detection provides the ability to directly sequence RNA and observe kinetic data similar to that seen with DNA sequencing. Directly sequencing RNA may provide advantages over traditional methods including speed, longer readlengths and reduced errors into the determined sequence.

SMRT Translation. We have demonstrated the ability to observe protein translation in real time at the single molecule level by placing the ribosomal complex into the ZMW and attaching fluorescent tags to the molecules that escort the amino acids to the ribosome for protein production. It is understood that the levels of mRNA do not always correlate with the amounts of the corresponding proteins, due in part to RNA regulatory mechanisms such as miRNA binding. For this reason it is desirable to measure the levels of the many proteins as synthesized by the ribosome. As proteins represent an important target for therapeutics, understanding the dynamics of protein synthesis may be important for future drug discoveries.

SMRT Ligand Binding. The interaction between ligands, including drugs and their respective biological targets, referred to as ligand binding, is an important facet of basic science. Most current ligand binding analysis techniques detect average interactions over large populations of molecules and do not detect changes in the interactions in real time. This results in an inability to detect weak interactions, or detect multi-body interactions where individual components can be interacting on a transient basis. Because it detects individual molecular interactions, we believe the SMRT detection system can probe binding interactions that are far weaker than those detected by other techniques. Further, because of its real-time observation, it can detect binding events lasting only a few milliseconds. Given the importance of ligand binding to the drug discovery process and other potential commercial applications, this new paradigm may offer significant advantages over traditional methods.

Marketing and Sales

We market our products through a direct sales force in North America and the United Kingdom. Our sales strategy involves the use of a combination of sales managers, sales representatives and field application specialists. As of June 30, 2010, we had six sales managers and sales representatives and five field application specialists. We expect to increase our sales force as we expand our business.

The role of our sales managers and sales representatives is to educate customers on the advantages of SMRT technology and the applications that our technology makes possible. The role of our field application specialists is to provide on-site training and scientific technical support to prospective and existing customers. Our field application specialists are technical experts with advanced degrees, including four with PhDs, and generally have extensive experience in academic research and core sequencing lab experience.

In addition, we maintain an applications lab team in Menlo Park, California composed of scientific experts who can transfer knowledge from the research and development team to the field application specialists. The applications lab team also runs foundational scientific collaborations and proof of principle studies, which help demonstrate the value of our product offering to prospective customers.

Customers

We instituted a limited production release program pursuant to which we received orders for eleven limited production release instruments from entities such as genome centers, clinical, government and academic institutions and agricultural companies. This program was designed to help us garner quality feedback on the product prior to our full commercial launch scheduled for early 2011. We received orders for our limited production release instrument from Baylor College of Medicine, the Broad Institute of MIT and Harvard, Cold Spring Harbor Laboratory, the U.S. Department of Energy Joint Genome Institute, The Genome Center at Washington University, Monsanto Company, the National Cancer Institute/SAIC-Frederick, the National Center for Genome Resources, the Ontario Institute for Cancer Research, Stanford University and Wellcome Trust Sanger Institute. As of August 15, 2010, we have shipped a total of five PacBio *RS* limited production release instruments, and we intend to ship the remaining six later this year. Following the conclusion of a test period and after full commercial release, each recipient of a limited production release unit is entitled to receive an upgrade to a commercial release version of the PacBio *RS*.

Backlog

As of June 30, 2010, our backlog was approximately $15 million. We define backlog as orders from our customers which we believe are firm and for which we have not yet recognized revenue. Estimating the dollar value of backlog requires significant judgments and estimates. We may never ship these units or receive revenue from these orders, and our backlog may not be indicative of our future revenue. If our orders in backlog do not result in sales, our operating results will suffer.

Manufacturing

Our manufacturing facilities are located at our headquarters in Menlo Park, California. We currently manufacture our instruments in-house. Over time, we intend to outsource various sub-assemblies to third-party manufacturers, but we expect to continue to conduct the final assembly in-house. With respect to the manufacture of SMRT Cells, we subcontract wafer fabrication and processing to semiconductor processing facilities, but conduct critical surface treatment processes internally. In addition, we currently manufacture critical reagents in-house, including our phospholinked nucleotides and our DNA polymerase.

The manufacture of our instruments is complex involving a number of separate processes and components. Our manufacturing processes are detailed in written procedures and extensive testing and data collection is performed throughout the process. We have implemented quality control procedures to help assure that our products meet our specifications. We also use manufacturing process control software to help us ensure key processes are followed with a high degree of integrity.

We purchase both custom and off-the-shelf components from a large number of suppliers and subject them to significant quality specifications. We periodically conduct quality audits of suppliers and have established a supplier certification program. We purchase components through purchase orders and generally do not maintain large volumes of inventory. Some of the components required in our instruments are currently either sole sourced or single sourced.

Service and Support

Service for our instruments is performed by our field service engineers. As of June 30, 2010, we had five field service engineers, and we intend to hire additional field service engineers as we grow our business. Our field service engineers are trained in-house, building, testing and troubleshooting instruments on our factory floor before being qualified to service instruments installed at customer sites.

Our instruments are designed with remote diagnostics that generate automated alerts that will allow us to promptly initiate preventive maintenance or repair. We intend to establish an online customer portal and case management system to aid in the technical support of our instruments. We also intend to establish a contact center in each region to handle incoming inquiries via telephone, email or live chat.

Research and Development

Our SMRT technology requires the blending of a number of unique disciplines, namely nanofabrication, physics, photonics, optics, molecular biology, engineering, signal processing, high performance computing and bioinformatics. Our research and development team is a blend of these disciplines creating a single, cross-functional operational unit. We have also established productive working relationships with technology industry leaders, as well as leading academic centers, to augment and complement our internal research and development efforts.

Our research and development group is comprised of eight departments, Biochemistry, Organic Chemistry, Surface Chemistry, Nanofabrication, Mechanical/Optical/Electrical Engineering, Software Engineering and Bioinformatics, Systems Integration and Single Molecule Sample Prep and Detection. Combined, these groups are responsible for the research and development of the various technologies needed to supply the basic chemistry components and protocols, reaction cells, instrument platform and the embedded and downstream

software that are needed to prepare, process, detect, analyze and interpret single molecule, real-time data. As of June 30, 2010, we had 208 scientists and engineers in our research and development group of which 146 have advanced degrees including 105 with PhDs.

We will continue to invest in research and development to support the ongoing development of chemistry components and protocols to enhance overall system performance. Our goals are to continuously improve sequencing readlength, raw read accuracy and the number of reactions on each SMRT Cell, as well as to develop and introduce into the marketplace new and novel applications that will take full advantage of our single molecule, real-time detection technology. In addition, our engineering teams will continue their focus on increasing instrument component and system reliability, reducing costs, increasing sample throughput and implementing additional system flexibility and versatility.

Intellectual Property

Developing and maintaining a strong intellectual property position is an important element of our business. We have sought patent protection for our SMRT technology, and may seek patent protection for improvements and ancillary technology conceived in developing our SMRT technology if we believe such protection will give us an advantage over competitors or potential competitors.

Our current patent portfolio, including patents exclusively licensed by us, is directed to various technologies, including SMRT nucleic acid sequencing and other methods for analyzing biological samples, ZMW arrays, surface treatments for such ZMW arrays, reagents for use in nucleic acid sequencing, including phospholinked nucleotides, and other methods for analyzing biological samples, optical components and systems, processes for identifying nucleotides within nucleic acid sequences and processes for analysis and comparison of nucleic acid sequence data.

As of June 30, 2010, we own or hold exclusive licenses to 47 issued U.S. patents, 118 pending U.S. patent applications, six granted foreign patents and 138 pending foreign patent applications, including foreign counterparts of U.S. patent and patent applications. The full term of these issued U.S. patents will expire between April 17, 2016 and May 9, 2028.

Of these patents and patent applications, 18 issued U.S. patents, six pending U.S. patent applications, one granted foreign patent and five pending foreign patent applications are licensed to us by the Cornell Research Foundation, which manages technology transfers on behalf of Cornell University, collectively referred to as Cornell. These patents and patent applications are directed to the core SMRT sequencing methods and systems and other analysis methods, and to ZMW arrays used in our current and planned products. The license agreement provides us with the exclusive right to make, use, sell, offer for sale, lease, import, export or otherwise dispose of products covered by the licensed patents in all fields of use. In exchange, we are obligated to make certain royalty payments to Cornell, including a minimum annual royalty payment, and meet certain reporting and other requirements to Cornell. We are also obligated to reimburse Cornell for the costs of prosecuting the patents and patent applications that are subject to the license. The research leading to the licensed technology was funded by the U.S. government and therefore our license from Cornell is subject to U.S. government march-in rights. Cornell may terminate its agreement with us if we are in default of our payment or reporting obligations, are in material breach of the agreement, or fail to fulfill our diligence obligations with respect to commercializing products using the licensed technology.

We have also entered into a license agreement with Indiana University Research and Technology Corporation, or IURTC, for U.S. Patent No. 6,399,335, which relates to nucleoside triphosphates that include a labeling group attached through the terminal phosphate group in the triphosphate chain. Under the terms of this license agreement, we have exclusive rights to make, have made, sell, offer to sell, have sold, use, import and have imported, products that practice the invention claimed in the patent in certain sequencing-related fields. In exchange, we are obligated to make certain royalty and milestone payments to IURTC, and to meet certain reporting requirements to IURTC. We are also obligated to reimburse IURTC for the costs of prosecuting the patents and patent applications that are subject to the license. The research leading to the licensed technology was

funded by the U.S. government and therefore our license from IURTC is subject to U.S. government march-in rights. IURTC may terminate its agreement with us if we are in default of our payment or record keeping obligations, are in material breach of the agreement, or fail to fulfill our diligence obligations with respect to commercializing products using the licensed technology.

In addition, we have entered into a license agreement with Stanford University, or Stanford, for U.S. Patent No. 7,297,532, referred to as the ’532 patent, which relates to immobilized ribosomes for use in analysis of ribosomal activity. Under the terms of this license agreement, we have exclusive rights to make, have made, use, import, offer to sell and sell products that would practice the invention claimed in the patent in certain fields of use until June 8, 2018, after which the license will become non-exclusive until the ’532 patent expires. In exchange, we are obligated to make certain royalty and license maintenance payments to Stanford, and to meet certain reporting and other obligations to Stanford. We are also obligated to reimburse Stanford for all patenting expenses associated with the ’532 patent, including maintenance fees and costs associated with any interference or reexamination matters. The research leading to the ’532 patent was funded by the U.S. government and therefore our license from Stanford is subject to U.S. government march-in rights. Stanford may terminate its agreement with us if we are in default of our payment or reporting obligations, are in breach of any provision of the agreement, or fail to fulfill our diligence obligations with respect to commercializing products relating to the ’532 patent.

We have also entered into a license agreement with GE Healthcare Bio-Sciences Corp, or GE Healthcare, under several U.S. and foreign patents and pending patent applications related to labeled nucleoside polyphosphate compounds. Under the terms of the license, we have the non-exclusive right to make, have made, import, use, distribute, offer to sell and sell products that practice the inventions claimed in the patents. In exchange, we are obligated to make certain royalty and other payments to GE Healthcare. GE Healthcare may terminate its agreement with us if, among other things, we are in breach of the agreement.

In June 2010, we entered into a collaboration agreement with Gen-Probe Incorporated, or Gen-Probe, regarding the research and development of instruments integrating our SMRT technologies and Gen-Probe’s sample preparation technologies for use in clinical diagnostics. Subject to customary termination rights, the initial term of the collaboration will end on the earlier of (i) December 15, 2012 and (ii) six months after we achieve certain development milestones. During the collaboration period, each party will be free to sell instrument systems that incorporate its own technology but, subject to limited exceptions, neither party may jointly develop integrated sequencing systems for clinical diagnostics with any third party nor license its technology to any third party for such use. In addition, the collaboration agreement provides each party with preferred access to certain products of the other party when commercially available, both during and after the collaboration period.

Where patent protection is difficult to obtain or difficult to enforce for a particular technological development or the technological development derives greater value from being maintained as confidential information, we seek to protect such information as a trade secret.

Competition

Given the market opportunity, there are a significant number of competing companies offering DNA sequencing equipment or consumables. These include Illumina Inc., Life Technologies Corporation and Roche Applied Science. Some of these companies have or will have greater financial, technical, research and other resources than us. They may also have larger and more established manufacturing capabilities and marketing, sales and support functions. We expect the competition to intensify within this market as there are also several companies in the process of developing new technologies, products and services. These emerging potential competitors include Complete Genomics, Inc., Ion Torrent Systems Inc. and Oxford Nanopore Technologies Ltd. In order for us to successfully compete against these companies, we will need to demonstrate that our products deliver superior performance and value as a result of our key differentiators, including single molecule, real-time resolution, long readlength, fast time to result and flexibility, as well as the breadth and depth of current and future applications.

Employees

As of June 30, 2010, we had 369 full-time employees. Of these employees, 208 were in research and development, 88 were in operations and program management, 43 were in sales and marketing and 30 were in general and administration. With the exception of our field-based sales and service teams, all of our employees are located at our headquarters in Menlo Park, California. None of our employees are represented by labor unions or are covered by a collective bargaining agreement with respect to their employment. We have not experienced any work stoppages, and we consider our relationship with our employees to be good.

Facilities

Our corporate headquarters and manufacturing facilities are located in Menlo Park, California where we lease approximately 164,000 square feet of office, lab and manufacturing space. The schedule below summarizes our facilities as of June 30, 2010. We consider our manufacturing facilities sufficient to meet our current and planned operational requirements. We intend to add new facilities as we add employees and expand our markets, and we believe that suitable additional or substitute space will be available as needed to accommodate any such expansion of our operations.

Size (Square Feet)	Lease Expiration	Functions
30,240	May 2011	Office/Lab
31,560	May 2011	Office/Lab
33,792	July 2015	Office/Training
22,267	September 2013	Manufacturing
29,371	April 2015	Manufacturing
16,594	September 2010	Office/Lab

Legal Proceedings

We are presently involved in a patent interference with Life Technologies Corporation, or Life, related to U.S. Patent No. 7,329,492, that was acquired by Life from its acquisition of Visigen Biotechnologies, Inc., and U.S. Patent Application Serial No. 11/459,182, owned by us relating to a particular method for single molecule sequencing. An interference is a phased process whereby the U.S. Patent and Trademark Office, or USPTO, determines which of two patents, or a patent and a patent application, that claim the same or overlapping subject matter, is entitled to the earliest priority date of invention, and thus which patent or patent application is entitled to be issued covering that same or overlapping subject matter. In this interference, it was determined that we are the senior party in the interference based upon an initially accorded priority date prior to that of the Life patent. The first phase concluded on December 1, 2009, when the parties presented oral arguments to the USPTO's Board of Patent Appeals and Interferences, or BPAI. As of July 31, 2010, no decision has yet been rendered by the BPAI on the parties' respective arguments.

We are not currently a party to any other material legal proceedings.

MANAGEMENT

Executive Officers and Directors

The following table sets forth the names, ages and positions of our executive officers and directors as of June 30, 2010.

Name	Age	Position
Hugh C. Martin	56	Chairman, Chief Executive Officer and President
Susan K. Barnes	56	Senior Vice President and Chief Financial Officer
Stephen Turner, PhD	42	Chief Technology Officer
Michael Phillips	60	Senior Vice President Research and Development
William Ericson(2)	51	Lead Independent Director
Brook Byers(1)(3)	64	Director
Michael Hunkapiller, PhD(2)	61	Director
Randy Livingston(1)	56	Director
Susan Siegel(2)(3)	50	Director
David Singer(1)(3)	47	Director

(1) Member of our audit committee

(2) Member of our compensation committee

(3) Member of our corporate governance and nominating committee

Executive Officers

Hugh C. Martin has served as our Chairman, Chief Executive Officer, President and a member of our board of directors since joining us in 2004. From 2003 to 2004, Mr. Martin was a chief executive officer coach at Kleiner Perkins Caufield & Byers. From 1998 to 2002, Mr. Martin was chairman, president and chief executive officer of ONI Systems, a high-speed optical telecommunications company he founded. Mr. Martin served on the board of directors of Infinera Corporation from July 2003 to June 2009. We believe that Mr. Martin possesses specific attributes that qualify him to serve as a member of our board of directors, including the perspective and experience he brings as our Chief Executive Officer and his experience as a seasoned executive with a 25-year track record managing companies bringing leading edge technologies to market and managing high growth businesses. Mr. Martin holds a B.S. degree in Electrical Engineering from Rutgers University.

Susan K. Barnes has served as our Senior Vice President and Chief Financial Officer since she joined us in February 2010. From 1997 to 2005, she was senior vice president, finance and chief financial officer of Intuitive Surgical, Inc. Ms. Barnes served on several boards of directors of public and private companies, including Northstar Neuroscience, Inc. from February 2006 to December 2009, where she also served as audit committee chair, and RAE Systems from September 2004 to May 2006, where she served as chair of the audit committee. Ms. Barnes holds an A.B. from Bryn Mawr College and an M.B.A. from the Wharton School, University of Pennsylvania.

Stephen Turner, PhD co-founded Pacific Biosciences in July 2000. Dr. Turner served as our President and Chief Executive Officer from the company's inception until March 2004, when he assumed his current role as our Chief Technology Officer. He served as a member of our board of directors from inception until July 2010. Prior to founding the company Dr. Turner contributed to the establishment of the Nanobiotechnology Center at Cornell University in January 2000. Dr. Turner holds a PhD in Physics from Cornell University. He received B.S. degrees in Applied Mathematics, Electrical Engineering and Physics from the University of Wisconsin, Madison.

Michael Phillips joined Pacific Biosciences in April 2005 as our Vice President of Product Development and since February 2010 has served as our Senior Vice President of Research and Development. Prior to joining us, Mr. Phillips held various management roles at Applied Biosystems spanning research and development, test, manufacturing operations and service support from 1986 to April 2005. His most recent position at Applied

Biosystems was Director of Research and Development. Mr. Phillips earned a B.S. degree in Bacteriology from the University of California, Davis.

Directors

William Ericson has been a member of our board of directors since 2004 and has been appointed our Lead Independent Director. Mr. Ericson is a Managing Partner at Mohr Davidow Ventures, or MDV, a venture capital firm. He joined Mohr Davidow Ventures in 2000 after more than a decade of working closely with entrepreneurs to start and build innovative businesses in the role of lawyer, board member, entrepreneur and investor, and has led MDV's focus on personalized medicine investing since 2003 . We believe that Mr. Ericson possesses specific attributes that qualify him to serve as a member of our board of directors, including his experience with multiple companies in the life sciences industry and his focus on companies with molecular diagnostic platforms that will enable the vision of personalized medicine. Mr. Ericson holds a B.S.F.S. from Georgetown University of Foreign Service and J.D. from Northwestern University School of Law.

Brook Byers has been a member of our board of directors since 2004. Mr. Byers has been a venture capital investor since 1972 and is a Managing Partner of Kleiner Perkins Caufield & Byers. He has been closely involved with more than 50 new technology-based ventures, many of which have already become public companies. He formed the first life sciences practice group in the venture capital profession in 1984 and led Kleiner Perkins Caufield & Byers to become a premier venture capital firm in the medical, healthcare and biotechnology sectors. Currently, Mr. Byers serves on the board of directors of Genomic Health, Inc. and seven private companies. We believe that Mr. Byers possesses specific attributes that qualify him to serve as a member of our board of directors, including his experience with growing multiple companies in the life sciences industry and his leadership in personalized medicine initiatives. Mr. Byers holds a B.S. degree in Electrical Engineering from the Georgia Institute of Technology and an M.B.A from Stanford University.

Michael Hunkapiller, PhD has been a member of our board of directors since 2005. Since November 2004, Dr. Hunkapiller has been a General Partner at Alloy Ventures, or Alloy, a venture capital firm. Prior to Alloy, Dr. Hunkapiller spent 21 years at Applied Biosystems. At Applied Biosystems, he held various positions, most recently serving as president and general manager. We believe that Dr. Hunkapiller possesses specific attributes that qualify him to serve as a member of our board of directors, including his experience at Applied Biosystems, where he helped grow the company from a startup to a public company with almost $2 billion in annual revenue, leading groundbreaking innovations, including the development of the automated DNA sequencing systems used to sequence the human genome. He is member of the National Academy of Engineering. Dr. Hunkapiller holds a PhD in Chemical Biology from the California Institute of Technology and a B.S. in Chemistry from Oklahoma Baptist University.

Randy Livingston has been a member of our board of directors since 2009. He has served as Vice President for Business Affairs and Chief Financial Officer of Stanford University since March 2001. Before joining Stanford, Mr. Livingston served as the executive vice president, chief financial officer and a director of OpenTV Corp. from 1999 to 2001. Before joining OpenTV in 1999, Mr. Livingston served as a consultant and part-time chief financial officer for Silicon Valley technology companies with such diverse specialties as genomics, Internet commerce, medical devices, chemical synthesis and enterprise software. Previously, he was director of corporate development at Apple Computer and chief financial officer for Taligent, a 400-employee Apple-IBM-Hewlett-Packard joint venture system software company. Mr. Livingston currently serves as a director of Genomic Health, Inc. and eHealth, Inc. We believe that Mr. Livingston possesses specific attributes that qualify him to serve as a member of our board of directors, including his executive experience and his financial and accounting expertise with public companies. Mr. Livingston holds a B.S. in Mechanical Engineering and an M.B.A. from Stanford University.

Susan Siegel has been a member of our board of directors since 2006. Since March 2007 she has been a General Partner at Mohr Davidow Ventures, a venture capital firm, where she leads investments in life sciences, healthcare and personalized medicine. Prior to joining MDV, Ms. Siegel was at Affymetrix, Inc. from April 1998 to April 2006. Ms. Siegel served as Affymetrix's Senior Vice President of Sales and Marketing until 1999 when

she became President and in 2000 a member of the board of directors. We believe that Ms. Siegel possesses specific attributes that qualify her to serve as a member of our board of directors, including her experience of growing biotechnology companies for nearly 25 years by bringing key enabling technologies to the forefront of biomedical research and healthcare. Ms. Siegel holds a B.S. in Biology from the University of Puerto Rico and a M.S. in Biochemistry and Molecular Biology from Boston University Medical School.

David Singer has been a member of our board of directors since 2006. Since 2004 Mr. Singer has been a Limited Partner at Maverick Capital Ltd., a private investment firm, where he is responsible for the firm's private investments globally. Previously Mr. Singer was an entrepreneur, acting as the founding President and Chief Executive Officer of three healthcare companies, including Affymetrix, Inc. He currently serves on a number of private company boards and previously served on the board of directors of Affymetrix from 1993 to June 2008, Concept Therapeutics from 1998 to June 2008, and Oscient Pharmaceuticals from February 2004 to June 2006, and has served as the senior financial officer of two publicly traded companies. We believe that Mr. Singer possesses specific attributes that qualify him to serve as a member of our board of directors, including his executive experience and his financial and accounting experience with both public and private companies. Mr. Singer holds a B.A. from Yale University and an M.B.A. from Stanford University.

Board Composition

Our board of directors is currently composed of seven members. Six of our directors are independent within the meaning of the independent director guidelines of The NASDAQ Stock Market. Immediately prior to this offering, our board of directors will be divided into three staggered classes of directors. At each annual meeting of stockholders, a class of directors will be elected for a three-year term to succeed the same class whose terms are then expiring. The terms of the directors will expire upon the election and qualification of successor directors at the annual meeting of stockholders to be held during the years 2011 for the Class I directors, 2012 for the Class II directors and 2013 for the Class III directors.

- Our Class I directors will be Hugh Martin, Brook Byers and Susan Siegel.
- Our Class II directors will be Michael Hunkapiller and Randy Livingston.
- Our Class III directors will be William Ericson and David Singer.

Our amended and restated certificate of incorporation and bylaws provide that the number of our directors shall be fixed from time to time by a resolution of the majority of our board of directors. Each officer serves at the discretion of the board of directors and holds office until his successor is duly elected and qualified or until his or her earlier resignation or removal. There are no family relationships among any of our directors or executive officers.

The division of our board of directors into three classes with staggered three-year terms may delay or prevent a change of our management or a change of control. See “Description of Capital Stock — Anti-Takeover Effects of Delaware Law and Our Amended and Restated Certificate of Incorporation and Bylaws” for a discussion of other anti-takeover provisions found in our amended and restated certificate of incorporation and bylaws.

Director Independence

Upon the closing of this offering, our common stock will be listed on The NASDAQ Global Market. Under the rules of The NASDAQ Stock Market, independent directors must comprise a majority of a listed company’s board of directors within a specified period of the closing of its initial offering. In addition, the rules of The NASDAQ Stock Market require that, subject to specified exceptions, each member of a listed company’s audit, compensation and corporate governance and nominating committees be independent. Audit committee members must also satisfy the independence criteria set forth in Rule 10A-3 under the Securities Exchange Act of 1934, as amended. Under the rules of The NASDAQ Stock Market, a director will only qualify as an “independent director” if, in the opinion of that company’s board of directors, that person does not have a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

In order to be considered to be independent for purposes of Rule 10A-3, a member of an audit committee of a listed company may not, other than in his or her capacity as a member of the audit committee, the board of directors or any other board committee: (1) accept, directly or indirectly, any consulting, advisory or other compensatory fee from the listed company or any of its subsidiaries; or (2) be an affiliated person of the listed company or any of its subsidiaries.

In July 2010, our board of directors undertook a review of its composition, the composition of its committees and the independence of each director. Based upon information requested from and provided by each director concerning his or her background, employment and affiliations, including family relationships, our board of directors has determined that none of Messrs. Byers, Ericson, Livingston and Singer, Dr. Hunkapiller and Ms. Siegel, representing six of our seven directors, has a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and that each of these directors is "independent" as that term is defined under the rules of The NASDAQ Stock Market. Our board of directors also determined that Messrs. Byers, Livingston and Singer, who comprise our audit committee, Mr. Ericson, Dr. Hunkapiller and Ms. Siegel, who comprise our compensation committee, and Messrs. Byers and Singer and Ms. Siegel, who comprise our nominating and corporate governance committee, satisfy the independence standards for those committees established by applicable SEC rules and the rules of The NASDAQ Stock Market. In making this determination, our board of directors considered the relationships that each non-employee director has with our company and all other facts and circumstances our board of directors deemed relevant in determining their independence, including the beneficial ownership of our capital stock by each non-employee director.

Board Committees

Our board of directors has an audit committee, a compensation committee and a corporate governance and nominating committee, each of which has the composition and the responsibilities described below. The audit committee, compensation committee and corporate governance and nominating committee all operate under charters approved by our board of directors, which charters will be available on our website upon the closing of this offering.

Audit Committee. Our audit committee oversees our corporate accounting and financial reporting process and assists the board of directors in monitoring our financial systems and our legal and regulatory compliance. Our audit committee is responsible for, among other things:

- selecting and hiring our independent auditors;
- appointing, compensating and overseeing the work of our independent auditors;
- approving engagements of the independent auditors to render any audit or permissible non-audit services;
- reviewing the qualifications and independence of the independent auditors;
- monitoring the rotation of partners of the independent auditors on our engagement team as required by law;
- reviewing our financial statements and reviewing our critical accounting policies and estimates;
- reviewing the adequacy and effectiveness of our internal controls over financial reporting; and
- reviewing and discussing with management and the independent auditors the results of our annual audit, our quarterly financial statements and our publicly filed reports.

The members of our audit committee are Messrs. Byers, Livingston and Singer. Mr. Livingston is our audit committee chairman and was appointed to our audit committee on September 1, 2009. Our board of directors has determined that each member of the audit committee meets the financial literacy requirements under the rules of The NASDAQ Stock Market and the SEC and each of Messrs. Livingston and Singer qualifies as our audit

committee financial experts as defined under SEC rules and regulations. Our board of directors has concluded that the composition of our audit committee meets the requirements for independence under the current requirements of The NASDAQ Stock Market and SEC rules and regulations. We believe that the functioning of our audit committee complies with the applicable requirements of The NASDAQ Stock Market and SEC rules and regulations.

Compensation Committee. Our compensation committee oversees our corporate compensation policies, plans and programs. The compensation committee is responsible for, among other things:

- reviewing and recommending policies, plans and programs relating to compensation and benefits of our directors, officers and employees;
- reviewing and recommending compensation and the corporate goals and objectives relevant to compensation of our Chief Executive Officer;
- reviewing and approving compensation and corporate goals and objectives relevant to compensation for executive officers other than our Chief Executive Officer;
- evaluating the performance of our executive officers in light of established goals and objectives;
- developing in consultation with our board of directors and periodically reviewing a succession plan for our Chief Executive Officer; and
- administering our equity compensations plans for our employees and directors.

The members of our compensation committee are Mr. Ericson, Dr. Hunkapiller and Ms. Siegel. Mr. Ericson is the chairman of our compensation committee. Our board of directors has determined that each member of our compensation committee is independent within the meaning of the independent director guidelines of The NASDAQ Stock Market. We believe that the composition of our compensation committee meets the requirements for independence under, and the functioning of our compensation committee complies with, any applicable requirements of The NASDAQ Stock Market and SEC rules and regulations.

Our compensation committee and our board of directors have approved a succession plan for our Chief Executive Officer.

Corporate Governance and Nominating Committee. Our corporate governance and nominating committee oversees and assists our board of directors in reviewing and recommending corporate governance policies and nominees for election to our board of directors. The corporate governance and nominating committee is responsible for, among other things:

- evaluating and making recommendations regarding the organization and governance of the board of directors and its committees;
- assessing the performance of members of the board of directors and making recommendations regarding committee and chair assignments;
- recommending desired qualifications for board of directors membership and conducting searches for potential members of the board of directors; and
- reviewing and making recommendations with regard to our corporate governance guidelines.

The members of our corporate governance and nominating committee are Messrs. Byers and Singer and Ms. Siegel. Mr. Singer is the chairman of our corporate governance and nominating committee. Our board of directors has determined that each member of our corporate governance and nominating committee is independent within the meaning of the independent director guidelines of The NASDAQ Stock Market.

Our board of directors may from time to time establish other committees.

Director Compensation

The following table sets forth information concerning compensation paid or accrued for services rendered to us by members of our board of directors for the fiscal year ended December 31, 2009. The table excludes Mr. Martin and Dr. Turner, who are named executive officers and did not receive director compensation in the fiscal year ended December 31, 2009.

Name	Fees earned or paid in cash ($)	Option awards ($)[1][3]	Total ($)
Brook Byers	—	—	—
William Ericson	—	—	—
Michael Hunkapiller, PhD	—	—	—
Susan Siegel	—	—	—
David Singer	—	—	—
Randy Livingston	17,500	105,600[2]	123,100

(1) Amounts shown represent the aggregate grant date fair value of the option awards computed in accordance with FASB Topic ASC 718. These amounts do not correspond to the actual value that will be recognized by the directors. The assumptions used in the valuation of these awards are consistent with the valuation methodologies specified in the notes to our financial statements.

(2) Mr. Livingston was granted an option on July 24, 2009 to purchase up to 80,000 shares of our common stock at a price per share of $2.82. The option vests beginning on July 24, 2009 and vests as to 1/4th of the shares subject to the option after one year of the option commencement date, and as to 1/48th of the shares subject to the option per month for the subsequent three years, subject to Mr. Livingston's continued service through each vesting date.

(3) The aggregate number of shares subject to stock awards and stock options outstanding at December 31, 2009 for each director is as follows:

Name	Aggregate Number (#) of Stock Awards Outstanding as of December 31, 2009
Brook Byers	—
William Ericson	—
Michael Hunkapiller, PhD	—
Susan Siegel	130,000
David Singer	—
Randy Livingston	80,000

Upon consummation of our initial public offering, non-employee directors will receive an annual retainer of $35,000. The chair of our audit committee will be paid an additional annual retainer of $20,000, and members of our audit committee other than the chair will be paid an additional annual retainer of $10,000. The chair of our compensation committee will be paid an additional annual retainer of $14,000, and members of our compensation committee other than the chair will be paid an additional annual retainer of $7,000. The chair of our corporate governance and nominating committee will be paid an additional annual retainer of $10,000, and members of our corporate governance and nominating committee other than the chair will be paid an additional annual retainer of $5,000. Our lead independent director will be paid an additional annual retainer of $15,000.

Our outside director equity compensation policy will become effective immediately upon the closing of this offering. The policy is intended to formalize the granting of equity compensation to our non-employee directors under the 2010 Outside Director Equity Incentive Plan. The policy provides for automatic and nondiscretionary grants of nonstatutory stock options subject to the terms and conditions of the policy and the 2010 Outside Director Equity Incentive Plan.

Under the policy, in connection with the pricing of this initial public offering, each non-employee director serving on our board of directors at the time of this offering will be automatically granted an option to purchase 50,000 shares of our common stock at the price per share at which such common stock is sold in this offering. Each non-employee director, who first becomes a non-employee director following the effective date of the first registration statement filed by us and declared effective with respect to any class of our securities, will be automatically granted a stock option to purchase 50,000 shares of our common stock on the date such person first becomes a non-employee director. A director who is an employee and who ceases to be an employee, but who remains a director will not receive such an initial award.

In addition, each non-employee director will be automatically granted an annual stock option to purchase 25,000 shares of our common stock on the date of each annual meeting beginning on the date of the first annual meeting that is held at least four months after such non-employee director received his or her initial award, provided such non-employee director continues to serve as a director through such date. Our audit committee chairperson will also be automatically granted an additional annual stock option to purchase 10,000 shares of our common stock on the date of each annual meeting beginning on the date of the first annual meeting that is held at least four months after such audit committee chairperson received his or her initial award.

The exercise price of all stock options granted pursuant to the policy will be equal to the fair market value of our common stock on the date of grant. The term of all stock options will be 10 years. Subject to the adjustment provisions of the 2010 Outside Director Equity Incentive Plan, initial awards, including such awards granted in connection with this offering, will vest over three years, with one third of the shares subject to the option vesting on the one year anniversary of the date of grant, and the remaining shares vesting monthly over the following two years, provided such non-employee director continues to serve as a director through each vesting date. Subject to the adjustment provisions of the 2010 Outside Director Equity Incentive Plan, the annual awards, including the additional annual awards to our audit committee chairperson, will vest monthly over one year, provided such non-employee director continues to serve as a director through each vesting date.

The administrator of the 2010 Outside Director Equity Incentive Plan in its discretion may change or otherwise revise the terms of awards granted under the outside director equity compensation policy.

In the event of a “change in control,” as defined in our 2010 Outside Director Equity Incentive Plan, with respect to awards granted under the 2010 Outside Director Equity Incentive Plan to non-employee directors, the participant non-employee director will fully vest in and have the right to exercise awards as to all shares underlying such awards and all restrictions on awards will lapse, and all performance goals or other vesting criteria will be deemed achieved at 100% of target level and all other terms and conditions met.

Code of Business Conduct and Ethics

We have adopted a code of business conduct that is applicable to all of our employees, officers and directors. In addition, we have adopted a code of ethics that is applicable to our chief executive and senior financial officers.

Compensation Committee Interlocks and Insider Participation

None of the members of our compensation committee is an officer or employee of our company. None of our executive officers currently serves, or in the past year has served, as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on our board of directors or compensation committee.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

The following discussion and analysis of compensation arrangements of our named executive officers for 2009 and 2010 should be read together with the compensation tables and related disclosures set forth below. This discussion contains forward-looking statements that are based on our current considerations, expectations and determinations regarding future compensation programs. The actual amount and form of compensation and the compensation programs that we adopt may differ materially from current or planned programs as summarized in this discussion.

Overview

Our compensation program is overseen and administered by the compensation committee of our board of directors, which currently is comprised of William Ericson, who serves as the Chairman, Sue Siegel and Michael Hunkapiller. Each of Mr. Ericson, Dr. Hunkapiller and Ms. Siegel qualify as (i) an "independent director" under the rules of The NASDAQ Stock Market and (ii) as an "outside director" under Section 162(m) of the Internal Revenue Code of 1986, as amended, or the Code.

The compensation committee's goal is to ensure that the total compensation paid to our executive officers is fair, reasonable and competitive. Our compensation program is designed to attract talented individuals to lead, manage and operate all aspects of our business and reward and retain those individuals who continue to meet our high expectations over time. Our executive compensation program combines short- and long-term components, cash and equity in amounts and proportions that we believe are most appropriate to incentivize and reward our executive officers for achieving our objectives. Our executive compensation program is also intended to make us competitive in our industry, where there is considerable competition for talented executives.

Objectives and Principles of Our Executive Compensation

The guiding principle in the development of our compensation strategy is to create and nurture a pay-for-performance culture, where exceptional company and individual performance contribution has the potential to be matched with appropriate financial rewards for the whole compensation package. The objectives of our compensation program are:

- to attract the best and brightest employees;
- to motivate successful execution of our corporate objectives;
- to ensure that broad-based compensation programs are aligned with company objectives that when achieved will lead to an increase in value for our stockholders; and
- to ensure retention of key staff.

Our current compensation programs reflect our startup origins in that they consist primarily of salary and stock options for our executive officers. We anticipate increasing the flexibility and elements of our compensation structure going forward, while striving to maintain transparency, simplicity and a clear pay-for-performance orientation. As our needs evolve, we intend to continue to evaluate our philosophy and compensation programs as circumstances require, and we will review executive compensation annually. We anticipate making new equity awards and adjustments to the components of our executive compensation program in connection with our yearly compensation review, which will be based, in part, upon the market analysis performed by the compensation consultant retained by our compensation committee, Radford.

Role of Compensation Consultant

Our compensation committee has the authority to engage the services of outside consultants to assist it in making decisions regarding the establishment of our compensation programs and philosophy. Our compensation committee retained Radford as its compensation consultant in 2010 to advise the compensation committee in

matters related to executive and equity compensation. Radford reviewed and compiled data from companies in our peer group, as discussed below, and presented them to our compensation committee to assist it in determining our executive compensation.

Role of Executive Officers in Compensation Decisions

For executive officers other than our Chief Executive Officer, our compensation committee has historically sought and considered input from our Chief Executive Officer regarding such executive officers' responsibilities, performance and compensation. Specifically, our Chief Executive Officer recommends base salary increases and equity award levels that are used throughout our compensation plans, and advises our compensation committee regarding the compensation program's ability to attract, retain and motivate executive talent. These recommendations reflect compensation levels that our Chief Executive Officer believes are qualitatively commensurate with an executive officer's individual qualifications, experience, responsibility level, functional role, knowledge, skills and individual performance, as well as our company's performance. Our compensation committee considers our Chief Executive Officer's recommendations, and approves the specific compensation for all the executive officers. Our compensation committee also relies on the experience of our directors affiliated with venture capital firms, which have representatives on the board of directors of numerous private companies, in determining and approving the specific compensation amounts.

Our compensation committee meets in executive session, and our Chief Executive Officer does not attend compensation committee discussions where recommendations are made regarding his compensation. Our compensation committee applies a similar pay-for-performance philosophy when setting compensation for our Chief Executive Officer. Our compensation committee discusses with the Chief Executive Officer the core metrics to drive the business forward, and how various forms of variable and incentive compensation can be applied at the executive level to achieve our goals. When setting the structure of compensation for Mr. Martin, our compensation committee discusses the balance between near-term and long-term performance in structuring Mr. Martin's compensation. Mr. Martin does not provide input into setting his level of pay, which is under the purview of the compensation committee and board of directors. He also abstains from voting in sessions of the board of directors where the board of directors acts on the compensation committee's recommendations regarding his compensation.

Peer Group

In May 2010, based on the recommendation of our executive compensation consultant, our compensation committee adopted a peer group of companies. We have chosen our peer group from companies in both information technology and life sciences because our business requires skill sets from both industries. We used the following criteria in selecting a peer group:

- companies with a similar industry focus;
- companies with revenue between $100,000,000 and $500,000,000;
- companies located near life sciences/technology hub markets which influence pay levels; and
- companies with headcount generally between 200 to 1,000 staff members.

We also examined the practices of the peer group with a focus on the compensation arrangements, plans and practices of the companies that had gone public in the past three years to ensure our practices are in line with current industry standards.

Our peer group for 2010 includes the following companies:

- 3PAR, Inc.
- Affymetrix, Inc.
- Aruba Networks, Inc.
- Bigband Networks, Inc.
- Caliper Life Sciences Inc.
- Cavium Networks, Inc.
- Celera Corporation
- Cepheid
- Dionex Corporation
- Entropic Communications, Inc.
- Fortinet, Inc.
- Genomic Health Inc.
- Genoptix, Inc.
- Gen-Probe Incorporated
- Illumina Inc.
- Infinera Corporation
- Intuitive Surgical
- Life Technologies Corporation
- Opnext, Inc.
- Riverbed Technology, Inc.
- Sequenom, Inc.

Radford provided our compensation committee with competitive market data obtained from compensation surveys and proxy data to review our compensation programs and identify trends in executive and equity compensation. Our compensation committee used the data provided by Radford to compare each element of total executive compensation within our peer group.

We believe that the practices of the companies in the surveys we reviewed provide us with appropriate compensation benchmarks because many of these companies have similar organizational structures and tend to compete with us for executives. We work within the general framework of this market-competitive philosophy to determine each component of an executive's compensation package based on numerous factors, including:

- the demand for the particular skill sets we need within the marketplace;
- performance goals and other expectations for the position and the individual;
- the individual's background and relevant expertise, including training and prior relevant work experience;
- the individual's role with us and the compensation paid to similar persons at the companies that participate in the surveys that we review; and
- comparison to other executives within our company having similar levels of expertise and experience.

Components of Our Executive Compensation Program

The components of our executive compensation program through 2009 have consisted primarily of base salaries, equity awards and broad-based benefits programs. We combine short-term compensation components, namely base salaries, and long-term compensation components, such as equity incentive awards, to provide an overall compensation structure that is designed to both attract and retain key executives as well as provide incentive for the achievement of short- and long-term corporate objectives. In addition, we introduced annual bonus plans for certain of our executives beginning in 2009, which provided for incentive cash bonuses based on the achievement of certain goals.

Base Salary. Our compensation strategy has been to secure the talent we need in a way that carefully manages our cash resources. The base salaries of our executive officers may in some instances be lower than market, but we offer competitive equity incentives which are discussed below. Factors considered in determining base salaries include internal comparisons, individual skills and experience, performance contributions and competitiveness of the marketplace. Salaries are reviewed on an annual basis, taking into account the factors described above.

Bonus. Due to our need to attract and retain our executive team as a private research and development company we had a quarterly bonus commitment to our Senior Vice President, Research & Development. In 2009 our compensation committee approved a cash bonus for our Chief Executive Officer that was based on the achievement of specific goals which are outlined in more detail below.

As we are now moving into the commercialization of our first product, we have initiated a cash incentive bonus program for the second half 2010. In an effort to conserve cash, for the first half of 2010, our Chief

Technology Officer had no bonus eligibility. For the first half of 2010, our Senior Vice President, Research & Development had a specified quarterly bonus award that was not tied to performance. For the second half of 2010, any bonuses received under our incentive bonus program will be tied to achievement of a critical goal necessary for our company to be successful in launching commercial sales of our PacBio *RS*. To foster teamwork, all of our executives have the same goal. The second half 2010 bonuses are structured as a percentage of base salary. The bonus target has been developed to allow our executives, other than our Chief Executive Officer, to earn total cash compensation at the mid-level for our peer group, if our company meets its objectives.

Equity Incentives. Our equity award program is the primary vehicle for offering long-term incentives to our key employees, including executive officers. Our equity-based incentives have historically been granted in the form of options to purchase shares of our common stock, including the grant of options after the commencement of employment. We have also awarded periodic equity grants, which are designed to ensure retention of key employees at all levels of our company. We believe that equity grants align the interests of our key employees with our stockholders, provide our key employees with incentives linked to long-term performance and create an ownership culture. In addition, the vesting feature of our equity grants contributes to employee retention because this feature provides an incentive to our key employees to remain in our employ during the vesting period.

In 2009 and 2010, we awarded focal equity grants to our named executive officers as discussed below. Focal grants are post-hire equity grants that are awarded to all employees based on performance and the need to encourage retention.

Benefits. We provide the following benefits to our named executive officers on the same basis provided to all of our employees:

- health, dental and vision insurance;
- life insurance and accidental death and dismemberment insurance;
- a 401(k) plan;
- long-term disability;
- medical and dependent care flexible spending account; and
- an employee assistance program.

Executive Officer Compensation

Base Salary

Chief Executive Officer. Mr. Martin's base salary for fiscal 2009 was $300,000. In order to help our company conserve cash, Mr. Martin's base salary will remain at $300,000 for 2010.

Other Executive Officers. Our compensation committee sought to achieve internal equity by setting salary levels at or near those of other executives with similar levels of responsibilities in our company, as well as external equity, by setting salary levels at or near the midpoint of executives in similar positions in the market surveys we reviewed.

Dr. Turner's base salary for fiscal 2009 was $275,000 and will remain the same in 2010. Mr. Phillips' base salary for fiscal 2009 was $220,000. His base salary was increased to $270,000 effective February 1, 2010 based on his contribution to our company's performance in 2009.

Ms. Barnes was appointed our Chief Financial Officer in February 2010 and our compensation committee set her base salary at $300,000.

Bonus

Chief Executive Officer. When Mr. Martin was hired in 2004, our board of directors agreed to pay Mr. Martin a $100,000 bonus subject to achievement of certain objectives. His bonus was initially payable semi-

monthly. After the first year of Mr. Martin's employment, our board of directors continued the practice of setting Mr. Martin's bonus target at $100,000 and in 2009, our compensation committee recommended and our board of directors approved paying Mr. Martin's bonus on a quarterly basis. The bonus payment for 2009 was determined 50% based on actual achievement of certain quarterly deliverables by Mr. Martin relating to products, finance, organization and personnel, and 50% based on our board of directors' assessment of Mr. Martin's progress towards certain major goals set by our board of directors relating to conserving cash, the product development timeline and developing and executing market strategies. In March 2010, our compensation committee determined that all the quarterly deliverables and two-thirds of the major goals were achieved. Thus, Mr. Martin was eligible for 83% of his bonus for fiscal 2009. Our compensation committee and board of directors have determined that a substantial portion of Mr. Martin's compensation should be structured as a longer-term incentive, so he will not be eligible for a cash bonus in 2010.

Other Executive Officers. In 2009, Dr. Turner was not eligible to receive any cash bonus payments. Mr. Phillips received a $40,000 bonus, which bonus was not subject to achievement of milestones.

For the second half of 2010, Dr. Turner is eligible to receive a cash bonus equal to 30% of his base salary, pro-rated for the portion of the year covered by our incentive bonus program and Mr. Phillips is eligible to receive $20,000 plus up to 40% of his base salary, pro-rated for the portion of the year covered by our incentive bonus program.

For 2010, Ms. Barnes is eligible to receive a bonus of $18,270 plus up to 40% of her base salary, pro-rated for the portion of the year covered by our incentive bonus program.

Equity Incentives

In 2009, we considered a number of factors in determining the amount of focal grants, if any, granted to our key employees, including:

- the number of shares subject to outstanding options, both vested and unvested, held by our key employees;
- the vesting schedule of the unvested stock options held by our key employees; and
- the periodic equity incentive award practices observed in the surveys we reviewed.

Chief Executive Officer. In March 2009, Mr. Martin was granted an option to purchase up to 1,100,000 shares of our common stock at an exercise price of $1.93 per share. This option grant was Mr. Martin's focal grant for 2008. The size of the grant was based on the compensation committee's review of data from surveys we considered, grants made to individuals at similar levels within our company, and correlated with the level of authority and responsibility of the named executive officer. Consistent with the retention purposes of focal awards, the option granted to Mr. Martin is scheduled to vest as to twenty percent of the shares subject to the option after one year, and the remaining shares will vest monthly over the following four years. In February 2010, Mr. Martin was granted an option to purchase up to 300,000 shares of our common stock at an exercise price of $4.25 per share. This option grant was Mr. Martin's focal grant for 2009. This option is scheduled to vest as to twenty percent of the shares subject to the option after one year, and the remaining shares will vest monthly over the following four years.

In August 2010, after a thorough review of market compensation standards, our compensation committee determined that in order to incent and align our chief executive officer's interest with those of our stockholders and in order to continue to preserve cash, we should focus a substantial portion of Mr. Martin's compensation on equity incentives that are aligned with our company's performance. We determined we should increase his equity ownership to a level that is commensurate with his peers through an additional stock option grant of 500,000 shares that will vest over five years. In addition, we adopted a longer-term incentive plan for Mr. Martin. Under this plan, effective on the date of this offering, Mr. Martin will be granted performance options to purchase up to 300,000 shares with an exercise price equal to the initial public offering price that he will earn based on our achievement of certain performance targets in 2011 and 2012. For Mr. Martin to earn the full number of

performance option shares, we must achieve certain revenue, gross margin and operating income targets that our compensation committee established and our board of directors approved. Mr. Martin will not earn any of the performance option shares until after the financial results of our 2011 fiscal year are complete. He is eligible to earn up to 50% of the performance options based on our financial performance in 2011 and up to 50% of the performance options based on our financial performance in 2012. The performance targets are based on our current operating plan for fiscal years 2011 and 2012, which is an internal, non-public financial plan approved by our board of directors. The performance targets include certain non-GAAP financial metrics that we believe are important in managing our business. The performance targets we have established are aggressive, but not unattainable, and are based on management's evaluation of expected demand for our product and the profitability goals we believe are necessary to ensure that we have a long-term, sustainable business model. The performance targets require a minimum threshold of achievement for Mr. Martin to vest in any of the performance options. We are not disclosing the performance targets because their disclosure will result in competitive harm.

Other Executive Officers. In connection with the hiring of Ms. Barnes in 2010, our board of directors granted her an option in February 2010 to purchase up to 750,000 shares of our common stock at an exercise price of $4.25 per share. Consistent with our new hire grants, this option is scheduled to vest as to twenty five percent of the shares subject to the option after one year, and the remaining shares will vest monthly over the following three years.

In reviewing Dr. Turner's contribution to our company for 2009, our compensation committee recommended and the board of directors approved an equity award as a long-term incentive for Dr. Turner. As a result, in February 2010, Dr. Turner was granted an option to purchase up to 100,000 shares of our common stock at an exercise price of $4.25 per share. This option grant was Dr. Turner's focal grant for 2009. The option granted to Dr. Turner is scheduled to vest as to twenty percent of the shares subject to the option after one year, and the remaining shares will vest monthly over the following four years.

In February 2010, Mr. Phillips was granted an option to purchase up to 175,000 shares of our common stock at an exercise price of $4.25 per share. This option grant was Mr. Phillips' focal grant for 2009. The option granted to Mr. Phillips is scheduled to vest as to twenty percent of the shares subject to the option after one year, and the remaining shares will vest monthly over the following four years. The grant was based on Mr. Phillips' 2009 contribution to our company's performance and to provide a long-term retention incentive.

Tax Considerations

We have not provided any executive officer or director with a gross-up or other reimbursement for tax amounts the executive might pay pursuant to Section 280G or Section 409A of the Internal Revenue Code of 1986, as amended, or the Code. Section 280G and related Code sections provide that executive officers, directors who hold significant stockholder interests and certain other service providers could be subject to significant additional taxes if they receive payments or benefits in connection with a change in control that exceeds certain limits, and that we or our successor could lose a deduction on the amounts subject to the additional tax. Section 409A also imposes additional significant taxes on the individual in the event that an executive officer, director or service provider receives "deferred compensation" that does not meet the requirements of 409A.

Because of the limitations of Code Section 162(m), we generally receive a federal income tax deduction for compensation paid to our chief executive officer and to certain other highly compensated officers only if the compensation is less than $1,000,000 per person during any fiscal year or is "performance-based" under Code Section 162(m). In addition to salary and bonus compensation, upon the exercise of stock options that are not treated as incentive stock options, the excess of the current market price over the option price, or option spread, is treated as compensation and accordingly, in any year, such exercise may cause an officer's total compensation to exceed $1,000,000. Option spread compensation from options that meet certain requirements will not be subject to the $1,000,000 cap on deductibility, and in the past we have granted options that we believe met those requirements. Additionally, under a special Code Section 162(m) exception, any compensation paid pursuant to a compensation plan in existence before the effective date of this public offering will not be subject to the $1,000,000 limitation until the earliest of: (i) the expiration of the compensation plan, (ii) a material modification

of the compensation plan (as determined under Code Section 162(m)), (iii) the issuance of all the employer stock and other compensation allocated under the compensation plan or (iv) the first meeting of stockholders at which directors are elected after the close of the third calendar year following the year in which the public offering occurs. While our compensation committee cannot predict how the deductibility limit may impact our compensation program in future years, our compensation committee intends to maintain an approach to executive compensation that strongly links pay to performance. In addition, while our compensation committee has not adopted a formal policy regarding tax deductibility of compensation paid to our named executive officers, our compensation committee intends to consider tax deducibility under Code Section 162(m) as a factor in compensation decisions.

Employment Agreements and Change of Control Arrangements

We have an obligation to make payments to Mr. Martin upon his termination by us without cause, his termination due to death or disability or Mr. Martin's resignation for good reason, which includes a substantial reduction in his rate of compensation, a reduction of his responsibilities such that he is not our Chief Executive Officer or the Chief Executive Officer of our successor or a more than 50 mile relocation of his principal place of employment.

In August 2010, our compensation committee recommended and our board of directors approved certain change of control provisions for our executive officers, including Mr. Martin. Upon the occurrence of involuntary termination within 12 months following a change of control, (i) 100% of any unvested equity will vest and (ii) the executive will receive salary continuation and benefits for 12 months.

The following table describes the potential payments and benefits to each of our named executive officers following a termination of employment without cause, due to death or a disability or for good reason on December 31, 2009, based on the severance and change of control provisions described above and based on equity grants outstanding as of December 31, 2009. Actual amounts payable to each executive listed below upon termination can only be determined definitively at the time of each executive's actual departure. In addition to the amounts shown in the table below, each executive would receive payments for amounts of base salary and vacation time accrued through the date of termination and payment for any reimbursable business expenses incurred.

Termination of Employment

Compensation and benefits	Termination without cause, due to death or disability or for good reason not in connection with a change of control	Involuntary termination after change of control
Hugh C. Martin		
Salary	$ 150,000	$ 300,000
Equity Acceleration	1,057,290	3,813,527(1)
Health Care Benefits	11,595	23,189
Total	$ 1,218,885	$4,136,716
Stephen Turner, PhD		
Salary	$ —	$ 275,000
Equity Acceleration	—	448,942
Health Care Benefits	—	23,189
Total	$ —	$ 747,131
Michael Phillips		
Salary	$ —	$ 220,000
Equity Acceleration	—	190,000
Health Care Benefits	—	23,189
Total	$ —	$ 433,189

(1) Since December 31, 2009, Mr. Martin has received a grant of an additional 800,000 options to purchase common stock and he will receive a performance equity grant of an additional 300,000 options to purchase common stock effective on the date of this offering, which are not included in this amount.

2009 Summary Compensation Table

The following table provides information regarding the compensation of our principal executive officer and each of our other executive officers, together referred to as our named executive officers, during our fiscal year ended December 31, 2009.

Summary Compensation Table

Name and principal position	Year	Salary ($)	Bonus ($)	Option awards ($)(1)	Total ($)
Hugh C. Martin President, Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)	2009	300,000	25,000	979,000	1,304,000
Stephen Turner, PhD Director and Chief Technology Officer	2009	275,000	—	—	275,000
Michael Phillips Senior Vice President Research and Development	2009	220,000	40,000(2)	—	260,000

(1) Amounts shown represent the aggregate grant date fair value of the option awards computed in accordance with FASB Topic ASC 718. These amounts do not correspond to the actual value that will be recognized by Mr. Martin. The assumptions used in the valuation of these awards are consistent with the valuation methodologies specified in the notes to our financial statements.

(2) Mr. Phillips was paid a contractual bonus of $40,000 in fiscal 2009. This bonus was not subject to achievement of milestones.

Susan K. Barnes joined us as Senior Vice President and Chief Financial Officer in February 2010. Her compensation for 2010 is: (i) base salary of $300,000 and (ii) an option grant of 750,000 shares of our common stock vesting over four years. Ms. Barnes is eligible to receive a bonus of $18,270 plus up to 40% of her base salary, pro-rated for the portion of the year covered by our incentive plan.

Grants of Plan-Based Awards

The following table presents information concerning grants of plan-based awards to each of the named executive officers during the fiscal year ended December 31, 2009.

Grants of Plan-Based Awards

Name	Grant date	All Other option awards: number of securities underlying options (#)	Exercise or base price of option awards ($)	Grant date fair value of option awards ($)(1)
Hugh C. Martin	3/19/2009	1,100,000	1.93	979,000
Stephen Turner, PhD	—	—	—	—
Michael Phillips	—	—	—	—

(1) Amounts shown represent the aggregate grant date fair value of the option awards computed in accordance with FASB Topic ASC 718. These amounts do not correspond to the actual value that will be recognized by Mr. Martin. The assumptions used in the valuation of these awards are consistent with the valuation methodologies specified in the notes to our financial statements.

Outstanding Equity Awards at Fiscal Year-End

The following table presents certain information concerning equity awards held by the named executive officers at the end of the fiscal year ended December 31, 2009.

Outstanding Equity Awards at Fiscal Year-End

	Option Awards		
Name	**Number of securities underlying unexercised options (#) exercisable**	**Option exercise price ($)**	**Option expiration date**
Hugh C. Martin	300,000 (1)	0.35	09/08/2015
	664,250(1)	0.98	06/21/2017
	1,100,000(1)	1.93	03/19/2019
Stephen Turner, PhD	210,000 (1)	0.35	09/08/2015
	150,000(1)	0.98	06/21/2017
	150,000(1)	3.48	09/17/2018
Michael Phillips	63,325 (2)	0.35	09/08/2015
	75,000(1)	0.98	06/21/2017
	125,000(1)	3.48	09/17/2018

(1) Stock option vests at the rate of 1/5th of the total number of shares subject to the option after one year and 1/60th per month for the next four years.

(2) Stock option vests at the rate of 1/4th of the total number of shares subject to the option after one year and 1/48th per month for the next three years.

Option Exercises and Stock Vested at Fiscal Year-End

None of the named executive officers exercised stock options during 2009 and none of the named executive officers held stock awards in 2009.

Pension Benefits and Nonqualified Deferred Compensation

We do not provide a pension plan for our employees and none of our named executive officers participated in a nonqualified deferred compensation plan during the fiscal year ended December 31, 2009.

Employee Benefit Plans

2004 Equity Incentive Plan. Our board of directors adopted and our stockholders approved the 2004 Equity Incentive Plan, referred to as the 2004 Plan, in March 2004.

Authorized shares. Our 2004 Plan was terminated in August 2005 and accordingly, no shares are available for issuance under this plan. As of June 30, 2010, options to purchase up to 227,918 shares of our common stock at a weighted-average exercise price per share of $0.11 remained outstanding under this plan. In the event options are returned to this plan upon an optionee's termination, the options are canceled and will not be available for future issuance.

Plan administration. The 2004 Plan is administered by our board of directors which, at its discretion or as legally required, may delegate such administration to our compensation committee and/or one or more additional committees. Subject to the provisions of our 2004 Plan, the administrator has the power to determine the terms of awards, including the recipients, the number of shares subject to each award and other terms, which need not be identical. The administrator may construe and interpret the 2004 Plan and awards granted under it, establish,

amend and revoke rules and for administration of the 2004 Plan, and to amend awards granted under the 2004 Plan. The administrator may exercise such powers and may perform such acts as necessary or expedient to promote the best interests of our company and that are not in conflict with provisions of the 2004 Plan.

Stock Options. The 2004 Plan permitted the grant of incentive and/or nonstatutory stock options, provided that incentive stock options were only permitted to be granted to employees. The exercise price with respect to incentive stock options must equal at least the fair market value of our common stock on the date of grant and with respect to nonstatutory stock options, at least 85% of the fair market value of our common stock on the date of grant. The term of an option may not exceed 10 years. Provided, however, that with respect to a participant who owns more than 10% of the total combined voting power of all classes of our stock, or of certain of our parent or subsidiary corporations, special rules applied with respect to the exercise price and term of the award, including that incentive stock options may not have a term in excess of five years and must have an exercise price of at least 110% of the fair market value of our common stock on the date of grant. The purchase price of an option may be paid in cash or, at the discretion of our board of directors, in shares or other property acceptable to our board of directors. After the termination of service of an employee, director or consultant, the participant may exercise his or her option, to the extent vested as of such date of termination, within three months of termination or such longer or shorter period of time as stated in his or her option agreement, but not less than 30 days, unless such termination is for cause. Generally, if termination is due to death, or if death occurs within a specified period following termination, or disability, the option will remain exercisable for 18 or 12 months, respectively, or such longer or shorter period of time as stated in his or her option agreement, but not less than six months. In no event may an option be exercised later than the expiration of its term.

Stock Bonus Awards. The 2004 Plan permitted the grant of stock bonus awards in consideration for past services actually rendered. Our board of directors determined the vesting schedule, if any, of such awards. Upon termination of service of an employee, director or consultant, we may reacquire any or all of the shares subject to the award that have not vested as of the date of termination of service, subject to the terms of the 2004 Plan and applicable award agreement.

Restricted Stock. The 2004 Plan also permitted the grant of restricted stock. Restricted stock awards are grants of shares that are subject to various restrictions, including restrictions on transferability and forfeiture provisions. Shares of restricted stock will vest and the restrictions on such shares will lapse, in accordance with terms and conditions established by our board of directors. Such terms include, among other things, the purchase price of the awards, which may not be less than 85% of the fair market value of a share of our common stock on the date of grant or time of purchase, and vesting schedule. Upon termination of service of an employee, director or consultant, we may repurchase or otherwise reacquire any or all of the shares subject to the award that have not vested as of the date of termination. The specific terms will be set forth in an award agreement.

Transferability of Awards. Our 2004 Plan generally does not allow for the transfer of awards and only the recipient of an option or stock appreciation right may exercise such an award during his or her lifetime.

Certain Adjustments. In the event of certain changes in our capitalization, our board of directors will make adjustments to class, number and price of shares covered by each outstanding award. In the event of our proposed liquidation or dissolution, all options will terminate immediately prior to the consummation of such proposed transaction and we may repurchase shares subject to other awards.

Merger or Change in Control. Our 2004 Plan provides that in the event of corporate transaction, as defined under the 2004 Plan, each outstanding award will be assumed or substituted for an equivalent award. In the event that awards are not assumed or substituted for, then such awards held by participants whose service has not terminated will fully vest and all restrictions on such awards will lapse prior to the effective time of such transaction, as our board of directors determines. The award will then terminate upon such effective time of the transaction.

Amendment, Termination. Our board of directors may amend the 2004 Plan at any time and from time to time, provided that such amendment does not impair the rights under outstanding awards without the award holder's written consent. Our 2004 Plan was terminated in August 2005. No shares are available for grant under this plan, but awards outstanding under this plan continue to be governed by their existing terms.

2005 Stock Plan. Our board of directors adopted and our stockholders approved the 2005 Stock Plan, referred to as the 2005 Plan, in August 2005.

Authorized Shares. An aggregate of 23,306,169 shares of our common stock is reserved for issuance under this plan. The 2005 Plan provides for the grant of ISOs, NSOs and stock purchase rights. As of June 30, 2010, options to purchase 17,347,425 shares of our common stock at a weighted-average exercise price per share of $2.74 remained outstanding under this plan, and options to purchase 4,037,206 shares of our common stock remained available for future issuance pursuant to awards granted under this plan.

Plan Administration. Our board of directors or a committee thereof appointed by our board of directors, currently the compensation committee, has the authority to administer the 2005 Plan and the awards granted under it. Subject to the provisions of our 2005 Plan, the administrator has the power to determine the terms of awards, including the recipients, the number of shares subject to each award, the exercise price, if any, the fair market value of a share of our common stock, the vesting schedule applicable to the awards, together with any vesting acceleration, and the terms of the award agreement for use under the 2005 Plan. The administrator also has the authority, subject to the terms of the 2005 Plan, to amend existing options to reduce their exercise price, to institute an exchange program by which outstanding options may be surrendered in exchange for options of the same type, which may have lower exercise prices and different terms, options of a different type and/or cash, to prescribe rules and to construe and interpret the 2005 Plan and awards granted thereunder.

Stock Options. The administrator may grant incentive and/or nonstatutory stock options under our 2005 Plan provided that incentive stock options are only granted to employees. The exercise price with respect to incentive stock options must equal at least the fair market value of our common stock on the date of grant and with respect to nonstatutory stock options, at least 85% of the fair market value of our common stock on the date of grant. The term of an option may not exceed 10 years. Provided, however, that an incentive stock option held by a participant who owns more than 10% of the total combined voting power of all classes of our stock, or of certain of our parent or subsidiary corporations, may not have a term in excess of five years and must have an exercise price of at least 110% of the fair market value of our common stock on the date of grant. The administrator will determine the methods of payment of the exercise price of an option, which may include cash, shares or certain other property acceptable to the administrator. After the termination of service of an employee, director or consultant, the participant may exercise his or her option, to the extent vested as of such date of termination, within 30 days of termination or such longer period of time as stated in his or her option agreement. If termination is due to death or disability, the option will remain exercisable, to the extent vested as of such date of termination, for six months or such longer period of time as stated in his or her option agreement. In no event may an option be exercised later than the expiration of its term.

Restricted Stock. Restricted stock may be granted under our 2005 Plan. Restricted stock awards are grants of shares of our common stock that are subject to various restrictions, including restrictions on transferability and forfeiture provisions. Shares of restricted stock will vest and the restrictions on such shares will lapse, in accordance with terms and conditions established by the administrator. Recipients of restricted stock awards generally will have voting and dividend rights with respect to such shares upon grant without regard to vesting. Unless the administrator determines otherwise, shares of restricted stock are subject to a repurchase option in our favor that is exercisable within 90 days of termination of service for any reason, subject to the terms of the 2005 Plan and the award agreement.

Transferability of Awards. Unless the administrator provides otherwise, our 2005 Plan generally does not allow for the transfer of awards and only the recipient of an option or stock appreciation right may exercise such an award during his or her lifetime.

Certain Adjustments. In the event of certain changes in our capitalization, to prevent diminution or enlargement of the benefits or potential benefits available under the 2005 Plan, the administrator will adjust the number and class of shares that may be delivered under the 2005 Plan and/or the number, class and price of shares covered by each outstanding award. In the event of our proposed liquidation or dissolution, the administrator will notify participants as soon as practicable and all awards will terminate immediately prior to the consummation of such proposed transaction.

Merger or Change in Control. Our 2005 Plan provides that in the event of a merger or change in control, as defined under the 2005 Plan, each outstanding award will be assumed or substituted for an equivalent award. In the event that awards are not assumed or substituted for, then such awards will fully vest and such awards will become fully exercisable, if applicable, for a specified period prior to the transaction. The award will then terminate upon the expiration of the specified period of time.

Amendment, Termination. Our board of directors may amend the 2005 Plan at any time, provided that such amendment does not impair the rights under outstanding awards without the award holder's written consent. Following the closing of this offering, the 2005 Plan will be terminated and no further awards will be granted under the 2005 Plan. All outstanding awards will continue to be governed by their existing terms.

2010 Equity Incentive Plan. Our board of directors has adopted, and we expect our stockholders will approve, our 2010 Equity Incentive Plan, or the 2010 Plan, prior to the closing of this offering. Subject to stockholder approval, the 2010 Plan is effective upon its adoption by our board of directors, but is not expected to be used until after the closing of this offering. Our 2010 Plan provides for the grant of incentive stock options, within the meaning of Code Section 422, to our employees and any of our parent and subsidiary corporations' employees, and for the grant of nonstatutory stock options, stock appreciation rights, restricted stock, restricted stock units, performance units and performance shares to our employees, directors and consultants and our parent and subsidiary corporations' employees and consultants.

Authorized Shares. The maximum aggregate number of shares that may be issued under the 2010 Plan is 5,000,000 shares of our common stock, plus (i) any shares that as of the closing of this offering, have been reserved but not issued pursuant to any awards granted under our 2005 Plan and are not subject to any awards granted thereunder and (ii) any shares subject to stock options or similar awards granted under the 2005 Plan that expire or otherwise terminate without having been exercised in full and unvested shares issued pursuant to awards granted under the 2005 Plan that are forfeited to or repurchased by us, with the maximum number of shares to be added to the 2010 Plan pursuant to clauses (i) and (ii) above equal to 21,384,631 shares as of June 30, 2010. In addition, the number of shares available for issuance under the 2010 Plan will be annually increased on the first day of each of our fiscal years beginning with the 2012 fiscal year, by an amount equal to the least of:

- 10,000,000 shares;
- 5% of the outstanding shares of our common stock as of the last day of our immediately preceding fiscal year; or
- such other amount as our board of directors may determine.

Shares issued pursuant to awards under the 2010 Plan that we repurchase or that are forfeited, as well as shares used to pay the exercise price of an award or to satisfy the tax withholding obligations related to an award, will become available for future grant under the 2010 Plan. In addition, to the extent that an award is paid out in cash rather than shares, such cash payment will not reduce the number of shares available for issuance under the 2010 Plan.

Plan Administration. The 2010 Plan will be administered by our board of directors which, at its discretion or as legally required, may delegate such administration to our compensation committee and/or one or more additional committees. In the case of awards intended to qualify as "performance-based compensation" within the meaning of Code Section 162(m), the committee will consist of two or more "outside directors" within the meaning of Code Section 162(m).

Subject to the provisions of our 2010 Plan, the administrator has the power to determine the terms of awards, including the recipients, the exercise price, if any, the number of shares subject to each award, the fair market value of a share of our common stock, the vesting schedule applicable to the awards, together with any vesting acceleration, the form of consideration, if any, payable upon exercise of the award and the terms of the award agreement for use under the 2010 Plan. The administrator also has the authority, subject to the terms of the 2010 Plan, to amend existing awards to reduce or increase their exercise price, to allow participants the opportunity to transfer outstanding awards to a financial institution or other person or entity selected by the

administrator, to institute an exchange program by which outstanding awards may be surrendered in exchange for cash and/or awards of the same or different type that may have different exercise prices and terms, to prescribe rules and to construe and interpret the 2010 Plan and awards granted thereunder.

Stock Options. The administrator may grant incentive and/or nonstatutory stock options under our 2010 Plan provided that incentive stock options are only granted to employees. The exercise price of such options must equal at least the fair market value of our common stock on the date of grant. The term of an option may not exceed 10 years. Provided, however, that an incentive stock option held by a participant who owns more than 10% of the total combined voting power of all classes of our stock, or of certain of our parent or subsidiary corporations, may not have a term in excess of five years and must have an exercise price of at least 110% of the fair market value of our common stock on the date of grant. The administrator will determine the methods of payment of the exercise price of an option, which may include cash, shares or other property acceptable to the plan administrator. After the termination of service of an employee, director or consultant, the participant may exercise his or her option, to the extent vested as of such date of termination, for the period of time stated in his or her option agreement. In no event may an option be exercised later than the expiration of its term.

Stock Appreciation Rights. Stock appreciation rights may be granted under our 2010 Plan. Stock appreciation rights allow the recipient to receive the appreciation in the fair market value of our common stock between the exercise date and the date of grant. Subject to the provisions of our 2010 Plan, the administrator determines the terms of stock appreciation rights, including when such rights vest and become exercisable and whether to settle such awards in cash or with shares of our common stock, or a combination thereof, except that the per share exercise price for the shares to be issued pursuant to the exercise of a stock appreciation right will be no less than 100% of the fair market value per share on the date of grant. The term of a stock appreciation right may not exceed 10 years. Other specific terms will be set forth in an award agreement.

Restricted Stock. Restricted stock may be granted under our 2010 Plan. Restricted stock awards are grants of shares of our common stock that are subject to various restrictions, including restrictions on transferability and forfeiture provisions. Shares of restricted stock will vest and the restrictions on such shares will lapse, in accordance with terms and conditions established by the administrator. The administrator, in its sole discretion, may accelerate the time at which any restrictions will lapse or be removed. Recipients of restricted stock awards generally will have voting and dividend rights with respect to such shares upon grant without regard to vesting, unless the administrator provides otherwise. Shares of restricted stock that do not vest for any reason will be forfeited by the recipient and will revert to us. The specific terms will be set forth in an award agreement.

Restricted Stock Units. Restricted stock units may be granted under our 2010 Plan. Each restricted stock unit granted is a bookkeeping entry representing an amount equal to the fair market value of one share of our common stock. The administrator determines the terms and conditions of restricted stock units including the vesting criteria, which may include achievement of specified performance criteria or continued service to us, and the form and timing of payment. The administrator, in its sole discretion, may accelerate the time at which any restrictions will lapse or be removed. The administrator determines in its sole discretion whether an award will be settled in stock, cash or a combination of both. The specific terms will be set forth in an award agreement.

Performance Units and Performance Shares. Performance units and performance shares may be granted under our 2010 Plan. Performance units and performance shares are awards that will result in a payment to a participant only if performance goals established by the administrator are achieved or the awards otherwise vest. The administrator will establish performance goals in its discretion, which depending on the extent to which they are met, will determine the number and/or the value of performance units and performance shares to be paid out to participants. After the grant of a performance unit or performance share, the administrator, in its sole discretion, may reduce or waive any performance objectives or other vesting provisions for such performance units or performance shares. Performance units will have an initial dollar value established by the administrator prior to the date of grant. Performance shares will have an initial value equal to the fair market value of our common stock on the date of grant. The administrator, in its sole discretion, may pay earned performance units or performance shares in the form of cash, in shares or in some combination thereof. The specific terms will be set forth in an award agreement.

Transferability of Awards. Unless the administrator provides otherwise, our 2010 Plan generally does not allow for the transfer of awards and only the recipient of an option or stock appreciation right may exercise such an award during his or her lifetime.

Certain Adjustments. In the event of certain changes in our capitalization, to prevent diminution or enlargement of the benefits or potential benefits available under the 2010 Plan, the administrator will adjust the number and class of shares that may be delivered under the Plan and/or the number, class and price of shares covered by each outstanding award, and the numerical share limits set forth in the 2010 Plan. In the event of our proposed liquidation or dissolution, the administrator will notify participants as soon as practicable and all awards will terminate immediately prior to the consummation of such proposed transaction.

Merger or Change in Control. Our 2010 Plan provides that in the event of a merger or change in control, as defined under the 2010 Plan, each outstanding award will be treated as the administrator determines, except that if a successor corporation or its parent or subsidiary does not assume or substitute an equivalent award for any outstanding award, then such award will fully vest, all restrictions on such award will lapse, all performance goals or other vesting criteria applicable to such award will be deemed achieved at 100% of target levels and such award will become fully exercisable, if applicable, for a specified period prior to the transaction. The award will then terminate upon the expiration of the specified period of time. If the service of an outside director is terminated on or following a change of control, other than pursuant to a voluntary resignation, his or her awards will become fully vested and exercisable, and all performance goals or other vesting requirements will be deemed achieved at 100% of target levels.

Amendment, Termination. Our board of directors has the authority to amend, suspend or terminate the 2010 Plan provided such action does not impair the existing rights of any participant. Our 2010 Plan will automatically terminate in 2020, unless we terminate it sooner.

2010 Outside Director Equity Incentive Plan. Our board of directors has adopted, and we expect our stockholders will approve our 2010 Outside Director Equity Plan, or the Director Plan, prior to the closing of this offering. Subject to stockholder approval, the Director Plan is effective upon its adoption by our board of directors, but is not expected to be used until after the closing of this offering. Our Director Plan provides for the grant of nonstatutory stock options, stock appreciation rights, restricted stock, restricted stock units, performance units and performance shares.

Authorized Shares. The maximum aggregate number of shares that may be issued under the Director Plan is 1,000,000 shares of our common stock. In addition, the number of shares available for issuance under the Director Plan will be annually increased on the first day of each of our fiscal years beginning with the 2012 fiscal year, by an amount equal to the lesser of:

- 1% of the outstanding shares of our common stock as of the last day of our immediately preceding fiscal year; or
- such other amount as our board of directors may determine.

Shares issued pursuant to awards under the Director Plan that we repurchase or that are forfeited, as well as shares used to pay the exercise price of an award or to satisfy the tax withholding obligations related to an award, will become available for future grant under the Director Plan. In addition, to the extent that an award is paid out in cash rather than shares, such cash payment will not reduce the number of shares available for issuance under the Director Plan.

Plan Administration. The Director Plan will be administered by our board of directors which, at its discretion or as legally required, may delegate such administration to our compensation committee and/or one or more additional committees.

Subject to the provisions of our Director Plan, the administrator has the power to determine the terms of awards, including the outside directors to whom awards may be granted, the exercise price, if any, the number of shares subject to each award, the fair market value of a share of our common stock, the vesting schedule applicable to the awards, together with any vesting acceleration, the form of consideration, if any, payable upon

exercise of the award and the terms of the award agreement for use under the Director Plan. The administrator also has the authority, subject to the terms of the Director Plan, to amend existing awards to reduce or increase their exercise price, to allow participants the opportunity to transfer outstanding awards to a financial institution or other person or entity selected by the administrator, to institute an exchange program by which outstanding awards may be surrendered in exchange for cash and/or awards of the same or different type that may have different exercise prices and terms, to prescribe rules and to construe and interpret the Director Plan and awards granted thereunder.

Stock Options. The administrator may grant nonstatutory stock options under our 2010 Plan. The exercise price of such options must equal at least the fair market value of our common stock on the date of grant. The term of an option may not exceed 10 years. The administrator will determine the methods of payment of the exercise price of an option, which may include cash, shares or other property acceptable to the plan administrator. After the termination of service of an employee, director or consultant, the participant may exercise his or her option, to the extent vested as of such date of termination, for the period of time stated in his or her option agreement. In no event may an option be exercised later than the expiration of its term.

Stock Appreciation Rights. Stock appreciation rights may be granted under our 2010 Plan. Subject to the provisions of our 2010 Plan, the administrator determines the terms of stock appreciation rights, including when such rights vest and become exercisable and whether to settle such awards in cash or with shares of our common stock, or a combination thereof, except that the per share exercise price for the shares to be issued pursuant to the exercise of a stock appreciation right will be no less than 100% of the fair market value per share on the date of grant. The term of a stock appreciation right may not exceed 10 years. Other specific terms will be set forth in an award agreement.

Restricted Stock. Restricted stock may be granted under our 2010 Plan. Shares of restricted stock will vest and the restrictions on such shares will lapse, in accordance with terms and conditions established by the administrator. The administrator, in its sole discretion, may accelerate the time at which any restrictions will lapse or be removed. Recipients of restricted stock awards generally will have voting and dividend rights with respect to such shares upon grant without regard to vesting, unless the administrator provides otherwise. Shares of restricted stock that do not vest for any reason will be forfeited by the recipient and will revert to us. The specific terms will be set forth in an award agreement.

Restricted Stock Units. Restricted stock units may be granted under our 2010 Plan. The administrator determines the terms and conditions of restricted stock units including the vesting criteria, which may include achievement of specified performance criteria or continued service to us, and the form and timing of payment. The administrator, in its sole discretion, may accelerate the time at which any restrictions will lapse or be removed. The administrator determines in its sole discretion whether an award will be settled in stock, cash or a combination of both. The specific terms will be set forth in an award agreement.

Performance Units and Performance Shares. Performance units and performance shares may be granted under our 2010 Plan. The administrator will establish performance goals in its discretion, which depending on the extent to which they are met, will determine the number and/or the value of performance units and performance shares to be paid out to participants. After the grant of a performance unit or performance share, the administrator, in its sole discretion, may reduce or waive any performance objectives or other vesting provisions for such performance units or performance shares. Performance units will have an initial dollar value established by the administrator prior to the date of grant. Performance shares will have an initial value equal to the fair market value of our common stock on the date of grant. The administrator, in its sole discretion, may pay earned performance units or performance shares in the form of cash, in shares or in some combination thereof. The specific terms will be set forth in an award agreement.

Transferability of Awards. Unless the administrator provides otherwise, our Director Plan generally does not allow for the transfer of awards and only the recipient of an option or stock appreciation right may exercise such an award during his or her lifetime.

Certain Adjustments. In the event of certain changes in our capitalization, to prevent diminution or enlargement of the benefits or potential benefits available under the Director Plan, the administrator will adjust the number and class of shares that may be delivered under the Plan and/or the number, class and price of shares covered by each outstanding award, and the numerical share limits set forth in the 2010 Plan. In the event of our proposed liquidation or dissolution, the administrator will notify participants as soon as practicable and all awards will terminate immediately prior to the consummation of such proposed transaction.

Merger or Change in Control. Our Director Plan provides that in the event of a merger or change in control, as defined under the Director Plan, each outstanding award will be treated as the administrator determines. Provided, however, that in the event of a change in control, all of the participant's awards will fully vest and become exercisable and all performance goals or other vesting requirements will be deemed achieved at 100% of target levels. In addition, if an option or stock appreciation right is not assumed or substituted in the event of a change in control, the administrator will notify the participant that such award will be exercisable for a specified period prior to the transaction, and such award will terminate upon the expiration of such period.

Amendment, Termination. Our board of directors has the authority to amend, suspend or terminate the Director Plan provided such action does not impair the existing rights of any participant. Our Director Plan will automatically terminate in 2020, unless we terminate it sooner.

Automatic Director Grants. We have also adopted an automatic director grant policy, which provides for the automatic grant of nonstatutory stock options to our non-employee directors. Under the policy, each non-employee director, who first becomes a non-employee director following the effective date of the first registration statement filed by us and declared effective with respect to any class of our securities, will be automatically granted a stock option to purchase 50,000 shares of our common stock on the date such person first becomes a non-employee director. A director who is an employee and who ceases to be an employee, but who remains a director will not receive such an initial award. In addition, each non-employee director will be automatically granted an annual stock option to purchase 25,000 shares of our common stock on the date of each annual meeting beginning on the date of the first annual meeting that is held at least six months after such non-employee director received his or her initial award. In connection with the pricing of this initial public offering, each non-employee director serving on our board of directors at the time of this offering will be automatically granted an option to purchase 50,000 shares of our common stock at the price per share at which such common stock is sold in this offering.

2010 Employee Stock Purchase Plan. Concurrently with this offering, we are establishing our 2010 Employee Stock Purchase Plan, or the ESPP. Our board of directors has adopted, and we expect our stockholders to approve, the ESPP prior to the closing of this offering. Our executive officers and all of our other employees will be allowed to participate in our ESPP.

A total of 1,500,000 shares of our common stock will be made available for sale under our ESPP. In addition, our ESPP provides for annual increases in the number of shares available for issuance under the ESPP on the first day of each fiscal year beginning with the 2012 fiscal year, equal to the least of:

- 4,000,000 shares;
- 2% of the outstanding shares of our common stock as of the last day of our immediately preceding fiscal year; or
- such other amount as may be determined by the administrator.

Our board of directors or its committee has full and exclusive authority to interpret the terms of the ESPP and determine eligibility.

Our employees are eligible to participate if they are customarily employed by us or any participating subsidiary for at least 20 hours per week and more than five months in any calendar year. However, an employee may not be granted rights to purchase stock under our ESPP if such employee:

- immediately after the grant would own stock possessing 5% or more of the total combined voting power or value of all classes of our capital stock or
- holds rights to purchase stock under all of our employee stock purchase plans that would accrue at a rate that exceeds $25,000 worth of our stock for each calendar year.

Our ESPP is intended to qualify under Code Section 423, and provides for consecutive, overlapping 24-month offering periods. The offering periods generally start on the first trading day on or after March 1 and September 1 of each year, except for the first such offering period which will commence on the first trading day on or after the effective date of this offering and will end on the earlier of the first trading day on or after September 1, 2012, or 27 months from the beginning of the offering period. The second offering period under the ESPP will commence on the first trading day on or after September 1, 2011. Each offering period will generally consist of four purchase periods in which shares may be purchased on a participant's behalf. Each purchase period will be approximately six months and will begin after one exercise date and will end with the next exercise date approximately six months later, except that the first purchase period of an offering period will begin on the enrollment date of each offering period and end on the next exercise date. The administrator may, in its discretion, modify the terms of future offering periods and/or purchase periods.

Our ESPP permits participants to purchase common stock through payroll deductions of up to 20% of their eligible compensation, which includes a participant's base straight time gross earnings, commissions, payments for overtime and shift premium, but exclusive of payments for incentive compensation, bonuses and other similar compensation. A participant may purchase a maximum of 7,500 shares of common stock during each purchase period.

On the first trading day of each offering period, each participant automatically is granted an option to purchase shares of our common stock. The option expires at the end of the offering period or upon termination of employment, whichever is earlier, but is exercised at the end of each purchase period to the extent of the payroll deductions accumulated during such purchase period. The purchase price of the shares will be 85% of the lower of the fair market value of our common stock on the first trading day of the offering period or on the last day of the offering period. To the extent permitted by applicable laws or regulations, if the fair market value of the common stock on any exercise date in an offering period is lower than the fair market value of the common stock on the enrollment date of such offering period, then all participants in the offering period will be automatically withdrawn from the offering period immediately after the exercise of their option and automatically re-enrolled in the immediately following offering period. Participants may end their participation at any time during an offering period, and will be paid their accrued payroll deductions that have not yet been used to purchase shares of common stock. Participation ends automatically upon termination of employment with us.

A participant may not transfer rights granted under the ESPP other than by will, the laws of descent and distribution or as otherwise provided under the ESPP.

In the event of our merger or change in control, as defined under the ESPP, a successor corporation may assume or substitute each outstanding purchase right. If the successor corporation refuses to assume or substitute for the outstanding purchase rights, the offering period then in progress will be shortened, and a new exercise date will be set which will occur prior to the proposed merger or change in control. The administrator will notify each participant in writing that the exercise date has been changed and that the participant's option will be exercised automatically on the new exercise date unless the participant has already withdrawn from the offering period.

Our ESPP will automatically terminate in 2030, unless we terminate it sooner. In addition, our board of directors has the authority to amend, suspend or terminate our ESPP, except that, subject to certain exceptions described in the ESPP, no such action may adversely affect any outstanding rights to purchase stock under our ESPP.

401(k) Plan. We maintain a tax-qualified 401(k) retirement plan for all employees who satisfy certain eligibility requirements, including requirements relating to age and length of service. Under our 401(k) plan, employees may elect to defer any amount of their eligible compensation subject to applicable annual Code limits. We currently do not match any contributions made by our employees, including executives. We intend for the 401(k) plan to qualify under Code Sections 401(a) and 501(a) so that contributions by employees to the 401(k) plan, and income earned on those contributions, are not taxable to employees until withdrawn from the 401(k) plan.

Limitation on Liability and Indemnification Matters

Our amended and restated certificate of incorporation and bylaws that will become effective upon the closing of this offering contain provisions that limit the personal liability of our directors for monetary damages to the fullest extent permitted by Delaware law. Consequently, our directors will not be personally liable to us or our stockholders for monetary damages for any breach of fiduciary duties as directors, except liability for:

- any breach of the director's duty of loyalty to us or our stockholders;
- any act or omission not in good faith or that involves intentional misconduct or a knowing violation of law;
- unlawful payments of dividends or unlawful stock repurchases or redemptions as provided in Section 174 of the Delaware General Corporation Law; or
- any transaction from which the director derived an improper personal benefit.

Our amended and restated certificate of incorporation that will become effective upon the closing of this offering, provides that we indemnify our directors to the fullest extent permitted by Delaware law. In addition, our amended and restated bylaws, that will become effective upon the closing of this offering, provide that we indemnify our directors and officers to the fullest extent permitted by Delaware law. Our amended and restated bylaws that will become effective upon the closing of this offering also provide that we shall advance expenses incurred by a director or officer in advance of the final disposition of any action or proceeding, and permit us to secure insurance on behalf of any officer, director, employee or other agent for any liability arising out of his or her actions in that capacity, regardless of whether we would otherwise be permitted to indemnify him or her under the provisions of Delaware law. We have entered and expect to continue to enter into agreements to indemnify our directors, executive officers and other employees as determined by our board of directors. With certain exceptions, these agreements provide for indemnification for related expenses including, among others, attorneys' fees, judgments, fines and settlement amounts incurred by any of these individuals in any action or proceeding. We believe that these bylaw provisions and indemnification agreements are necessary to attract and retain qualified persons as directors and officers. We also maintain directors' and officers' liability insurance.

The limitation of liability and indemnification provisions in our amended and restated certificate of incorporation and bylaws, that will become effective upon the closing of this offering, may discourage stockholders from bringing a lawsuit against our directors for breach of their fiduciary duty of care. They may also reduce the likelihood of derivative litigation against our directors and officers, even though an action, if successful, might benefit us and other stockholders. Further, a stockholder's investment may be adversely affected to the extent that we pay the costs of settlement and damage awards against directors and officers. At present, there is no pending litigation or proceeding involving any of our directors, officers or employees for which indemnification is sought, and we are not aware of any threatened litigation that may result in claims for indemnification.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

In addition to the director and executive compensation arrangements discussed above in "Management," we have been a party to the following transactions since January 1, 2007, in which the amount involved exceeded or will exceed $120,000, and in which any director, executive officer or holder of more than 5% of any class of our voting stock, or any member of the immediate family of or entities affiliated with any of them, had or will have a material interest.

Sales of Series E Convertible Preferred Stock

Between July 2008 and July 2009, we issued and sold an aggregate of 26,866,790 shares of our Series E convertible preferred stock at a per share price of $7.00, for aggregate consideration of approximately $188 million. We believe that the terms obtained and consideration received in connection with the Series E financing are comparable to terms available and the amounts we would have received in an arm's-length transaction.

The table below summarizes purchases of shares of our Series E convertible preferred stock by our directors, executive officers, holders of more than 5% of any class of our voting securities, or any member of the immediate family of or any entities affiliated with any of the foregoing persons. In connection with these sales, we granted the purchasers certain registration rights with respect to their securities. See "Description of Capital Stock — Registration Rights." Each outstanding share of our convertible preferred stock will be converted automatically into one share of our common stock upon the closing of this offering.

Purchasers	Shares of Series E convertible preferred stock	Aggregate purchase price
Entities affiliated with Mohr Davidow Ventures(1)	1,571,429	$ 11,000,003
KPCB Holdings, Inc.(2)	1,142,858	8,000,006
Entities affiliated with Maverick Capital Ltd(3)	2,297,996	16,085,972
Entities affiliated with Alloy Ventures(4)	1,504,751	10,533,257
Blackstone Tenex L.P.	2,857,190	20,000,330
Entities affiliated with Deerfield Partners(5)	3,466,488	24,265,416
AllianceBernstein Venture Fund I, L.P.	1,021,430	7,150,010
Intel Capital Corporation	3,178,275	22,247,925
The Wellcome Trust Limited, trustee of The Wellcome Trust	2,857,143	20,000,001
Total	19,897,560	$139,282,920

(1) Consists of 1,571,429 shares held by MDV VII, L.P. as nominee for MDV VII, L.P., MDV VII Leaders' Fund, L.P., MDV ENF VII(A), L.P. and MDV ENF VII(B), L.P. William Ericson, an affiliate of MDV VII, L.P., is a member of our board of directors. Susan Siegel is a general partner of MDV, but is not an affiliate of MDV VII, L.P.

(2) Brook Byers, an affiliate of KPCB Holdings, Inc., is a member of our board of directors.

(3) Consists of 1,039,844 shares held by Maverick Fund Private Investments, Ltd., 706,035 shares held by Maverick II Private Investments, Ltd., 374,722 shares held by Maverick USA Private Investments, LLC and 177,395 shares held by Maverick Fund II, Ltd. David Singer, an affiliate of Maverick Capital Ltd., is a member of our board of directors.

(4) Consists of 752,375 shares held by Alloy Ventures 2005, L.P., 732,596 shares held by Alloy Ventures 2002, L.P. and 19,780 shares held by Alloy Partners 2002, L.P. Michael Hunkapiller, an affiliate of Alloy Ventures, is a member of our board of directors.

(5) Consists of 2,138,823 shares held by Deerfield Private Design International, L.P. and 1,327,665 shares held by Deerfield Private Design Fund, L.P.

Sales of Series F Convertible Preferred Stock

During June 2010 and July 2010, we issued and sold an aggregate of 14,265,782 shares of our Series F convertible preferred stock at a per share price of $7.63, for aggregate consideration of approximately $109 million. We believe that the terms obtained and consideration received in connection with the Series F financing are comparable to terms available and the amounts we would have received in an arm's-length transaction.

The table below summarizes purchases of shares of our Series F convertible preferred stock by our directors, executive officers, holders of more than 5% of any class of our voting securities, or any member of the immediate family of or any entities affiliated with any of the foregoing persons. In connection with these sales, we granted the purchasers certain registration rights with respect to their securities. See "Description of Capital Stock — Registration Rights." Each outstanding share of our convertible preferred stock will be converted automatically into one share of our common stock upon the closing of this offering.

Purchasers	Shares of Series F convertible preferred stock	Aggregate purchase price
Gen-Probe Incorporated	6,553,080	$50,000,000
Entities affiliated with Mohr Davidow Ventures(1)	524,246	$ 3,999,997
KPCB Holdings, Inc.(2)	524,246	$ 3,999,997
Entities affiliated with Maverick Capital Ltd(3)	997,563	$ 7,611,406
Entities affiliated with Alloy Ventures(4)	78,637	$ 600,000
Entities affiliated with Blackstone Cleantech Venture Partners L.P.(5)	1,965,924	$15,000,000
Entities affiliated with Deerfield Partners(6)	577,388	$ 4,405,470
Intel Capital Corporation	196,592	$ 1,499,997
The Wellcome Trust Limited, trustee of The Wellcome Trust	475,894	$ 3,631,071
Total	11,893,570	$90,747,398

(1) Consists of 524,246 shares held by MDV VII, L.P. as nominee for MDV VII, L.P., MDV VII Leaders' Fund, L.P., MDV ENF VII(A), L.P. and MDV ENF VII(B), L.P. William Ericson, an affiliate of MDV VII, L.P., is a member of our board of directors. Susan Siegel is a general partner of MDV, but is not an affiliate of MDV VII, L.P.

(2) Brook Byers, an affiliate of KPCB Holdings, Inc., is a member of our board of directors.

(3) Consists of 668,122 shares held by Maverick II Private Investments, Ltd. and 329,441 shares held by Maverick USA Private Investments, LLC. David Singer, an affiliate of Maverick Capital Ltd., is a member of our board of directors.

(4) Consists of 39,319 shares held by Alloy Ventures 2005, L.P., 38,284 shares held by Alloy Ventures 2002, L.P. and 1,034 shares held by Alloy Partners 2002, L.P. Michael Hunkapiller, an affiliate of Alloy Ventures, is a member of our board of directors.

(5) Consists of 13,363 shares held by Blackstone Family Cleantech Investment Partnership L.P., 126,546 shares held by Blackstone Family Cleantech Investment Partnership SMD L.P., 566,841 shares held by Blackstone Tenex L.P. and 1,259,174 shares held by Blackstone Cleantech Venture Partners L.P.

(6) Consists of 356,248 shares held by Deerfield Private Design International, L.P. and 221,140 shares held by Deerfield Private Design Fund, L.P.

Investor Rights Agreement

Certain holders of our convertible preferred stock are entitled to certain registration rights with respect to the common stock issued or issuable upon conversion of the convertible preferred stock. See "Description of Capital Stock — Registration Rights" for more information.

Transactions with Our Executive Officers and Directors and Entities Affiliated with Our Executive Officers and Directors

One of our directors, Randy Livingston, is the Vice President for Business Affairs and Chief Financial Officer of Stanford University. Stanford University ordered a limited production release version of our instrument. Our board of directors has reviewed and discussed this related party transaction and has determined that it is not a bar to Mr. Livingston's independent director status.

Employment of Related Persons

We employ Roger Martin as our Senior Director, Quality, who is the brother of Hugh Martin, our President, Chief Executive Officer and Chairman. Mr. Roger Martin became an employee in June 2009, and in this capacity Mr. Roger Martin's compensation totaled $107,342 in 2009. His current annual base salary is $191,475. On June 10, 2009, Mr. Roger Martin was granted an option to purchase 45,000 shares of our common stock at an exercise price per share of $2.82. Twenty-five percent of such options vested on June 2, 2010, and the remaining shares vest at a rate of 1/48th of the total number of shares subject to the option each month thereafter, subject to continued service with us. As of June 30, 2010, 11,250 shares subject to such option had vested. We believe that Mr. Roger Martin's compensation is comparable with compensation paid to other employees with similar levels of responsibility and years of experience.

Prior to his employment, we engaged Mr. Roger Martin as a contractor. In this capacity, Mr. Roger Martin's compensation totaled $33,240 in 2008 and $77,188 in 2009 before he became an employee. On March 12, 2008, Mr. Roger Martin was granted an option to purchase 3,000 shares of our common stock at an exercise price of $1.26 per share, which option vested monthly over 12 months. All shares subject to such option are vested. We believe that the compensation paid to Mr. Roger Martin was comparable with compensation paid to other consultants with similar levels of responsibility and years of experience.

We employ Kathryn Keho as our Senior Manager, Scientific Collaborations, who is the daughter of Dr. Michael Hunkapiller, a member of our board of directors. Ms. Keho became an employee in February 2009, and in this capacity Ms. Keho's compensation totaled $162,337 in 2009. Her current annual base salary is $174,500. On March 19, 2009, Ms. Keho was granted an option to purchase 40,000 shares of our common stock at an exercise price per share of $1.93. Twenty-five percent of such options vested on June 2, 2010, and the remaining shares vest at a rate of 1/48th of the total number of shares subject to the option each month thereafter, subject to continued service with us. On February 3, 2010, Ms. Keho was granted an option to purchase 10,000 shares of our common stock at an exercise price per share of $4.25. Twenty percent of such options vested on June 1, 2010, and the remaining shares vest at a rate of 1/60th of the total number of shares subject to the option each month thereafter, subject to continued service with us. As of June 30, 2010, 15,333 shares subject to such options had vested. We believe that Ms. Keho's compensation is comparable with compensation paid to other employees with similar levels of responsibility and years of experience.

Stock Option Awards

Certain stock option grants to our directors and executive officers and related option grant policies are described above in this prospectus under the caption "Management."

Employment Agreements

We have entered into agreements containing compensation, termination and change of control provisions, among others, with certain of our executive officers as described under the caption "Executive Compensation — Employment Agreements and Change of Control Arrangements" above.

Indemnification of Officers and Directors

We have also entered into indemnification agreements with each of our directors and executive officers. The indemnification agreements and our certificate of incorporation and bylaws require us to indemnify our directors and executive officers to the fullest extent permitted by Delaware law. See "Executive Compensation — Limitations on Liability and Indemnification Matters" above.

Policies and Procedures for Related Party Transactions

We have adopted a formal written policy that our executive officers, directors, nominees for election as directors, beneficial owners of more than 5% of any class of our common stock and any member of the immediate family of any of the foregoing persons, are not permitted to enter into a related party transaction with us without the prior consent of our audit committee, subject to the pre-approval exceptions described below. If advance approval is not feasible then the related party transaction will be considered at the audit committee's next regularly scheduled meeting. In approving or rejecting any such proposal, our audit committee is to consider the relevant facts and circumstances available and deemed relevant to our audit committee, including, but not limited to, whether the transaction is on terms no less favorable than terms generally available to an unaffiliated third party under the same or similar circumstances and the extent of the related party's interest in the transaction. Our board of directors has delegated to the chair of our audit committee the authority to pre-approve or ratify any request for us to enter into a transaction with a related party, in which the amount involved is less than $120,000 and where the chair is not the related party. Our audit committee has also reviewed certain types of related party transactions that it has deemed pre-approved even if the aggregate amount involved will exceed $120,000 including, employment of executive officers, director compensation, certain transactions with other organizations, transactions where all stockholders receive proportional benefits, transactions involving competitive bids, regulated transactions and certain banking-related services. All of the transactions described above were entered into prior to the adoption of this policy.

PRINCIPAL STOCKHOLDERS

The following table sets forth information regarding beneficial ownership of our common stock as of July 31, 2010 and as adjusted to reflect the shares of common stock to be issued and sold in the offering assuming no exercise of the underwriters' over-allotment option, by:

- each person or group of affiliated persons known by us to be the beneficial owner of more than 5% of our common stock;
- each of our named executive officers;
- each of our directors; and
- all executive officers and directors as a group.

We have determined beneficial ownership in accordance with SEC rules. The information does not necessarily indicate beneficial ownership for any other purpose. Under these rules, the number of shares of common stock deemed outstanding includes shares issuable upon exercise of options and warrants held by the respective person or group which may be exercised or converted within 60 days after July 31, 2010. For purposes of calculating each person's or group's percentage ownership, stock options and warrants exercisable within 60 days after July 31, 2010 are included for that person or group but not the stock options or warrants of any other person or group.

Applicable percentage ownership is based on 76,504,994 shares of common stock outstanding at July 31, 2010, assuming the automatic conversion of all outstanding shares of our convertible preferred stock on a one-for-one basis into 74,367,120 shares of common stock. For purposes of the table below, we have assumed that shares of common stock will be outstanding upon the closing of this offering, based upon an assumed initial public offering price of $ per share.

Unless otherwise indicated and subject to applicable community property laws, to our knowledge, each stockholder named in the following table possesses sole voting and investment power over the shares listed. Unless otherwise noted below, the address of each stockholder listed on the table is c/o Pacific Biosciences of California, Inc., 1380 Willow Road, Menlo Park, California 94025.

Name and address of beneficial owner	Shares beneficially owned prior to the offering		Shares beneficially owned after the offering	
	Shares	Percentage	Shares	Percentage
5% Stockholders:				
Entities affiliated with Mohr Davidow Ventures(1)	9,196,798	12.02%	9,196,798	
KPCB Holdings, Inc.(2)	7,393,311	9.66%	7,393,311	
Entities affiliated with Maverick Capital Ltd.(3)	6,986,673	9.13%	6,986,673	
Gen-Probe Incorporated(4)	6,553,080	8.57%	6,553,080	
Entities affiliated with Alloy Ventures(5)	5,274,502	6.89%	5,274,502	
Entities affiliated with The Blackstone Group(6)	4,823,114	6.30%	4,823,114	
Entities affiliated with Deerfield Partners(7)	4,043,876	5.29%	4,043,876	
Named executive officers and directors:				
Brook Byers(8)	7,393,311	9.66%	7,393,311	
William Ericson(9)	9,196,798	12.02%	9,196,798	
Michael Hunkapiller, PhD(10)	5,274,502	6.89%	5,274,502	
Susan Siegel(11)	130,000	*	130,000	
David Singer(12)	6,986,673	9.13%	6,986,673	
Randy Livingston(13)	80,000	*	80,000	
Hugh C. Martin(14)	3,200,052	4.08%	3,200,052	
Susan K. Barnes(15)	750,000	*	750,000	
Stephen Turner, PhD(16)	2,806,128	3.64%	2,806,128	
Michael Phillips(17)	714,950	*	714,950	
All directors and executive officers as a group (10 people)(18)	36,532,414	45.49%	36,532,414	

(*) Represents beneficial ownership of less than 1%.

(1) Includes (i) 8,637,833 shares held of record by MDV VII, L.P. as nominee for MDV VII, L.P., MDV VII Leaders' Fund, L.P., MDV ENF VII(A), L.P. and MDV ENF VII(B), L.P.; (ii) 403,714 shares held of record by MDV VII Leaders' Fund, L.P.; and (iii) 155,251 shares held by MDV ENF VII(A), L.P. and MDV ENF VII(B), L.P. The address of these entities is c/o Mohr Davidow Ventures, 3000 Sand Hill Road, Building 3, Suite 290, Menlo Park, CA 94025.

(2) Includes 7,393,311 shares held of record by funds affiliated with KPCB Holdings, Inc. The address of this entity is 2750 Sand Hill Road, Menlo Park, CA 94025.

(3) Includes (i) 2,913,600 shares held of record by Maverick II Private Investments, Ltd,; (ii) 2,600,866 shares held of record by Maverick Fund Private Investments, Ltd.; (iii) 1,294,812 shares held of record by Maverick USA Private Investments, LLC; and (iv) 177,395 shares held of record by Maverick Fund II, Ltd. The address of these entities is c/o Maverick Capital, 300 Crescent Court, 18th Floor, 150 Field Drive, Dallas, TX 75201.

(4) Includes 6,553,080 shares held of record by Gen-Probe Incorporated. The address of this entity is 10210 Genetic Center Drive, San Diego, CA 92121.

(5) Includes (i) 2,637,251 shares held of record by Alloy Ventures 2005, L.P.; (ii) 2,567,917 shares held of record by Alloy Ventures 2002, L.P.; and (iii) 69,334 shares held of record by Alloy Partners 2002, L.P. The address of these entities is c/o Alloy Ventures, 400 Hamilton Avenue, 4th Floor, Palo Alto, CA 94301.

(6) Includes (i) 2,857,190 shares held of record by Blackstone Tenex L.P. and (ii) 1,965,924 shares held by Blackstone Cleantech Venture Partners. The address of these entities is c/o The Blackstone Group, 345 Park Avenue, New York, NY 10154.

(7) Includes (i) 2,495,071 shares held of record by Deerfield Private Design International, L.P. and (ii) 1,548,805 shares held of record by Deerfield Private Design Fund, L.P. The address of these entities is c/o Deerfield Management Co., 780 Third Avenue, New York, NY 10017.

(8) Includes 7,393,311 shares held of record by funds affiliated with KPCB Holdings, Inc. where Mr. Byers is a Managing Partner. Mr. Byers disclaims beneficial ownership of any shares held of record by KPCB Holdings, Inc. except to the extent of his pecuniary interest therein.

(9) Includes 9,196,798 shares held of record by funds affiliated with Mohr Davidow Ventures where Mr. Ericson is a Managing Director. Mr. Ericson disclaims beneficial ownership of any shares held of record by funds affiliated with Mohr Davidow Ventures except to the extent of his pecuniary interest therein.

(10) Includes 5,274,502 shares held of record by funds affiliated with Alloy Ventures where Dr. Hunkapiller is a General Partner. Dr. Hunkapiller disclaims beneficial ownership of any shares held of record by funds affiliated with Alloy Ventures except to the extent of his pecuniary interest therein.

(11) Includes 130,000 shares issuable upon exercise of options exercisable within 60 days after July 31, 2010. Susan Siegel is not affiliated with any of funds affiliated with Mohr Davidow Ventures that have invested in us.

(12) Includes 6,986,673 shares held of record by funds affiliated with Maverick Capital Ltd. where Mr. Singer is a Limited Partner. Mr. Singer disclaims beneficial ownership of any shares held of record by funds affiliated with Maverick Capital Ltd. except to the extent of his pecuniary interest therein.

(13) Includes 80,000 shares issuable upon exercise of options exercisable within 60 days after July 31, 2010.

(14) Includes (i) 489,743 shares held of record by Mr. Martin, of which 218,758 are subject to repurchase by the company; (ii) 835,802 shares held of record by Hugh Martin Trust UAD 07/14/09; and (iii) 1,874,507 shares issuable upon exercise of options exercisable within 60 days after July 31, 2010.

(15) Includes (i) 94,116 shares held of record by Ms. Barnes, all of which are subject to repurchase by the Company and (ii) 655,884 shares issuable upon exercise of options exercisable within 60 days after July 31, 2010.

(16) Includes (i) 2,170,503 shares held of record by Stephen W. and Andrea P. Turner, Tenants by the Entirety; (ii) 15,625 shares held of record by Andrea Turner; and (iii) 620,000 shares issuable upon exercise of options exercisable within 60 days after July 31, 2010.

(17) Includes (i) 266,625 shares held of record by Mr. Phillips and (ii) 448,325 shares issuable upon exercise of options exercisable within 60 days after July 31, 2010.

(18) Includes 3,808,716 shares issuable upon exercise of options held by our current executive officers and directors exercisable within 60 days after July 31, 2010.

DESCRIPTION OF CAPITAL STOCK

General

The following is a summary of the rights of our common stock and preferred stock and of certain provisions of our amended and restated certificate of incorporation and bylaws, as they will be in effect upon the closing of this offering. For more detailed information, please see our amended and restated certificate of incorporation and bylaws, which are filed as exhibits to the registration statement of which this prospectus is part.

Immediately following the closing of this offering, our authorized capital stock will consist of 1,050,000,000 shares, all with a par value of $0.001 per share, of which:

- 1,000,000,000 shares are designated as common stock and
- 50,000,000 shares are designated as preferred stock.

As of June 30, 2010, we had outstanding 75,227,061 shares of common stock held of record by 197 stockholders, assuming the automatic conversion of all outstanding shares of our preferred stock on a one-for-one basis into 73,305,523 shares of common stock. Pursuant to the terms of our certificate of incorporation, our preferred stock will automatically convert into common stock effective upon the closing of this offering. In addition, as of June 30, 2010, 17,575,343 shares of our common stock were subject to outstanding options. For more information on our capitalization, see “Capitalization” above.

Common Stock

The holders of our common stock are entitled to one vote per share on all matters to be voted on by our stockholders. Subject to preferences that may be applicable to any outstanding shares of preferred stock, holders of common stock are entitled to receive ratably such dividends as may be declared by our board of directors out of funds legally available for that purpose. In the event of our liquidation, dissolution or winding up, the holders of common stock are entitled to share ratably in all assets remaining after the payment of liabilities, subject to the prior distribution rights of preferred stock then outstanding. Holders of common stock have no preemptive, conversion or subscription rights. There are no redemption or sinking fund provisions applicable to the common stock.

Preferred Stock

Upon the closing of this offering, all currently outstanding shares of preferred stock will convert into shares of our common stock on a one-for-one basis and there will be no shares of preferred stock outstanding.

Though we currently have no plans to issue any shares of preferred stock, upon the closing of this offering and the filing of our amended and restated certificate of incorporation, our board of directors will have the authority, without further action by our stockholders, to designate and issue up to 50,000,000 shares of preferred stock in one or more series. Our board of directors may also designate the rights, preferences and privileges of the holders of each such series of preferred stock, any or all of which may be greater than or senior to those granted to the holders of common stock. Though the actual effect of any such issuance on the rights of the holders of common stock will not be known until our board of directors determines the specific rights of the holders of preferred stock, the potential effects of such an issuance include:

- diluting the voting power of the holders of common stock;
- reducing the likelihood that holders of common stock will receive dividend payments;
- reducing the likelihood that holders of common stock will receive payments in the event of our liquidation, dissolution or winding up; and
- delaying, deterring or preventing a change-in-control or other corporate takeover.

Warrants

At June 30, 2010, we had warrants outstanding to purchase 50,569 shares of our common stock, assuming the automatic conversion of our preferred stock into common stock, at exercise prices ranging from $1.30 to $2.02 per share. Warrants to purchase 30,768 shares of common stock will terminate on November 16, 2011. Warrants to purchase 19,801 shares of common stock will terminate on January 21, 2013. Each warrant contains provisions for the adjustment of exercise price and the number of shares issuable upon exercise in the event of stock dividends, stock splits, reorganizations, and reclassifications, consolidations and the like. Each warrant holder was granted certain registration rights on the same terms as those held by preferred stockholders as described below.

Registration Rights

As of June 30, 2010, the holders of an aggregate of 67,080,613 shares of our common stock issuable upon conversion of outstanding preferred stock, are entitled to the following rights with respect to the registration of such shares for public resale under the Securities Act, pursuant to an investor rights agreement by and among us and certain of our stockholders. We refer to these shares collectively as registrable securities.

The registration of shares of common stock as a result of the following rights being exercised would enable the holders to trade these shares without restriction under the Securities Act when the applicable registration statement is declared effective. Ordinarily, we will be required to pay all expenses, other than underwriting discounts and commissions, related to any registration effected pursuant to the exercise of these registration rights.

The registration rights terminate upon the earlier of five years after the closing of this offering or, with respect to the registration rights of an individual holder, when the holder can sell all of such holder's registrable securities in any three-month period pursuant to Rule 144 of the Securities Act or another similar exemption.

Demand Registration Rights

If at any time after this offering the holders of at least 30% of the registrable securities then outstanding request in writing that we effect a registration that has a reasonably anticipated aggregate price to the public in excess of $10,000,000, we may be required to register their shares. At most, we are obligated to effect two registrations for the holders of registrable securities in response to these demand registration rights. Depending on certain conditions, however, we may defer such registration for up to 90 days. If the holders requesting registration intend to distribute their shares by means of an underwriting, the managing underwriter of such offering will have the right to limit the number of shares to be underwritten for reasons related to the marketing of the shares.

Piggyback Registration Rights

If at any time after this offering we propose to register any shares of our common stock under the Securities Act, the holders of registrable securities will be entitled to notice of the registration and to include their shares of registrable securities in the registration, subject to certain exceptions relating to employee benefit plans and mergers and acquisitions. If our proposed registration involves an underwriting, the managing underwriter of such offering will have the right to limit the number of shares to be underwritten, subject to certain restrictions, for reasons related to the marketing of the shares.

Form S-3 Registration Rights

If at any time after we become entitled under the Securities Act to register our shares on Form S-3 a holder of registrable securities requests in writing that we register their shares for public resale on Form S-3, we will be required to use our best efforts to effect such registration; provided, however, that if such registration would be seriously detrimental to us or our stockholders, we may defer the registration for up to 90 days. We are only obligated to effect up to two registrations on Form S-3 in any 12-month period.

Indemnification

We are obligated to indemnify the selling stockholders and any person who might be deemed to control them or any of their subsidiaries in the event of material misstatements or omissions in the registration statement or related violations of law attributable to us. Each selling stockholder is severally and not jointly, obligated to indemnify us, each underwriter, if any, each person who controls us or any underwriter within the meaning of Section 15 of the Securities Act, and each other selling stockholder in the event of material misstatements or omissions in the registration statement or company violation of the Securities Act attributable to such stockholder. The liability of such selling stockholder shall be limited to an amount equal to the net proceeds to each such selling stockholder.

Voting Rights

Under the provisions of our amended and restated certificate of incorporation to become effective upon the closing of this offering, holders of our common stock are entitled to one vote for each share of common stock held by such holder on any matter submitted to a vote at a meeting of stockholders.

Anti-takeover Effects of Delaware Law and Our Amended and Restated Certificate of Incorporation and Bylaws

Certain provisions of Delaware law and our amended and restated certificate of incorporation and bylaws that will become effective upon the closing of this offering contain provisions that could have the effect of delaying, deferring or discouraging another party from acquiring control of us. These provisions, which are summarized below, are expected to discourage certain types of coercive takeover practices and inadequate takeover bids. These provisions are also designed in part to encourage anyone seeking to acquire control of us to first negotiate with our board of directors. We believe that the advantages gained by protecting our ability to negotiate with any unsolicited and potentially unfriendly acquirer outweigh the disadvantages of discouraging such proposals, including those priced above the then-current market value of our common stock, because, among other reasons, the negotiation of such proposals could improve their terms.

Certificate of Incorporation and Bylaws

Our amended and restated certificate of incorporation and bylaws to become effective upon the closing of this offering include provisions that:

- authorize our board of directors to issue, without further action by the stockholders, up to 50,000,000 shares of undesignated preferred stock;
- require that any action to be taken by our stockholders be effected at a duly called annual or special meeting and not by written consent;
- specify that special meetings of our stockholders can be called only by our board of directors, the Chairman of the Board, the Chief Executive Officer or the President;
- establish an advance notice procedure for stockholder approvals to be brought before an annual meeting of our stockholders, including proposed nominations of persons for election to our board of directors;
- provide that directors may be removed only for cause;
- provide that vacancies on our board of directors may be filled only by a majority of directors then in office, even though less than a quorum; and
- establish that our board of directors is divided into three classes, Class I, Class II and Class III, with each class serving staggered terms.

Delaware Anti-Takeover Statute

We are subject to the provisions of Section 203 of the Delaware General Corporation Law regulating corporate takeovers. In general, Section 203 prohibits a publicly-held Delaware corporation from engaging, under certain circumstances, in a business combination with an interested stockholder for a period of three years following the date the person became an interested stockholder unless:

- prior to the date of the transaction, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;
- upon completion of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the voting stock outstanding, but not for determining the outstanding voting stock owned by the interested stockholder, (1) shares owned by persons who are directors and also officers, and (2) shares owned by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or
- at or subsequent to the date of the transaction, the business combination is approved by the board of directors of the corporation and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66 2/3% of the outstanding voting stock which is not owned by the interested stockholder.

Generally, a business combination includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder. An interested stockholder is a person who, together with affiliates and associates, owns or, within three years prior to the determination of interested stockholder status, did own 15% or more of a corporation's outstanding voting stock. We expect the existence of this provision to have an anti-takeover effect with respect to transactions our board of directors does not approve in advance. We also anticipate that Section 203 may discourage business combinations or other attempts that might result in a premium over the market price for the shares of common stock held by our stockholders.

The provisions of Delaware law and our amended and restated certificate of incorporation and bylaws to become effective upon the closing of this offering could have the effect of discouraging others from attempting hostile takeovers and, as a consequence, they may also inhibit temporary fluctuations in the market price of our common stock that often result from actual or rumored hostile takeover attempts. These provisions may also have the effect of preventing changes in our management. It is possible that these provisions could make it more difficult to accomplish transactions that stockholders may otherwise deem to be in their best interests.

Transfer Agent and Registrar

Upon the closing of this offering, the transfer agent and registrar for our common stock will be .

Listing

We intend to apply to list our common stock for quotation on the NASDAQ Global Market under the trading symbol "PACB."

SHARES ELIGIBLE FOR FUTURE SALE

Before this offering, there has not been a public market for shares of our common stock. Future sales of substantial amounts of shares of our common stock, including shares issued upon the exercise of outstanding options or warrants, in the public market after this offering, or the possibility of these sales occurring, could cause the prevailing market price for our common stock to fall or impair our ability to raise equity capital in the future.

Upon the closing of this offering, a total of shares of common stock will be outstanding, assuming that there are no exercises of options or warrants after June 30, 2010. Of these shares, all shares of common stock sold in this offering by us, plus any shares sold upon exercise of the underwriters' over-allotment option, will be freely tradable in the public market without restriction or further registration under the Securities Act, unless these shares are held by "affiliates," as that term is defined in Rule 144 under the Securities Act.

The remaining 75,227,061 shares of common stock will be "restricted securities," as that term is defined in Rule 144 under the Securities Act. These restricted securities are eligible for public sale only if they are registered under the Securities Act or if they qualify for an exemption from registration under Rules 144 or 701 under the Securities Act, which are summarized below.

Subject to the lock-up agreements described below and the provisions of Rules 144 and 701 under the Securities Act, these restricted securities will be available for sale in the public market as follows:

Date	Number of shares
On the date of this prospectus	0
Between 90 and 180 days after the date of this prospectus	0
At various times beginning more than 180 days after the date of this prospectus	75,227,061

In addition, of the 17,575,343 shares of our common stock that were subject to stock options outstanding as of June 30, 2010, options to purchase 6,789,833 shares of common stock were vested as of June 30, 2010 and will be eligible for sale 180 days following the effective date of this offering subject to lock-up agreements described below.

Lock-up Agreements

We and all of our directors and officers, as well as the other holders of substantially all shares of common stock outstanding immediately prior to this offering, have agreed that, without the prior written consent of J.P. Morgan Securities Inc. and Morgan Stanley & Co. Incorporated on behalf of the underwriters, we and they will not, during the period ending 180 days after the date of this prospectus:

- offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, any shares of our common stock or any securities convertible into or exercisable or exchangeable for shares of our common stock or publicly disclose the intention to make any such offer, sale, pledge or disposition; or
- enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of our common stock;

whether any transaction described above is to be settled by delivery of shares of our common stock or such other securities, in cash or otherwise. This agreement is subject to certain exceptions, and is also subject to extension for additional days, as set forth in "Underwriting."

In addition, certain of our stockholders are subject to restrictions in their respective option agreements and restricted stock agreements whereby they have agreed not to sell or otherwise dispose of any shares of our common stock for a period specified by the representative of the underwriters not to exceed 180 days from the

effective date of the registration statement, and to execute any agreement reflecting these provisions as may be requested by us or the managing underwriters. Certain of our holders of preferred stock and holders of outstanding warrants are also subject to restrictions in an investor rights agreement whereby they have agreed not to sell or otherwise transfer or dispose of any of our securities for a period of 180 days following the offering.

Rule 144

In general, under Rule 144 as currently in effect, once we have been subject to public company reporting requirements for at least 90 days, a person who is not deemed to have been one of our affiliates for purposes of the Securities Act at any time during 90 days preceding a sale and who has beneficially owned the shares proposed to be sold for at least six months, including the holding period of any prior owner other than our affiliates, is entitled to sell such shares without complying with the manner of sale, volume limitation or notice provisions of Rule 144, subject to compliance with the public information requirements of Rule 144. If such a person has beneficially owned the shares proposed to be sold for at least one year, including the holding period of any prior owner other than our affiliates, then such person is entitled to sell such shares without complying with any of the requirements of Rule 144.

In general, under Rule 144, as currently in effect, our affiliates or persons selling shares on behalf of our affiliates are entitled to sell upon expiration of the lock-up agreements described above, within any three-month period beginning 90 days after the date of this prospectus, a number of shares that does not exceed the greater of:

- 1% of the number of shares of common stock then outstanding, which will equal approximately shares immediately after this offering; or
- the average weekly trading volume of the common stock during the four calendar weeks preceding the filing of a notice on Form 144 with respect to such sale.

Sales under Rule 144 by our affiliates or persons selling shares on behalf of our affiliates are also subject to certain manner of sale provisions and notice requirements and to the availability of current public information about us.

Rule 701

Rule 701 generally allows a stockholder who purchased shares of our common stock pursuant to a written compensatory plan or contract and who is not deemed to have been an affiliate of our company during the immediately preceding 90 days to sell these shares in reliance upon Rule 144, but without being required to comply with the public information, holding period, volume limitation or notice provisions of Rule 144. Rule 701 also permits affiliates of our company to sell their Rule 701 shares under Rule 144 without complying with the holding period requirements of Rule 144. All holders of Rule 701 shares, however, are required to wait until 90 days after the date of this prospectus before selling such shares pursuant to Rule 701.

As of June 30, 2010, 4,052,088 shares of our outstanding common stock had been issued in reliance on Rule 701 as a result of exercises of stock options and stock awards. These shares will be eligible for resale in reliance on this rule upon expiration of the lockup agreements described above.

Stock Options

We intend to file a registration statement on Form S-8 under the Securities Act covering all of the shares of our common stock subject to options outstanding or reserved for issuance under our stock plans and shares of our common stock issued upon the exercise of options by employees. We expect to file this registration statement as soon as practicable after this offering. In addition, we intend to file a registration statement on Form S-8 or such other form as may be required under the Securities Act for the resale of shares of our common stock issued upon the exercise of options that were not granted under Rule 701. We expect to file this registration statement as soon as permitted under the Securities Act. However, the shares registered on Form S-8 will be subject to volume limitations, manner of sale, notice and public information requirements of Rule 144 and will not be eligible for resale until expiration of the lock-up agreements to which they are subject.

Registration Rights

The holders of 67,131,182 shares of common stock and common stock issuable upon exercise of warrants or their transferees are entitled to various rights with respect to the registration of these shares under the Securities Act. Registration of these shares under the Securities Act would result in these shares becoming fully tradable without restriction under the Securities Act immediately upon the effectiveness of the registration, except for shares purchased by affiliates. See “Description of Capital Stock — Registration Rights” for additional information.

MATERIAL UNITED STATES FEDERAL INCOME TAX AND ESTATE TAX CONSEQUENCES TO NON-U.S. HOLDERS

The following is a summary of the material U.S. federal income tax and estate tax consequences of the ownership and disposition of our common stock to non-U.S. holders, but does not purport to be a complete analysis of all the potential tax considerations relating thereto. This summary is based upon the provisions of the Internal Revenue Code, Treasury regulations promulgated thereunder, administrative rulings and judicial decisions, all as of the date hereof. These authorities may be changed, possibly retroactively, so as to result in U.S. federal income or estate tax consequences different from those set forth below.

This summary does not address the tax considerations arising under the laws of any non-U.S., state or local jurisdiction or under U.S. federal gift and estate tax laws, except to the limited extent below. In addition, this discussion does not address tax considerations applicable to an investor's particular circumstances or to investors that may be subject to special tax rules, including, without limitation:

- banks, insurance companies or other financial institutions;
- persons subject to the alternative minimum tax;
- tax-exempt organizations;
- controlled foreign corporations, passive foreign investment companies and corporations that accumulate earnings to avoid U.S. federal income tax;
- dealers in securities or currencies;
- traders in securities that elect to use a mark-to-market method of accounting for their securities holdings;
- persons that own, or are deemed to own, more than five percent of our capital stock, except to the extent specifically set forth below;
- certain former citizens or long-term residents of the United States;
- persons who hold our common stock as a position in a hedging transaction, "straddle," "conversion transaction" or other risk reduction transaction;
- persons who do not hold our common stock as a capital asset within the meaning of Section 1221 of the Internal Revenue Code (generally, for investment purposes); or
- persons deemed to sell our common stock under the constructive sale provisions of the Internal Revenue Code.

In addition, if a partnership or entity classified as a partnership for U.S. federal income tax purposes holds our common stock, the tax treatment of a partner generally will depend on the status of the partner and upon the activities of the partnership. Accordingly, partnerships that hold our common stock, and partners in such partnerships, should consult their tax advisors.

YOU ARE URGED TO CONSULT YOUR TAX ADVISOR WITH RESPECT TO THE APPLICATION OF THE U.S. FEDERAL INCOME TAX LAWS TO YOUR PARTICULAR SITUATION, AS WELL AS ANY TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF OUR COMMON STOCK ARISING UNDER THE U.S. FEDERAL ESTATE OR GIFT TAX RULES OR UNDER THE LAWS OF ANY STATE, LOCAL, NON-U.S. OR OTHER TAXING JURISDICTION OR UNDER ANY APPLICABLE TAX TREATY.

Non-U.S. Holder Defined

For purposes of this discussion, you are a non-U.S. holder if you are any holder, other than a partnership or entity classified as a partnership for U.S. federal income tax purposes, that is not:

- an individual citizen or resident of the United States;

- a corporation or other entity taxable as a corporation created or organized in the United States or under the laws of the United States or any political subdivision thereof;
- an estate whose income is subject to U.S. federal income tax regardless of its source; or
- a trust (x) whose administration is subject to the primary supervision of a U.S. court and which has one or more U.S. persons who have the authority to control all substantial decisions of the trust or (y) which has made an election to be treated as a U.S. person.

Distributions

We have not made any distributions on our common stock and we do not plan to make any distributions for the foreseeable future. However, if we do make distributions on our common stock, those payments will constitute dividends for U.S. tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. To the extent those distributions exceed both our current and our accumulated earnings and profits, they will constitute a return of capital and will first reduce your basis in our common stock, but not below zero, and then will be treated as gain from the sale of stock.

Any dividend paid to you generally will be subject to U.S. withholding tax either at a rate of 30% of the gross amount of the dividend or such lower rate as may be specified by an applicable income tax treaty. In order to receive a reduced treaty rate, you must provide us with an IRS Form W-8BEN or other appropriate version of IRS Form W-8 certifying qualification for the reduced rate. A non-U.S. holder of shares of our common stock eligible for a reduced rate of U.S. withholding tax pursuant to an income tax treaty may obtain a refund of any excess amounts withheld by filing an appropriate claim for refund with the IRS. If the non-U.S. holder holds the stock through a financial institution or other agent acting on the non-U.S. holder's behalf, the non-U.S. holder will be required to provide appropriate documentation to the agent, which then will be required to provide certification to us or our paying agent, either directly or through other intermediaries.

Dividends received by you that are effectively connected with your conduct of a U.S. trade or business, and, if an income tax treaty applies, attributable to a permanent establishment maintained by you in the United States, are exempt from such withholding tax. In order to obtain this exemption, you must provide us with an IRS Form W-8ECI or other applicable IRS Form W-8 properly certifying such exemption. Such effectively connected dividends, although not subject to withholding tax, are generally taxed at the same graduated rates applicable to U.S. persons, net of certain deductions and credits. In addition, if you are a corporate non-U.S. holder, dividends you receive that are effectively connected with your conduct of a U.S. trade or business may also be subject to a branch profits tax at a rate of 30% or such lower rate as may be specified by an applicable income tax treaty.

Gain on Disposition of Common Stock

You generally will not be required to pay U.S. federal income tax on any gain realized upon the sale or other disposition of our common stock unless:

- the gain is effectively connected with your conduct of a U.S. trade or business, and, if an income tax treaty applies, the gain is attributable to a permanent establishment maintained by you in the United States;
- you are an individual who is present in the United States for a period or periods aggregating 183 days or more during the calendar year in which the sale or disposition occurs and certain other conditions are met; or
- our common stock constitutes a U.S. real property interest by reason of our status as a "United States real property holding corporation," or a USRPHC, for U.S. federal income tax purposes, at any time within the shorter of the five-year period preceding the disposition or your holding period for our common stock.

We believe that we are not currently and will not become a USRPHC. However, because the determination of whether we are a USRPHC depends on the fair market value of our U.S. real property relative to the fair market value of our other business assets, there can be no assurance that we will not become a USRPHC in the

future. Even if we become a USRPHC, however, as long as our common stock is regularly traded on an established securities market, such common stock will be treated as a U.S. real property interest only if you actually or constructively hold more than five percent of such regularly traded common stock at any time during the applicable period described above.

If you are a non-U.S. holder described in the first bullet above, you will generally be required to pay tax on the gain derived from the sale, net of certain deductions or credits, under regular graduated U.S. federal income tax rates, and corporate non-U.S. holders described in the first bullet above may be subject to branch profits tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty. If you are an individual non-U.S. holder described in the second bullet above, you will be required to pay a flat 30% tax on the gain derived from the sale, which tax may be offset by U.S. source capital losses, even though you are not considered a resident of the United States. You should consult any applicable income tax or other treaties that may provide for different rules.

Federal Estate Tax

Our common stock beneficially owned by an individual who is not a citizen or resident of the United States, as defined for U.S. federal estate tax purposes, at the time of death will generally be includable in the decedent's gross estate for U.S. federal estate tax purposes, unless an applicable estate tax treaty provides otherwise.

Backup Withholding and Information Reporting

Generally, we must report annually to the IRS the amount of dividends paid to you, your name and address, and the amount of tax withheld, if any. A similar report will be sent to you. Pursuant to applicable income tax treaties or other agreements, the IRS may make these reports available to tax authorities in your country of residence.

Payments of dividends or of proceeds on the disposition of stock made to you may be subject to additional information reporting and backup withholding at a current rate of 28% unless you establish an exemption, for example by properly certifying your non-U.S. status on a Form W-8BEN or another appropriate version of IRS Form W-8. Notwithstanding the foregoing, backup withholding and information reporting may apply if either we or our paying agent has actual knowledge, or reason to know, that you are a U.S. person.

Backup withholding is not an additional tax; rather, the U.S. income tax liability of persons subject to backup withholding will be reduced by the amount of tax withheld. If withholding results in an overpayment of taxes, a refund or credit may generally be obtained from the IRS, provided that the required information is furnished to the IRS in a timely manner.

Recently Enacted Legislation Affecting Taxation of Our Common Stock Held By or Through Foreign Entities

Recently enacted legislation generally will impose a U.S. federal withholding tax of 30% on dividends and the gross proceeds of a disposition of our common stock paid after December 31, 2012 to a "foreign financial institution," as specially defined under these rules, unless such institution enters into an agreement with the U.S. government to withhold on certain payments and to collect and provide to the U.S. tax authorities substantial information regarding U.S. account holders of such institution, which includes certain equity and debt holders of such institution, as well as certain account holders that are foreign entities with U.S. owners. The legislation also will generally impose a U.S. federal withholding tax of 30% on dividends and the gross proceeds of a disposition of our common stock paid after December 31, 2012 to a non-financial foreign entity unless such entity provides the withholding agent with a certification identifying the direct and indirect U.S. owners of the entity. Under certain circumstances, a non-U.S. holder might be eligible for refunds or credits of such taxes. Prospective investors are encouraged to consult with their own tax advisors regarding the possible implications of this legislation on their investment in our common stock.

THE PRECEDING DISCUSSION OF U.S. FEDERAL TAX CONSIDERATIONS IS FOR GENERAL INFORMATION ONLY. IT IS NOT TAX ADVICE. EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN TAX ADVISOR REGARDING THE PARTICULAR U.S. FEDERAL, STATE AND LOCAL AND NON-U.S. TAX CONSEQUENCES OF PURCHASING, HOLDING AND DISPOSING OF OUR COMMON STOCK, INCLUDING THE CONSEQUENCES OF ANY PROPOSED CHANGE IN APPLICABLE LAWS.

UNDERWRITING

We are offering the shares of common stock described in this prospectus through a number of underwriters. J.P. Morgan Securities Inc. and Morgan Stanley & Co. Incorporated are acting as joint book-running managers of the offering and as representatives of the underwriters. We have entered into an underwriting agreement with the underwriters. Subject to the terms and conditions of the underwriting agreement, we have agreed to sell to the underwriters, and each underwriter has severally agreed to purchase, at the public offering price less the underwriting discounts and commissions set forth on the cover page of this prospectus, the number of shares of common stock listed next to its name in the following table.

Name	Number of shares
J.P. Morgan Securities Inc.	
Morgan Stanley & Co. Incorporated	
Deutsche Bank Securities Inc.	
Piper Jaffray & Co.	
Total	

The underwriters are committed to purchase all the shares of common stock offered by us if they purchase any shares. The underwriting agreement also provides that if an underwriter defaults, the purchase commitments of non-defaulting underwriters may also be increased or the offering may be terminated.

The underwriters propose to offer the shares of common stock directly to the public at the public offering price set forth on the cover page of this prospectus and to certain dealers at that price less a concession not in excess of $ per share. After the initial public offering of the shares, the offering price and other selling terms may be changed by the underwriters. Sales of shares made outside of the United States may be made by affiliates of the underwriters. The representatives have advised us that the underwriters do not intend to confirm discretionary sales in excess of 5% of the shares of common stock offered in this offering.

The underwriters have an option to purchase up to additional shares of common stock from us to cover sales of shares by the underwriters which exceed the number of shares specified in the table above. The underwriters have 30 days from the date of this prospectus to exercise this over-allotment option. If any shares are purchased with this over-allotment option, the underwriters will purchase shares in approximately the same proportion as shown in the table above. If any additional shares of common stock are purchased, the underwriters will offer the additional shares on the same terms as those on which the shares are being offered.

The underwriting discounts and commissions are equal to the public offering price per share of common stock less the amount paid by the underwriters to us per share of common stock. The underwriting discounts and commissions are $ per share. The following table shows the per share and total underwriting discounts and commissions payable by us to the underwriters assuming both no exercise and full exercise of the underwriters' option to purchase additional shares.

	Without over-allotment exercise	With full over-allotment exercise
Per share	$	$
Total	$	$

We estimate that the total expenses of this offering, including registration, filing and listing fees, printing fees and legal and accounting expenses, but excluding the underwriting discounts and commissions, will be approximately $, all of which is payable by us. The underwriters have agreed to reimburse us for a portion of our out-of-pocket expenses in connection with this offering.

A prospectus in electronic format may be made available on the web sites maintained by one or more underwriters, or selling group members, if any, participating in the offering. The underwriters may agree to allocate a number of shares to underwriters and selling group members for sale to their online brokerage account holders. Internet distributions will be allocated by the representatives to underwriters and selling group members that may make Internet distributions on the same basis as other allocations.

We have agreed that we will not, subject to limited exceptions, (i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, or file with the SEC a registration statement under the Securities Act relating to, any shares of our common stock or securities convertible into or exercisable or exchangeable for any shares of our common stock, or (ii) enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequences associated with the ownership of any shares of common stock or any such other securities, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of common stock or such other securities, in case or otherwise, without the prior written consent of J.P. Morgan Securities Inc. and Morgan Stanley & Co. Incorporated for a period of 180 days after the date of this prospectus other than (A) the shares of our common stock to be sold in this offering, (B) any shares of our common stock issued upon the exercise of options granted under our stock plans, (C) the grant or issuance of employee, consultant or director stock options under our stock plans in existence at the time of this offering, (D) the issuance of securities in connection with our acquisition of the securities, business, property or other assets of another person or entity, or pursuant to any employee benefit plans assumed by us in connection with any such acquisition, provided that the aggregate number of shares of common stock that we may sell or issue or agree to sell or issue pursuant to this clause (D) shall not exceed 10% of the total number of shares of common stock issued and outstanding immediately prior to the completion of this offering or (E) the issuance of securities in connection with joint ventures, commercial relationships or other strategic transactions, provided that, prior to any issuance the Company shall cause each recipient of such securities to execute and deliver a lock-up agreement to J.P. Morgan Securities Inc. and Morgan Stanley & Co. Incorporated. Notwithstanding the foregoing, if (1) during the last 17 days of the 180-day restricted period, we issue an earnings release or material news or a material event relating to our company occurs; or (2) prior to the expiration of the 180-day restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 180-day period, the restrictions described above shall continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event.

Our directors and executive officers and substantially all of our equity holders have entered into lock-up agreements with the underwriters prior to the commencement of this offering pursuant to which each of these persons or entities, with limited exceptions, for a period commencing on the date of the lock-up agreement and ending 180 days after the date of this prospectus, may not, without the prior written consent of J.P. Morgan Securities Inc. and Morgan Stanley & Co. Incorporated, (1) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, any shares of our common stock or any securities convertible into or exercisable or exchangeable for shares of our common stock, including without limitation, common stock or such other securities which may be deemed to be beneficially owned by such directors, executive officers and equity holders in accordance with the rules and regulations of the SEC and securities which may be issued upon exercise of a stock option or warrant, or publicly disclose the intention to make any offer, sale, pledge, disposition or filing, or (2) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of the common stock or such other securities, whether any such transaction described in clause (1) or (2) above is to be settled by delivery of common stock or such other securities, in cash or otherwise, or (3) make any demand for or exercise any right with respect to the registration of any shares of our common stock or any security convertible into or exercisable or exchangeable for our common stock in each case other than (A) any shares of common stock to be sold by the director, officer or stockholder pursuant to the underwriting agreement; (B) shares of common stock or any other securities acquired in this offering or in open market transactions after the completion of this offering; (C) transfers of shares of common stock or any other securities (i) to an immediate family member or a trust formed for the direct or indirect benefit of the director, officer or stockholder or an immediate family member of the director, officer or stockholder or (ii) by bona fide gift, will or intestacy; (D) if the stockholder is a business entity, distributions of shares of common stock or any other securities to (i) members, partners, stockholders or other equity owners of the stockholder, (ii) wholly-owned subsidiaries or any affiliates of the stockholder, or (iii) any business entity that is managed and governed by the same management company as the stockholder or any business entity that is controlled by, under common control with, managed or advised by the same management company or registered

investment advisor (or an affiliate of such management company or registered investment advisor) as the stockholder; (E) if the stockholder is a trust, transfers of shares of common stock or any other securities to a trustor or beneficiary of the trust; provided that in the case of any transfer or distribution pursuant to clauses (C), (D) or (E), each transferee, donee or distributee shall execute and deliver to J.P. Morgan Securities Inc. and Morgan Stanley & Co. Incorporated a lock-up agreement; and provided, further, that in the case of any acquisition, transfer or distribution pursuant to clauses (B), (C), (D) or (E), no filing by any party (acquirer, donor, donee, transferor or transferee) under the Exchange Act, or other public announcement shall be required or shall be made voluntarily in connection with such acquisition, transfer or distribution (other than a filing on a Form 5 made after the expiration of the 180-day period referred to above); or (F) the establishment of a trading plan pursuant to Rule 10b5-1 under the Exchange Act for the transfer of shares of common stock or any other securities, provided that such plan does not provide for the transfer of common stock during the restricted period and no public announcement or filing under the Exchange Act regarding the establishment of such plan shall be required of or voluntarily made by or on behalf of us or the director, officer or stockholder. Notwithstanding the foregoing, if (1) during the last 17 days of the 180-day restricted period, we issue an earnings release or material news or a material event relating to our company occurs; or (2) prior to the expiration of the 180-day restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 180-day period, the restrictions described above shall continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act.

In connection with this offering, the underwriters may engage in stabilizing transactions, which involves making bids for, or purchasing and selling shares of, common stock in the open market for the purpose of preventing or retarding a decline in the market price of the common stock while this offering is in progress. These stabilizing transactions may include making short sales of the common stock, which involves the sale by the underwriters of a greater number of shares of common stock than they are required to purchase in this offering, and purchasing shares of common stock on the open market to cover positions created by short sales. Short sales may be “covered” shorts, which are short positions in an amount not greater than the underwriters’ over-allotment option referred to above, or may be “naked” shorts, which are short positions in excess of that amount. The underwriters may close out any covered short position either by exercising their over-allotment option, in whole or in part, or by purchasing shares in the open market. In making this determination, the underwriters will consider, among other things, the price of shares available for purchase in the open market compared to the price at which the underwriters may purchase shares through the over-allotment option. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market that could adversely affect investors who purchase in this offering. To the extent that the underwriters create a naked short position, they will purchase shares in the open market to cover the position.

The underwriters have advised us that, pursuant to Regulation M of the Securities Act, they may also engage in other activities that stabilize, maintain or otherwise affect the price of the common stock, including the imposition of penalty bids. This means that if the representatives of the underwriters purchase common stock in the open market in stabilizing transactions or to cover short sales, the representatives can require the underwriters that sold those shares as part of this offering to repay the underwriting discount received by them.

These activities may have the effect of raising or maintaining the market price of the common stock or preventing or retarding a decline in the market price of the common stock and, as a result, the price of the common stock may be higher than the price that otherwise might exist in the open market. If the underwriters commence these activities, they may discontinue them at any time. The underwriters may carry out these transactions on the NASDAQ Global Market, in the over-the-counter market or otherwise.

Other than in the United States, no action has been taken by us or the underwriters that would permit a public offering of the shares of common stock offered by this prospectus in any jurisdiction where action for that purpose is required. The shares of common stock offered by this prospectus may not be offered or sold, directly or indirectly, nor may this prospectus or any other offering material or advertisements in connection with the

offer and sale of any such shares of common stock be distributed or published in any jurisdiction, except under circumstances that will result in compliance with the applicable rules and regulations of that jurisdiction. Persons into whose possession this prospectus comes are advised to inform themselves about and to observe any restrictions relating to the offering and the distribution of this prospectus. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any shares of common stock offered by this prospectus in any jurisdiction in which such an offer or a solicitation is unlawful.

This document is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) to investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, referred to as the Order, or (iii) high net worth entities and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order, all such persons together being referred to as relevant persons. The shares of common stock are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such shares of common stock will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive, each referred to as a Relevant Member State, from and including the date, or Relevant Implementation Date, on which the European Union Prospectus Directive, or EU Prospectus Directive, is implemented in that Relevant Member State, an offer of shares of common stock described in this prospectus may not be made to the public in that Relevant Member State prior to the publication of a prospectus in relation to the shares which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the EU Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of shares to the public in that Relevant Member State at any time:

- to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- to fewer than 100 natural or legal persons, other than qualified investors as defined in the EU Prospectus Directive, subject to obtaining the prior consent of the book-running managers for any such offer; or
- in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

Prior to this offering, there has been no public market for our common stock. The initial public offering price was determined by negotiations among us and the representatives of the underwriters. In determining the initial public offering price of our common stock, we and the representatives of the underwriters considered a number of factors, including:

- our future prospects and those of our industry in general; and
- the price earnings ratios, price sales ratios, market prices of securities and certain financial and operating information of companies engaged in activities similar to ours.

Neither we nor the underwriters can assure investors that an active trading market will develop for our common stock, or that the shares of common stock will trade in the public market at or above the initial public offering price.

For the purposes of this provision, the expression an “offer of securities to the public” in relation to any securities in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the securities to be offered so as to enable an investor to decide to purchase or subscribe for the securities, as the same may be varied in that Member State by any measure

implementing the EU Prospectus Directive in that Member State and the expression EU Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Certain of the underwriters and their affiliates have provided in the past to us and our affiliates and may provide from time to time in the future certain commercial banking, financial advisory, investment banking and other services for us and such affiliates in the ordinary course of their business, for which they have received or will receive customary fees and commissions. In addition, from time to time, certain of the underwriters and their affiliates may effect transactions for their own account or the account of customers, and hold on behalf of themselves or their customers, long or short positions in our debt or equity securities or loans, and may do so in the future.

LEGAL MATTERS

The validity of the shares of common stock offered hereby will be passed upon for us by Wilson Sonsini Goodrich & Rosati, Professional Corporation, Palo Alto, California. Certain legal matters in connection with this offering will be passed upon for the underwriters by Davis Polk & Wardwell LLP, Menlo Park, California. Members of Wilson Sonsini Goodrich & Rosati, Professional Corporation and investment funds associated with that firm hold 31,607 shares of our preferred stock.

EXPERTS

The financial statements as of December 31, 2008 and 2009 and for each of the three years in the period ended December 31, 2009 included in this prospectus have been so included in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form S-1 under the Securities Act with respect to the shares of common stock we are offering. The registration statement, including the attached exhibits and schedules, contains additional relevant information about us and our common stock. This prospectus does not contain all of the information set forth in the registration statement and the exhibits and schedules thereto. The rules and regulations of the SEC allow us to omit from this prospectus certain information included in the registration statement.

For further information about us and our common stock, you may inspect a copy of the registration statement and the exhibits and schedules to the registration statement without charge at the offices of the SEC at 100 F Street, N.E., Washington, D.C. 20549. You may obtain copies of all or any part of the registration statement from the Public Reference Section of the SEC, 100 F Street, N.E., Washington, D.C. 20549 upon the payment of the prescribed fees.

You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website at www.sec.gov that contains reports, proxy and information statements and other information regarding registrants like us that file electronically with the SEC. You can also inspect our registration statement on this website.

Upon the closing of this offering, we will become subject to the reporting and information requirements of the Exchange Act, and we will file reports, proxy statements and other information with the SEC.

Table of Contents

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
(A development stage enterprise)
Index to Financial Statements

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Pacific Biosciences of California, Inc.
(A development stage enterprise)

In our opinion, the accompanying balance sheets and the related statements of operations, of convertible preferred stock and stockholders' equity (deficit), and of cash flows present fairly, in all material respects, the financial position of Pacific Biosciences of California, Inc. at December 31, 2008 and December 31, 2009, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2009 and, cumulatively, for the period from July 14, 2000 (date of inception) to December 31, 2009 (not separately presented) in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
San Jose, California
August 16, 2010

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
(A development stage enterprise)
Balance Sheets

(in thousands except share and per share amounts)	December 31, 2008	December 31, 2009	June 30, 2010 (unaudited)	Pro Forma Stockholders' Equity at June 30, 2010 (unaudited)
Assets				
Current assets				
Cash and cash equivalents	$ 78,462	$ 89,232	$ 90,144	
Investments	27,589	3,503	48,612	
Prepaid expenses and other current assets	875	1,010	1,251	
Total current assets	106,926	93,745	140,007	
Property and equipment, net	6,027	7,142	12,669	
Other long-term assets	154	211	221	
Total assets	$ 113,107	$ 101,098	$ 152,897	
Liabilities, Convertible Preferred Stock and Stockholders' Equity (Deficit)				
Current liabilities				
Accounts payable	$ 1,845	$ 5,778	$ 7,613	
Accrued expenses and other current liabilities	1,557	2,641	8,437	
Current portion of facility financing obligation	—	—	61	
Notes payable	1,300	—	—	
Total current liabilities	4,702	8,419	16,111	
Lease incentives and other long-term liabilities	567	475	2,163	
Facility financing obligation, less current portion	—	—	2,955	
Convertible Preferred Stock warrant liability	142	226	282	
Total liabilities	5,411	9,120	21,511	
Commitments and contingencies (Note 7)				
Convertible Preferred Stock, $0.0001 par value; 94,627,806, 116,056,382 and 153,394,052 shares authorized at December 31, 2008 and 2009, and June 30, 2010 (unaudited), respectively; 50,367,456, 60,101,338 and 73,305,523 shares issued and outstanding at December 31, 2008 and 2009, and June 30, 2010 (unaudited), respectively and no shares at June 30, 2010 pro forma (unaudited)	201,085	269,101	367,036	
(Liquidation value of $366,029 as of June 30, 2010 (unaudited))				
Stockholders' equity (deficit)				
Common Stock, $0.0001 par value; 89,000,000, 100,000,000 and 121,668,835 authorized shares at December 31, 2008 and 2009, and June 30, 2010 (unaudited), respectively; 1,154,043, 1,312,169, 1,921,538 issued and outstanding shares at December 31, 2008 and 2009, and June 30, 2010 (unaudited), respectively and 75,227,061 shares at June 30, 2010 pro forma (unaudited)	—	—	—	8
Additional paid-in capital	10,907	14,877	19,395	386,705
Deferred stock-based compensation	(42)	—	—	—
Accumulated other comprehensive income (loss)	44	1	(5)	(5)
Deficit accumulated during the development stage	(104,298)	(192,001)	(255,040)	(255,040)
Total stockholders' equity (deficit)	(93,389)	(177,123)	(235,650)	$ 131,668
Total liabilities, Convertible Preferred Stock and stockholders' equity (deficit)	$ 113,107	$ 101,098	$ 152,897	

See accompanying notes to the financial statements.

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
(A development stage enterprise)
Statements of Operations

(in thousands, except share and per share amounts)	Years Ended December 31,			Six-Month Periods Ended June 30,		Cumulative Period From July 14, 2000 (Date of inception) to June 30, 2010
	2007	2008	2009	2009	2010	
				(unaudited)		(unaudited)
Revenue	$ 2,163	$ 901	$ 135	$ —	$ 1,174	$ 8,098
Operating expenses						
Research and development	19,216	37,997	75,879	30,090	52,406	206,736
Sales, general and administrative	6,338	7,713	12,326	5,338	11,717	47,065
Total operating expenses	25,554	45,710	88,205	35,428	64,123	253,801
Loss from operations	(23,391)	(44,809)	(88,070)	(35,428)	(62,949)	(245,703)
Interest income (expense), net	1,940	1,157	451	327	(35)	3,899
Other income (expense), net	(67)	(102)	(84)	(10)	(55)	(422)
Net loss	$ (21,518)	$ (43,754)	$ (87,703)	$ (35,111)	$ (63,039)	$ (242,226)
Basic and diluted net loss per share	$ (136.46)	$ (66.91)	$ (86.52)	$ (37.69)	$ (49.79)	
Weighted-average shares outstanding used to calculate basic and diluted net loss per share	157,683	653,910	1,013,730	931,511	1,266,038	
Pro forma basic and diluted net loss per share (unaudited)			$ (1.58)		$ (1.01)	
Pro forma weighted-average shares outstanding used to calculate basic and diluted net loss per share (unaudited)			55,477,488		62,405,225	

See accompanying notes to the financial statements.

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
(A development stage enterprise)
Statements of Convertible Preferred Stock and Stockholders' Equity (Deficit)
Period from July 14, 2000 (Date of inception) to June 30, 2010

(in thousands, except share and per share amounts)	Convertible preferred stock		Common stock		Additional paid-in capital	Deferred stock-based compensation	Accumulated other comprehensive income (loss)	Deficit accumulated during the development stage	Total stockholders' equity (deficit)
	Shares	Amount	Shares	Amount					
Balance at inception (July 14, 2000)	—	$ —	—	$ —	$ —	$ —	$ —	$ —	$ —
Issuance of restricted Common Stock to founders	—	—	4,341,006	—	5	—	—	—	5
Net loss	—	—	—	—	—	—	—	(1)	(1)
Balance at December 31, 2000	—	—	4,341,006	—	5	—	—	(1)	4
Net loss	—	—	—	—	—	—	—	(11)	(11)
Balance at December 31, 2001	—	—	4,341,006	—	5	—	—	(12)	(7)
Issuance of Common Stock in connection with a license agreement	—	—	117,283	—	—	—	—	—	—
Net loss	—	—	—	—	—	—	—	(15)	(15)
Balance at December 31, 2002	—	—	4,458,289	—	5	—	—	(27)	(22)
Net loss	—	—	—	—	—	—	—	(20)	(20)
Balance at December 31, 2003	—	—	4,458,289	—	5	—	—	(47)	(42)
Issuance of Series A Convertible Preferred Stock at $1.00 per share for cash, net of issuance costs of $169 (March 2004)	5,405,992	5,237	—	—	—	—	—	—	—
Issuance of Series B Convertible Preferred Stock at $1.30 per share for cash, net of issuance costs of $55 (July 2004)	3,500,000	4,495	—	—	—	—	—	—	—
Issuance of Series B Convertible Preferred Stock warrants in connection with loan and securities agreement	—	—	—	—	21	—	—	—	21
Issuance of Common Stock upon exercise of stock options for cash ($0.10 to $0.13 per share)	—	—	1,690,750	—	1	—	—	—	1
Issuance of Common Stock in connection with consulting agreements	—	—	246,752	—	—	—	—	—	—
Issuance of Common Stock in connection with a license agreement	—	—	163,967	—	16	—	—	—	16
Non-employee stock-based compensation	—	—	—	—	3	—	—	—	3
Net loss	—	—	—	—	—	—	—	(3,611)	(3,611)
Balance at December 31, 2004	8,905,992	9,732	6,559,758	—	46	—	—	(3,658)	(3,612)
Issuance of Series C Convertible Preferred Stock at $2.02 per share for cash, net of issuance costs of $83 (August 2005)	5,322,396	10,669	—	—	—	—	—	—	—
Issuance of Common Stock upon exercise of stock options for cash ($0.10 to $0.13 per share)	—	—	1,013,395	—	25	—	—	—	25
Conversion of Common Stock to Junior Preferred Stock at $1.70 per share (August 2005)	7,573,153	12,874	(7,573,153)	—	(71)	—	—	(12,803)	(12,874)
Repurchase of Junior Preferred Stock at $1.70 per share (August 2005)	(1,000,000)	(1,700)	—	—	—	—	—	—	—
Issuance of Series B Convertible Preferred Stock warrants in connection with drawdown under 2004 loan and security agreement	—	—	—	—	11	—	—	—	11
Vesting of Junior Preferred Stock options early exercised	—	74	—	—	—	—	—	—	—
Deferred stock-based compensation	—	—	—	—	5,607	(5,607)	—	—	—
Employee stock-based compensation under the intrinsic value method	—	—	—	—	3,199	1,070	—	—	4,269
Non-employee stock-based compensation	—	—	—	—	39	—	—	—	39
Net loss	—	—	—	—	—			(10,877)	(10,877)
Balance at December 31, 2005	20,801,541	31,649	—	—	8,856	(4,537)	—	(27,338)	(23,019)

See accompanying notes to the financial statements.

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
(A development stage enterprise)
Statements of Convertible Preferred Stock and Stockholders' Equity (Deficit)
Period from July 14, 2000 (date of inception) to June 30, 2010

(in thousands, except share and per share amounts)	Convertible preferred stock		Common stock		Additional paid-in capital	Deferred stock-based compensation	Accumulated other comprehensive income (loss)	Deficit accumulated during the development stage	Total stockholders' equity (deficit)
	Shares	Amount	Shares	Amount					
Balance at December 31, 2005	20,801,541	$ 31,649	—	$ —	$ 8,856	$ (4,537)	$ —	$ (27,338)	$ (23,019)
Issuance of Series D Convertible Preferred Stock at $4.00 per share for cash, net of issuance costs of $188 (December 2006)	12,500,000	49,812	—	—	—	—	—	—	—
Issuance of Junior Preferred Stock upon exercise of stock options for cash ($0.10 to $0.13 per share)	53,604	6	—	—	—	—	—	—	—
Reclassification of Preferred Stock warrants to liability	—	—	—	—	(31)	—	—	—	(31)
Issuance of Common Stock upon exercise of stock options for cash ($0.35 per share)	—	—	273,390	—	24	—	—	—	24
Repurchase of unvested Junior Preferred Stock	(241,325)	(410)	—	—	(1)	383	—	—	382
Repurchase of unvested Common Stock	—	—	(938)	—	(1)	—	—	—	(1)
Vesting of Junior Preferred Stock options early exercised	—	97	—	—	—	—	—	—	—
Employee stock-based compensation expense recorded under the intrinsic value method	—	—	—	—	(880)	2,716	—	—	1,836
Employee stock-based compensation expense recorded under the fair value method	—	—	—	—	48	—	—	—	48
Non-employee stock-based compensation	—	—	—	—	37	—	—	—	37
Net loss	—	—	—	—	—	—	—	(11,688)	(11,688)
Balance at December 31, 2006	33,113,820	81,154	272,452	—	8,052	(1,438)	—	(39,026)	(32,412)
Issuance of Junior Preferred Stock upon exercise of stock options for cash ($0.10 and $0.13 per share)	45,000	5	—	—	—	—	—	—	—
Issuance of Common Stock upon exercise of stock options for cash ($0.35 to $0.98 per share)	—	—	274,266	—	88	—	—	—	88
Repurchase of unvested Common Stock	—	—	(13,126)	—	—	—	—	—	—
Vesting of Junior Preferred Stock options	—	63	—	—	—	—	—	—	—
Vesting of Common Stock options early exercised	—	—	—	—	43	—	—	—	43
Employee stock-based compensation expense recorded under the intrinsic value method	—	—	—	—	95	983	—	—	1,078
Employee stock-based compensation expense recorded under the fair value method	—	—	—	—	426	—	—	—	426
Non-employee stock-based compensation	—	—	—	—	156	—	—	—	156
Other comprehensive income	—	—	—	—	—	—	4	—	4
Net loss	—	—	—	—	—	—	—	(21,518)	(21,518)
Total comprehensive loss	—	—	—	—	—	—	—	—	(21,514)
Balance at December 31, 2007	33,158,820	81,222	533,592	—	8,860	(455)	4	(60,544)	(52,135)

See accompanying notes to the financial statements.

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
(A development stage enterprise)
Statements of Convertible Preferred Stock and Stockholders' Equity (Deficit)
Period from July 14, 2000 (date of inception) to June 30, 2010

(in thousands, except share and per share amounts)	Convertible preferred stock		Common stock		Additional paid-in capital	Deferred stock-based compensation	Accumulated other comprehensive income (loss)	Deficit accumulated during the development stage	Total stockholders' equity (deficit)
	Shares	Amount	Shares	Amount					
Balance at December 31, 2007	33,158,820	$ 81,222	533,592	$ —	$ 8,860	$ (455)	$ 4	$ (60,544)	$ (52,135)
Issuance of Series E Convertible Preferred Stock at $7.00 per share for cash, net of issuance costs of $169 (July 2008)	17,142,908	119,831	—	—	—	—	—	—	—
Issuance of Junior Preferred Stock upon exercise of stock options for cash ($0.10 to $0.13 per share)	65,728	7	—	—	—	—	—	—	—
Issuance of Common Stock upon exercise of stock options for cash ($0.35 to $3.48 per share)	—	—	620,451	—	267	—	—	—	267
Vesting of Junior Preferred Stock options early exercised	—	25	—	—	—	—	—	—	—
Vesting of Common Stock options early exercised	—	—	—	—	65	—	—	—	65
Employee stock-based compensation expense recorded under the intrinsic value method	—	—	—	—	144	413	—	—	557
Employee stock-based compensation expense recorded under the fair value method	—	—	—	—	1,260	—	—	—	1,260
Non-employee stock-based compensation	—	—	—	—	311	—	—	—	311
Other comprehensive income	—	—	—	—	—	—	40	—	40
Net loss	—	—	—	—	—	—	—	(43,754)	(43,754)
Total comprehensive loss	—	—	—	—	—	—	—	—	(43,714)
Balance at December 31, 2008	50,367,456	201,085	1,154,043	—	10,907	(42)	44	(104,298)	(93,389)
Issuance of Series E Convertible Preferred Stock at $7.00 per share for cash, net of issuance costs of $57 (July 2009)	9,723,882	68,010	—	—	—	—	—	—	—
Issuance of Junior Preferred Stock upon exercise of stock options for cash	10,000	1	—	—	—	—	—	—	—
Issuance of Common Stock upon exercise of stock options for cash ($0.35 to $3.48 per share)	—	—	168,481	—	303	—	—	—	303
Repurchase of unvested Common Stock	—	—	(10,355)	—	—	—	—	—	—
Vesting of Junior Preferred Stock options early exercised	—	5	—	—	—	—	—	—	—
Vesting of Common Stock options early exercised	—	—	—	—	79	—	—	—	79
Employee stock-based compensation expense recorded under the intrinsic value method	—	—	—	—	526	42	—	—	568
Employee stock-based compensation expense recorded under the fair value method	—	—	—	—	2,643	—	—	—	2,643
Non-employee stock-based compensation	—	—	—	—	419	—	—	—	419
Other comprehensive income	—	—	—	—	—	—	(43)	—	(43)
Net loss	—	—	—	—	—	—	—	(87,703)	(87,703)
Total comprehensive loss	—	—	—	—	—	—	—	—	(87,746)
Balance at December 31, 2009	60,101,338	269,101	1,312,169	—	14,877	—	1	(192,001)	(177,123)

See accompanying notes to the financial statements.

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
(A development stage enterprise)
Statements of Convertible Preferred Stock and Stockholders' Equity (Deficit)
Period from July 14, 2000 (date of inception) to June 30, 2010

(in thousands, except share and per share amounts)	Convertible preferred stock		Common stock		Additional paid-in capital	Deferred stock-based compensation	Accumulated other comprehensive income (loss)	Deficit accumulated during the development stage	Total stockholders' equity (deficit)
	Shares	Amount	Shares	Amount					
Balance at December 31, 2009	60,101,338	$269,101	1,312,169	$ —	$ 14,877	$ —	$ 1	$(192,001)	$ (177,123)
Issuance of Series F Convertible Preferred Stock at $7.63 per share for cash, net of issuance costs of $2,813 (June 2010) (unaudited)	13,204,185	97,935	—	—	—	—	—	—	—
Issuance of Common Stock upon exercise of stock options for cash ($0.35 to $4.25 per share) (unaudited)	—	—	609,369	—	440	—	—	—	440
Vesting of Common Stock options early exercised (unaudited)	—	—	—	—	72	—	—	—	72
Employee stock-based compensation expense recorded under the intrinsic value method (unaudited)	—	—	—	—	267	—	—	—	267
Employee stock-based compensation expense recorded under the fair value method (unaudited)	—	—	—	—	3,115	—	—	—	3,115
Non-employee stock-based compensation (unaudited)	—	—	—	—	624	—	—	—	624
Other comprehensive income (unaudited)	—	—	—	—	—	—	(6)	—	(6)
Net loss (unaudited)	—	—	—	—	—	—	—	(63,039)	(63,039)
Total comprehensive loss (unaudited)	—	—	—	—	—	—	—	—	(63,045)
Balance at June 30, 2010 (unaudited)	73,305,523	$367,036	1,921,538	$ —	$ 19,395	$ —	$ (5)	$(255,040)	$ (235,650)

See accompanying notes to the financial statements.

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
(A development stage enterprise)
Statements of Cash Flows

(in thousands)	Years ended December 31, 2007	2008	2009	Six-month periods ended June 30, 2009	2010	Cumulative Period From July 14, 2000 (Date of inception) to June 30, 2010
				(unaudited)		(unaudited)
Cash flows from operating activities						
Net loss	$(21,518)	$ (43,754)	$(87,703)	$(35,111)	$(63,039)	$ (242,226)
Adjustments to reconcile net loss to net cash used in operating activities						
Depreciation	1,577	2,987	4,104	1,923	2,260	12,716
Stock-based compensation	1,660	2,127	3,630	1,636	4,005	17,653
Amortization of deferred financing cost	16	13	—	—	—	59
Change in Convertible Preferred Stock warrant liability fair value	10	(9)	84	10	56	239
Other items	(104)	10	110	—	—	22
Changes in assets and liabilities						
Prepaid expenses and other current assets	(164)	(78)	27	443	(121)	(854)
Other long-term assets	(94)	(26)	(57)	(4)	(10)	(254)
Accounts payable	1,434	(223)	3,891	847	1,966	7,702
Accrued expenses and other current liabilities	620	156	1,168	977	5,510	7,971
Lease incentives and other long-term liabilities	(169)	494	(92)	(95)	(222)	254
Net cash used in operating activities	(16,732)	(38,303)	(74,838)	(29,374)	(49,595)	(196,718)
Cash flows from investing activities						
Purchase of property and equipment	(3,048)	(5,703)	(5,177)	(1,430)	(2,992)	(20,453)
Purchase of investments	(53,960)	(36,376)	(25,429)	(24,410)	(48,735)	(172,065)
Maturities of investments	38,670	31,686	49,200	26,000	3,500	123,056
Net cash provided by (used in) investing activities	(18,338)	(10,393)	18,594	160	(48,227)	(69,462)
Cash flows from financing activities						
Proceeds from issuance of Convertible Preferred Stock, net	—	119,831	68,010	—	97,935	355,989
Proceeds from exercise of Common Stock options	166	489	311	8	799	2,155
Proceeds from exercise of Junior Preferred Stock options	6	7	1	1	—	20
Repurchases of Common Stock	(5)	—	(8)	(3)	—	(13)
Repurchases of Junior Preferred Stock	—	—	—	—	—	(1,727)
Proceeds from issuance of notes payable	1,042	—	—	—	—	4,037
Payment of notes payable	(1,434)	(400)	(1,300)	(400)	—	(4,137)
Net cash provided by (used in) financing activities	(225)	119,927	67,014	(394)	98,734	356,324
Net increase (decrease) in cash and cash equivalents	(35,295)	71,231	10,770	(29,608)	912	90,144
Cash and cash equivalents at beginning of period	42,526	7,231	78,462	78,462	89,232	—
Cash and cash equivalents at end of period	$ 7,231	$ 78,462	$ 89,232	$ 48,854	$ 90,144	$ 90,144
Supplemental disclosure of cash flow information						
Interest paid	$ (178)	$ (92)	$ (30)	$ (22)	$ —	$ (584)
Supplemental disclosure of non-cash investing and financing activities						
Issuance of Convertible Preferred Stock warrants	16	—	—	—	—	70
Assets acquired under facility financing obligation	—	—	—	—	2,971	2,971
Additions to property and equipment under tenant improvement allowances	—	—	—	—	1,910	1,910
Reclassification of Convertible Preferred Stock warrants to liabilities	—	—	—	—	—	31

See accompanying notes to the financial statements.

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
(A development stage enterprise)

Notes to Financial Statements

1. Overview

Pacific Biosciences of California, Inc., ("Pacific Biosciences", "we", "us") is focused on developing and commercializing a transformative platform for single molecule, real-time detection of biological events. Our initial focus is on the DNA sequencing market where we have developed and introduced a novel third generation sequencing platform. We incorporated in the state of Delaware on July 14, 2000 under the name Nanofluidics, Inc., and changed our name to Pacific Biosciences in 2005. Since inception, substantially all of our resources have been invested in the development and commercialization of our single molecule, real-time technologies.

We continue to report as a development stage enterprise since planned principal operations have not yet commenced. Revenue recognized since inception has been limited to research grants received from government grants and does not constitute the commencement of our principal operations. Since inception, we have incurred net losses and negative cash flows from operations. In order to continue operations, we must raise additional equity or debt financing and achieve profitable operations. There can be no assurance that we will be able to obtain additional equity or debt financing on acceptable terms, or at all. Our failure to obtain sufficient funds on acceptable terms when needed, or at all, could have a material adverse effect on our business, results of operations and financial conditions.

The names "Pacific Biosciences," "PacBio," "SMRT," "SMRTbell" and our logo are our trademarks. All other trademarks and trade names appearing in this prospectus are the property of their respective owners.

2. Summary of Significant Accounting Policies

Basis of Presentation

Our financial statements have been prepared in conformity with accounting principles generally accepted in the United States, or GAAP, as set forth in the Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting periods. Our estimates include, but are not limited to, useful lives assigned to long-lived assets, the valuation of common and preferred stock and related warrants and options, stock-based compensation expense, provisions for income taxes and contingencies. Actual results could differ from our estimates, and such differences could be material to our financial position and results of operations.

Unaudited Interim Financial Information

The accompanying unaudited interim balance sheets as of June 30, 2010, the statements of operations and cash flows for the six-month periods ended June 30, 2009 and 2010 and the statements of convertible preferred stock and stockholders' equity (deficit) for the six-month period ended June 30, 2010 are unaudited. These unaudited interim financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. The unaudited interim financial statements have been prepared on a basis consistent with the audited financial statements. In the opinion of management, the unaudited interim financial statements reflect all adjustments, which include only normal recurring adjustments necessary

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
(A development stage enterprise)

Notes to Financial Statements—(Continued)

2. Summary of Significant Accounting Policies (continued)

for the fair statement of our financial position as of June 30, 2010 and the results of our operations and our cash flows for the six-month periods ended June 30, 2009 and 2010. The financial data and other financial information disclosed in these notes to the financial statements related to the six-month periods are unaudited. The results for the six-month period ended June 30, 2010 are not necessarily indicative of the results to be expected for the year ending December 31, 2010 or any future periods.

Unaudited Pro Forma Information

The unaudited pro forma stockholders' equity as of June 30, 2010 has been prepared assuming that upon the closing of a qualified public offering all of our outstanding shares of convertible preferred stock will automatically convert into shares of common stock and our outstanding warrants exercisable for convertible preferred stock will convert into warrants exercisable for common stock. The June 30, 2010 unaudited pro forma stockholders' equity reflects the conversion of all 73,305,523 outstanding shares of convertible preferred stock into 73,305,523 shares of common stock and the reclassification of the preferred stock warrant liability to additional paid-in capital immediately prior to the closing of a qualified public offering.

Fair Value of Financial Instruments

The carrying amount of certain of our financial instruments, including prepaid expenses, other current assets, other long-term assets, accounts payable, accrued expenses and other current liabilities, approximate fair value due to their short maturities. Based on currently available borrowing rates, the carrying values of the long-term liabilities approximate fair value.

As a basis for determining the fair value of certain of our financial instruments, we utilize a three-tier value hierarchy which prioritizes the inputs used in measuring fair value as follows: (Level I) observable inputs such as quoted prices in active markets; (Level II) inputs other than the quoted prices in active markets that are observable either directly or indirectly; and (Level III) unobservable inputs in which there is little or no market data which requires us to develop our own assumptions. This hierarchy requires us to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. Our financial instruments that are measured at fair value on a recurring basis consist only of cash equivalents, investments and warrant liabilities.

All of our cash equivalents, which include money market funds, are classified within Level I of the fair value hierarchy because they are valued using quoted market prices. Our investments are generally classified as Level II instruments, or instruments valued based on other observable inputs. Our warrant liability is classified within Level III of the fair value hierarchy.

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
(A development stage enterprise)

Notes to Financial Statements—(Continued)

2. Summary of Significant Accounting Policies (Continued)

Assets and liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the entire fair value measurement requires management to make judgments and consider factors specific to the asset or liability. The following table sets forth our financial instruments that were measured at fair value as of December 31, 2008 and 2009 and June 30, 2010 by level within the fair value hierarchy (in thousands).

	December 31, 2008				December 31, 2009				June 30, 2010 (unaudited)			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
Assets												
Money Market Funds	$ 78,077	$ —	$ —	$ 78,077	$ 87,464	$ —	$ —	$ 87,464	$ 86,974	$ —	$ —	$ 86,974
Commercial Paper	3,000	11,929	—	14,929	—	—	—	—	—	7,982	—	7,982
Corporate Debt Securities	—	7,510	—	7,510	—	3,503	—	3,503	—	8,170	—	8,170
U.S. Government and Agency Securities	—	5,150	—	5,150	—	—	—	—	—	32,460	—	32,460
Total assets measured at fair value	$ 81,077	$ 24,589	$ —	$ 105,666	$ 87,464	$ 3,503	$ —	$ 90,967	$ 86,974	$ 48,612	$ —	$ 135,586
Liabilities												
Convertible Preferred Stock warrants	$ —	$ —	$ 142	$ 142	$ —	$ —	$ 226	$ 226	$ —	$ —	$ 282	$ 282
Total liabilities measured at fair value	$ —	$ —	$ 142	$ 142	$ —	$ —	$ 226	$ 226	$ —	$ —	$ 282	$ 282

The change in the fair value of the Level III convertible preferred stock warrant liability is summarized below (in thousands):

	December 31,			June 30, 2010
	2007	2008	2009	(unaudited)
Fair value at beginning of period	$140	$151	$142	$ 226
Issuances	1	—	—	—
Change in fair value recorded in other income (expense), net	10	(9)	84	56
Fair value at end of period	$151	$142	$226	$ 282

Cash and cash equivalents

We consider all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents consist primarily of money market funds.

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
(A development stage enterprise)

Notes to Financial Statements—(Continued)

2. Summary of Significant Accounting Policies (Continued)

Investments

We invest our cash balances exceeding short-term operating needs in short-term investment grade commercial paper, government bonds and corporate obligation notes. We classify all of our investments as available-for-sale and record the estimated fair value of these investments on the balance sheets, with unrealized gains and losses, if any, reported as a component of accumulated other comprehensive income (loss) in stockholders' equity (deficit). Debt securities are adjusted for amortization of premiums and accretion of discounts, and such amortization and accretion are reported as a component of interest income. Realized gains and losses are recorded as a component of other income (expense), net. Realized gains and losses have not been material since inception.

We periodically review our investments for potential impairment and consider investments impaired when a decline in fair value is deemed by us to be other-than-temporary. If cost exceeds fair value, we consider, among other factors, the duration and extent to which cost exceeds fair value, the financial strength of the issuer, and our intent and ability to hold the investment to maturity. Once a decline in value is deemed to be other-than-temporary, an impairment charge is recorded and a new cost basis in the investment is established. No impairment losses were recognized from inception through June 30, 2010.

Concentration of Credit Risk

Financial instruments that potentially subject us to a concentration of credit risk consist of cash, cash equivalents and investments. Cash balances are deposited with a single domestic financial institution and deposits at this financial institution may, from time to time, exceed federally insured limits. Cash equivalents consist primarily of funds invested in a single money market fund. We have not experienced any losses on our deposits of cash, cash equivalents, investments or grants receivable.

Certain Risks and Uncertainties

We are subject to risks common to companies in the development stage, including but not limited to, development of new products, development of markets and distribution channels, dependence on key personnel, competing with established brands and the ability to obtain additional capital as needed to fund our product development plans. To date, we have been funded by private equity and debt financings. Our success is dependent upon our ability to raise additional capital and to successfully develop and market our products. Any significant delays in the development or marketing of products could have a material adverse effect on our business and financial results.

Property and Equipment, Net

Property and equipment are generally stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful life of the asset, generally two to three years for computer equipment and software, three to seven years for furniture and fixtures, three years for lab equipment and 30 years for buildings. Leasehold improvements are depreciated over the shorter of the lease term or the estimated useful life of the related asset. Major improvements are capitalized, while maintenance and repairs are expensed as incurred.

In connection with build-to-suit lease arrangements that we account for as if we own the facility, we record the facility at the fair value at the date construction commences, prior to significant renovations, plus the costs of

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
(A development stage enterprise)

Notes to Financial Statements—(Continued)

2. Summary of Significant Accounting Policies (Continued)

the renovations. We determined the fair value of such facilities prior to renovation based on several factors, including an appraisal conducted by an independent licensed appraiser.

Impairment of Long-Lived Assets

We periodically review property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset is impaired or the estimated useful lives are no longer appropriate. Fair value is estimated based on discounted future cash flows. If indicators of impairment exist and the undiscounted projected cash flows associated with such assets are less than the carrying amount of the asset, an impairment loss is recorded to write the asset down to its estimated fair values. To date, we have not recorded any impairment charges.

Revenue Recognition

Government grants are agreements that generally provide cost reimbursement for certain types of expenditures in return for research and development activities over a contractually defined period. Revenue from government grants is recognized in the period during which the related costs are incurred, provided that the conditions under which the government grants were provided have been met.

Research and Development

Research and development expense consists of costs incurred in the development of our SMRT technology and our products, including our PacBio *RS* instrument, SMRT Cells and reagent kits, as well as costs incurred under government grants. We expense research and development costs to operations as incurred. We will, however, defer and capitalize non-refundable advance payments made for research and development activities until the related goods are received or the related services are rendered.

Leases

We categorize leases at their inception as either operating or capital leases. On certain of our lease agreements, we may receive tenant improvement allowances, rent holidays and other incentives. Rent expense is recorded on a straight-line basis over the term of the lease. The difference between rent expense recognized and amounts paid under the lease agreement is recorded as lease incentives in the balance sheets. Leasehold improvements are capitalized at cost and depreciated over the lesser of their expected useful life or the life of the lease. Tenant improvements afforded to us by landlord incentives are recorded as leasehold improvement assets with corresponding lease incentives liabilities.

For build-to-suit lease arrangements, we evaluate the extent of our financial and operational involvement in the tenant improvements to determine whether we are considered the owner of the construction project under GAAP. When we are considered the owner of a project, we record the shell of the facility at its fair value at the date construction commences with a corresponding facility financing obligation. Improvements to the facility during the construction project are capitalized and, to the extent funded by lessor afforded incentives, with corresponding increases to the facility financing obligation. Payments we make under leases in which we are considered the owner of the facility are allocated to land rental expense, based on the relative values of the land and building at the commencement of construction, reductions of the facility financing obligation and interest expense recognized on the outstanding obligation. To the extent gross future payments do not equal the recorded

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
(A development stage enterprise)

Notes to Financial Statements—(Continued)

2. Summary of Significant Accounting Policies (Continued)

liability, the liability is settled upon return of the facility to the lessor. Any difference between the book value of the assets and remaining facility obligation are recorded in other income (expense), net. For existing arrangements, the differences are expected to be immaterial.

Income Taxes

We account for income taxes under the asset and liability method, which requires, among other things, that deferred income taxes be provided for temporary differences between the tax basis of our assets and liabilities and the amounts reported in the financial statements. In addition, deferred tax assets are recorded for the future benefit of utilizing net operating losses and research and development credit carryforwards. A full valuation allowance is provided against our net deferred tax assets as it is more likely than not that the deferred tax assets will not be fully realized.

We review our positions taken relative to income taxes. To the extent our tax positions are more likely than not to result in the payout of additional taxes, we accrue the estimated amount of tax for such uncertain positions.

Net Loss Per Share and Pro Forma Net Loss Per Share

We calculate basic net loss per share by dividing the net loss by the weighted-average number of unrestricted common shares outstanding for the period, without consideration of common stock equivalents. Diluted net loss per share is computed by dividing the net loss by the weighted-average number of unrestricted common shares and dilutive common share equivalents outstanding for the period, determined using the treasury-stock method and the as if converted method. For purposes of this calculation, convertible preferred stock, stock options and warrants are considered to be dilutive common share equivalents and are only included in the calculation of diluted net loss per share when their effect is dilutive.

Upon the closing of a qualified public offering, all outstanding convertible preferred stock will be converted into shares of common stock. The unaudited pro forma basic and diluted net loss per share for the year ended December 31, 2009 and the six-month period ended June 30, 2010 reflects the automatic conversion of all outstanding shares of convertible preferred stock into shares of common stock. The unaudited pro forma basic and diluted net loss per share does not give effect to the issuance of shares from the qualified public offering nor does it give effect to potential dilutive securities where the impact would be anti-dilutive. Also, the numerator in the pro forma basic and diluted net loss per share calculation has been adjusted to remove gains and losses resulting from remeasurements of the outstanding convertible preferred stock warranty liabilities through June 30, 2010 as these warrants will be automatically converted to warrants to purchase common stock upon the closing of a qualified offering and will no longer require periodic remeasurement.

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
(A development stage enterprise)

Notes to Financial Statements—(Continued)

2. Summary of Significant Accounting Policies (Continued)

The following table presents the computation of basic and diluted net loss per share and pro forma net loss per share (unaudited) (dollars in thousands, except per share values):

	Years ended December 31,			Six-month periods ended June 30,	
	2007	2008	2009	2009	2010
				(unaudited)	
Historical net loss per share:					
Numerator					
Net loss	$ (21,518)	$ (43,754)	$ (87,703)	$ (35,111)	$ (63,039)
Denominator					
Weighted-average shares of common stock outstanding	339,828	911,929	1,203,025	1,143,091	1,382,673
Less: Weighted-average shares of common stock subject to repurchase	(182,145)	(258,019)	(189,295)	(211,580)	(116,635)
Weighted-average shares outstanding used to calculate basic and diluted net loss per share	157,683	653,910	1,013,730	931,511	1,266,038
Basic and diluted net loss per share	$ (136.46)	$ (66.91)	$ (86.52)	$ (37.69)	$ (49.79)
Pro forma net loss per share (unaudited):					
Numerator					
Net loss			$ (87,703)		$ (63,039)
Pro forma adjustment to reverse the mark-to-market adjustment related to the convertible preferred stock warrant liability			84		56
Net loss used to compute pro forma net loss per share			$ (87,619)		$ (62,983)
Denominator					
Weighted-average shares outstanding used to calculate basic and diluted net loss per share			1,013,730		1,266,038
Pro forma adjustment to reflect assumed weighted-average effect of conversion of convertible preferred stock			54,463,758		61,139,187
Denominator for pro forma basic and diluted net loss per share			55,477,488		62,405,225
Pro forma basic and diluted net loss per share			$ (1.58)		$ (1.01)

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
(A development stage enterprise)

Notes to Financial Statements—(Continued)

2. Summary of Significant Accounting Policies (Continued)

The following outstanding options, common stock subject to repurchase, convertible preferred stock and warrants to purchase convertible preferred stock were excluded from the computation of diluted net loss per share for the periods presented because including them would have had an anti-dilutive effect:

	As of December 31,			As of June 30,	
	2007	2008	2009	2009	2010
				(unaudited)	
Convertible Preferred stock (on an as if converted basis)	33,158,820	50,367,456	60,101,338	50,377,453	73,305,523
Options to purchase Common Stock	6,270,726	9,919,498	13,149,667	11,924,916	17,575,343
Common Stock subject to repurchase	406,833	310,729	118,291	161,413	310,929
Warrants to purchase Convertible Preferred Stock	50,569	50,569	50,569	50,569	50,569

Stock-based Compensation

For awards granted on or before December 31, 2005, we applied the intrinsic value method of accounting for employee stock option awards. Under the intrinsic value method, compensation expense for employees was based on the difference, if any, between the fair value of our common stock and the exercise price of the option on the measurement date, which is the date of grant.

On August 11, 2005, as a result of an equity restructuring that resulted in a new measurement date for our outstanding options, we recorded $5.6 million of deferred stock-based compensation expense on the balance sheets that we subsequently amortized and recognized as stock-based compensation expense over the vesting period of the underlying options. The deferred stock-based compensation relating to this equity restructuring was fully amortized as of December 31, 2009.

Effective January 1, 2006, we adopted new authoritative accounting guidance for stock-based compensation, which requires us to measure the cost of employee services received in exchange for stock-based awards based on the grant date fair value of the award. We adopted the new guidance using the prospective transition method. Under the prospective transition method, compensation cost for stock-based awards granted prior to December 31, 2005 continue to be recorded based on the intrinsic value method. Compensation cost for all stock-based awards granted or modified subsequent to adoption is recorded based on the estimated grant date fair value and recognized as expense over the requisite service period of the grant, which is generally the vesting period.

We determine the grant date fair value of stock options using the Black-Scholes option pricing model. The use of the Black-Scholes option pricing model requires assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, future expected common stock price volatility over the term of the option awards, as well as projected employee option exercise behavior (expected period between stock option vesting date and stock option exercise date), risk-free interest rates and expected dividends.

Stock-based compensation expense recognized at fair value reflects the impact of estimated forfeitures. Future forfeitures are estimated at the date of grant and revised in subsequent periods if actual forfeitures differ from those estimates.

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
(A development stage enterprise)

Notes to Financial Statements—(Continued)

2. Summary of Significant Accounting Policies (Continued)

Convertible Preferred Stock Warrants

We account for freestanding warrants to purchase shares of our convertible preferred stock at fair value on the balance sheet because we may be obligated to redeem these warrants at some point in the future. The warrants are subject to subsequent remeasurement at each balance sheet date with changes in fair value recognized as other income (expense), net in the statement of operations. We will continue to adjust the liability for changes in fair value until the earlier of the exercise or expiration of the warrants or the closing of a liquidation event, or a qualified initial public offering, at which time all unexercised warrants will be automatically converted into warrants to purchase common stock. Upon conversion, the warrant liability related to the convertible preferred stock warrants will be reclassified to additional paid-in capital.

Segments

We operate in a single segment, use one measurement of financial performance and do not segregate our business for internal reporting.

Other Comprehensive Income (loss)

Other comprehensive income (loss) is comprised of unrealized gains (losses) on our investment securities. Total comprehensive income (loss) for all periods presented has been disclosed in the statements of convertible preferred stock and stockholders' equity (deficit).

Recent Accounting Pronouncements

In October 2009, the FASB issued an accounting standards update that provides application guidance on whether multiple deliverables exist, how the deliverables should be separated and how the consideration should be allocated to one or more units of accounting. This update establishes a selling price hierarchy for determining the selling price of a deliverable. The selling price used for each deliverable will be based on vendor-specific objective evidence, if available, third-party evidence if vendor-specific objective evidence is not available, or estimated selling price if neither vendor-specific nor third-party evidence is available. We will be required to apply this guidance prospectively for revenue arrangements entered into or materially modified after January 1, 2011. Our revenue to date has been limited to government grant revenue and no revenue has been recognized from the sale of our products. Therefore, adoption of this guidance is not expected to have a material impact on our financial statements.

In April 2010, the FASB issued an accounting standards update which provides guidance on the criteria to be followed in recognizing revenue under the milestone method. The milestone method of recognition allows a vendor who is involved with the provision of deliverables to recognize the full amount of a milestone payment upon achievement, if, at the inception of the revenue arrangement, the milestone is determined to be substantive as defined in the standard. The guidance is effective on a prospective basis for milestones achieved in fiscal years and interim periods within those fiscal years, beginning on or after June 15, 2010. The adoption of this guidance is not expected to have a material impact on our financial statements.

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
(A development stage enterprise)
Notes to Financial Statements—(Continued)

3. Investments

The following table summarizes our investments as of December 31, 2008 and 2009, and June 30, 2010 (in thousands):

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
December 31, 2008				
Commercial Paper	$ 14,931	$ 11	$ (13)	$14,929
Corporate Debt Securities	7,519	—	(9)	7,510
U.S. Government and Agency Securities	5,095	55	—	5,150
Total investments	$ 27,545	$ 66	$ (22)	$27,589
December 31, 2009				
Corporate Debt Securities	3,502	2	(1)	3,503
Total investments	$ 3,502	$ 2	$ (1)	$ 3,503
June 30, 2010 (Unaudited)				
Commercial Paper	7,982	—	—	7,982
Corporate Debt Securities	8,173	—	(3)	8,170
U.S. Government and Agency Securities	32,462	—	(2)	32,460
Total investments	$ 48,617	$ —	$ (5)	$48,612

4. Property and Equipment, Net

As of December 31, 2008 and 2009, and June 30, 2010, our property and equipment, net consisted of the following components (in thousands):

	December 31,		June 30,
	2008	2009	2010 (unaudited)
Building (facility)	$ —	$ —	$ 1,160
Laboratory equipment and machinery	7,930	10,307	9,706
Leasehold improvements	1,618	1,761	6,991
Computer equipment	1,440	1,928	2,336
Software	738	1,324	1,592
Furniture and fixtures	367	522	601
Construction in progress	—	619	—
	12,093	16,461	22,386
Less: Accumulated depreciation	(6,066)	(9,319)	(9,717)
Property and equipment, net	$ 6,027	$ 7,142	$ 12,669

Depreciation expense during 2007, 2008, 2009, the six-month periods ended June 30, 2009 and 2010 and for the period from July 14, 2000, the date of inception, to June 30, 2010, was $1.6 million, $3.0 million, $4.1 million, $1.9 million, $2.3 million and $12.7 million, respectively.

During December 2009, we entered into a lease agreement for a manufacturing and office facility, and in 2010 commenced renovations specific to our needs and operating requirements, including improvements and

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
(A development stage enterprise)

Notes to Financial Statements—(Continued)

4. Property and Equipment, Net (Continued)

modifications to the facility's structure and principal operating systems. Pursuant to GAAP, this direct involvement renders us the owner of the facility for accounting purposes. Accordingly, upon commencement of construction activities, we recorded $1.2 million for the fair value of the facility within property and equipment, net with a corresponding liability recorded to facility financing obligation on the balance sheet as of June 30, 2010.

In addition, pursuant to the terms of the lease arrangement, the landlord provided incentives to fund aspects of the construction project totaling $1.8 million. The tenant improvement allowances afforded by the landlord are reflected on the balance sheet as a component of property and equipment. As we account for the leased facility as the owner of the facility, we depreciate the assets over their expected useful lives.

5. Accrued Expenses and Other Current Liabilities

As of December 31, 2008 and 2009, and June 30, 2010, our accrued expenses and other current liabilities consisted of the following (in thousands):

	December 31,		June 30,
	2008	2009	2010
			(unaudited)
Salaries and benefits	$ 928	$1,785	$ 2,823
Professional services	175	358	1,167
Series F Convertible Preferred Stock issuance costs	—	—	2,745
Other	454	498	1,702
	$1,557	$2,641	$ 8,437

6. Facility Financing and Debt Obligations

Facility Financing Obligation

In December 2009 we entered into a lease agreement for a manufacturing and office facility. In order for the facility to meet our needs and operating requirements, substantial tenant improvements, including improvements to the structural elements and principal operating systems of the facility, were necessary. The lessor provided a tenant improvement allowance of $1.8 million to apply towards the necessary improvements and we remained obligated for additional amounts over the afforded allowance.

Due to our involvement in and the nature of the renovations made to the facility and our obligations to fund the costs of renovations exceeding the incentives afforded to us, we account for the facility as if we are the owner. Accordingly we recorded $3.0 million of building and leasehold improvement assets, reflecting the $1.2 million fair value of the facility prior to commencing renovations and the $1.8 million of landlord incentives within property and equipment, net and a corresponding liability recorded to facility financing obligation on the balance sheet as of June 30, 2010.

Based on the allocation of payments, the facility financing obligation bears an implied interest rate of 9.0%. During the six-month period ended June 30, 2010, we recognized $45,000 of interest expense in our statement of operations relating to the facility financing obligation.

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
(A development stage enterprise)

Notes to Financial Statements—(Continued)

6. Facility Financing and Debt Obligations (Continued)

As of June 30, 2010, the future minimum payments due under the facility financing obligation were as follows (in thousands):

	Financing obligation
2010	$ 132
2011	408
2012	426
2013	444
2014	619
Total Payments	2,029
Less amount representing interest	(1,174)
	855
Property reverting to landlord	2,161
Present value of obligation	3,016
Less current portion of obligation	(61)
Long-term portion of obligation	$ 2,955

Notes Payable

In November 2004, we entered into a loan and security agreement with two financial institutions that acted as co-lenders. Under the loan and security agreement, we were able to receive advances up to $2.0 million for general operating purposes. Principal amounts drawn were repayable over 24 months beginning January 1, 2006 and bore an interest rate of the greater of 5.5% or prime plus 1.0%. Upon the maturity date of the loan, a separate payment of 5.0% of the drawn amount was due. Amounts drawn were collateralized by the property and equipment purchases. As of December 31, 2008, the entire loan amount had been fully repaid.

In January 2006, we entered into a loan and security agreement with a financial institution. Under the loan and security agreement, we were able to receive advances up to $2.0 million for general operating purposes. Principal amounts drawn were repayable over 30 months beginning July 1, 2007 and at an interest rate of the greater of 8.25% or prime plus 0.50%. The amounts drawn were collateralized by property and equipment purchases. We drew the entire amount in 2007 and as of December 31, 2009, the loan has been fully repaid.

At December 31, 2008 and 2009 the fair value approximates the carrying value of our note payable and facility financing obligation.

7. Commitments and Contingencies

Operating Lease Commitment

As of June 30, 2010 we have noncancelable operating lease agreements for research and development, office, manufacturing and training facilities in Menlo Park, California that expire at various dates, with the latest expiration in July 2015. The terms of the operating lease agreements provide for rental payments on a graduated scale and we recognize rent expense on a straight-line basis over the lease period and accrue for rent expense incurred but not paid. Several of our leases contain rent escalation clauses, abatements and concessions, such as rent holidays and landlord or tenant incentives or allowances that are applied to the determination of straight-line rent expense over the lease term.

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
(A development stage enterprise)

Notes to Financial Statements—(Continued)

7. Commitments and Contingencies (Continued)

Rent expense for 2007, 2008, 2009, the six-month periods ended June 30, 2009 and 2010 and, cumulatively, for the period from July 14, 2000, the date of inception, to June 30, 2010, was $0.3 million, $1.1 million, $1.4 million, $0.6 million, $0.9 million and $4.5 million, respectively. We are also required to pay our share of operating expenses with respect to the facilities in which we operate.

As of December 31, 2009, the future annual minimum lease payments under all noncancelable operating leases with an initial term in excess of one year are as follows (in thousands):

Years ending December 31:	Amount
2010	$2,018
2011	992
2012	185
2013	185
2014	185
Thereafter	63
Total minimum lease payments	$3,628

During February 2010, we entered into a lease agreement for an additional office facility. Pursuant to the terms of the lease agreement, we are required to pay our share of the facility's operating expenses and will be subject to scheduled rent escalations. The lease agreement expires during July 2015, after which we may extend the term for up to three years subject to certain conditions.

As of June 30, 2010, the future annual minimum lease payments under all noncancelable operating leases with an initial term in excess of one year are as follows (in thousands):

Years ending December 31:	Amount
2010	$1,165
2011	2,046
2012	1,271
2013	1,202
2014	926
Thereafter	501
Total minimum lease payments	$7,111

On July 30, 2010 we delivered notice to the lessor of our intent to vacate one of our facilities during September 2010, prior to the expiration of the lease agreement. As a result of the decision to vacate prior to the expiration of the lease agreement, we are obligated to pay an early termination penalty of $64,000. Furthermore, upon vacating the facility our committed cash payments for 2010 and 2011 will be reduced by $148,000 and $212,000, respectively.

Patent Agreement

During 2007, we entered into an agreement to purchase certain patents. The purchase agreement required a payment upfront of $1.5 million and an additional $0.5 million to be paid on the first and second anniversaries of the effective date. Payments for the years ended December 31, 2008 and 2009 and, cumulatively, for the period from July 14, 2000, the date of inception, to December 31, 2009 were $0.5 million, $0.5 million and $2.5 million, respectively, and were expensed as incurred.

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
(A development stage enterprise)

Notes to Financial Statements—(Continued)

7. Commitments and Contingencies (Continued)

License Agreements

We have entered into four cancelable license agreements, as amended, with third parties for certain patent rights and technology. Under the terms of these agreements, we are obligated to pay minimum royalty and license maintenance fees. License and maintenance fees for 2007, 2008 and 2009, the six-month periods ended June 30, 2009 and 2010 and, cumulatively, for the period from July 14, 2000, our date of inception, to June 30, 2010, were $15,000, $0.1 million, $0.2 million, $0.1 million, $0.3 million and $0.7 million, respectively. Pursuant to the terms of the agreements, future license maintenance fees and minimum royalty payments amount to $0.3 million for 2010, $0.4 million for each of 2011, 2012 and 2013 and thereafter.

Upon commercialization of products including the licensed technologies, we are obligated to pay certain milestone fees of up to $80,000. In addition, upon commercialization of products incorporating a technology provided under one license agreement, the amounts owed by us under that license decrease by $5,000 in the first year following commercialization, return to the pre-commercialization amounts for the second year following commercialization, increase by $10,000 the third year and by $25,000 the fourth year following commercialization of products incorporating that licensed technology.

Contingencies

We may become subject to claims and assessments from time to time in the ordinary course of business. We accrue liabilities for such matters when it is probable that future expenditures will be made and such expenditures can be reasonably estimated.

Indemnification

In the ordinary course of business, we enter into standard indemnification arrangements. Pursuant to these arrangements, we indemnify, hold harmless, and agree to reimburse the indemnified parties for losses suffered or incurred by the indemnified party, in connection with any trade secret, copyright, patent or other intellectual property infringement claim by any third party with respect to its technology. The term of these indemnification agreements is generally perpetual anytime after the execution of the agreement. The maximum potential amount of future payments we could be required to make under these agreements is not determinable because it involves claims that may be made against us in future periods, but have not yet been made. To date, we have not incurred costs to defend lawsuits or settle claims related to these indemnification agreements.

We entered into indemnification agreements with our directors and officers that may require us to indemnify our directors and officers against liabilities that may arise by reason of their status or service as directors or officers, other than liabilities arising from willful misconduct of the individual. No liability associated with such indemnifications has been recorded at December 31, 2009.

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
(A development stage enterprise)

Notes to Financial Statements—(Continued)

8. Income Taxes

A reconciliation between the statutory federal income tax and our effective tax rates as a percentage of loss before income taxes is as follows:

	Years Ended December 31,		
	2007	2008	2009
Statutory tax rate	(34.0)%	(34.0)%	(34.0)%
State tax rate, net of federal benefit	(5.8)	(5.8)	(5.8)
Stock based compensation	2.8	1.3	1.0
Federal R&D credit	(1.5)	(2.8)	(2.6)
CA R&D credit	(1.9)	(1.9)	(1.8)
Other	0.1	0.4	0.3
Change in valuation allowance	38.7	42.5	42.9
Prior years true up	1.6	0.3	0.0
Effective income tax rate	0.0%	0.0%	0.0%

Temporary differences and carryforwards that gave rise to significant portions of deferred taxes are as follows (in thousands):

	December 31,	
	2008	2009
Net operating loss carryforwards	$ 29,418	$ 60,503
Research and development credits	3,684	7,568
Depreciation	1,159	2,272
Accruals and reserves	2,097	3,665
	36,358	74,008
Less: Valuation allowance	(36,358)	(74,008)
Net deferred tax assets	$ —	$ —

Due to uncertainties surrounding the realization of deferred tax assets through future taxable income, we have provided a full valuation allowance and, therefore, have not recognized any benefits from net operating losses and other deferred tax assets. The valuation allowance increased $8.3 million, $18.6 million and $37.7 million during the years ended December 31, 2007, 2008 and 2009, respectively.

Recognition of deferred tax assets is appropriate when realization of such assets is more likely than not. Based upon the weight of available evidence, we believe it is more likely than not that the net deferred tax assets will not be fully realizable. Accordingly, we have provided a full valuation allowance against our net deferred tax assets as of December 31, 2009.

As of December 31, 2009, we had federal and California net operating loss carryforwards of approximately $151.9 million and $152.0 million, respectively, available to reduce future taxable income, if any.

The federal net operating loss carryforward begins expiring in 2025, and the California net operating loss carryforward begins expiring in 2015.

We also had federal and California state research and development credit carryforwards of approximately $6.4 million and $6.7 million, respectively, as of December 31, 2009. The federal credits will expire starting 2025 if not utilized. The California tax credits can be carried forward indefinitely.

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
(A development stage enterprise)

Notes to Financial Statements—(Continued)

8. Income Taxes (Continued)

The Tax Reform Act of 1986 limits the use of net operating loss and tax credit carryforwards in certain situations where equity transactions result in a change of ownership as defined by Internal Revenue Code Section 382. In the event we experience an ownership change utilization of our United States net operating loss and tax credit carryforwards could be limited.

Effective January 1, 2007, we adopted the provisions of the Financial Accounting Standard Board, or FASB, Accounting Standards Codification, or ASC, Topic 740-10, Accounting for Uncertainty in Income Taxes. The cumulative effect of adoption resulted in no adjustment of accumulated deficit as of January 1, 2007. As of December 31, 2009, our total unrecognized tax benefit was $3.9 million, of which none of the tax benefit, if recognized, would affect the effective income tax rate due to the valuation allowance that currently offsets deferred tax assets. We do not anticipate the total amount of unrecognized income tax benefits to significantly increase or decrease in the next 12 months.

A reconciliation of the beginning and ending unrecognized tax benefit accounts is as follows (in thousands):

Beginning balance as of January 1, 2007 (date of adoption)	$ 462
Increase in balance related to tax positions taken during 2007	398
Balance as of December 31, 2007	860
Increase in balance related to tax positions taken in prior year	(8)
Increase in balance related to tax positions taken during 2008	1,060
Balance as of December 31, 2008	1,912
Increase in balance related to tax positions taken during current year	2,025
Balance as of December 31, 2009	$3,937

Our practice is to recognize interest and/or penalties related to income tax matters in income tax expense. As of December 31, 2008 and 2009, we had no accrued interest or penalties due to our net operating losses available to offset any tax adjustment. We currently have no federal or state tax examinations in progress nor have we had any federal or state tax examinations since our inception. As a result of our net operating loss carryforwards, all of our tax years are subject to federal and state tax examination.

9. Convertible Preferred Stock and Junior Preferred Stock

Pursuant to our amended and restated articles of incorporation, we issue convertible preferred stock in series and with rights, preferences and terms as determined by our board of directors.

Conversion of Original Common Stock to Junior Preferred Stock

On August 11, 2005 we converted all issued and outstanding shares of common stock into a new series of convertible preferred stock, called junior preferred stock, in connection with an equity reorganization. In total 7,573,153 shares of common stock converted into junior preferred stock at a ratio of 1:1. The fair value of the junior preferred stock on the date of conversion was deemed to be $1.70 per share. To record the conversion, the difference between the then carrying value of the common stock and the fair value of the junior preferred stock resulted in an increase to accumulated deficit of $12.8 million.

On August 28, 2005, we repurchased 1,000,000 shares of junior preferred stock from one of our founders.

Included in junior preferred stock as of December 31, 2007, 2008, 2009 and June 30, 2010 are 246,992, 23,473, 0 and 0 shares, respectively, subject to our right of repurchase relating to restricted stock purchase agreements.

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
(A development stage enterprise)

Notes to Financial Statements—(Continued)

9. Convertible Preferred Stock and Junior Preferred Stock (Continued)

As of December 31, 2008, our convertible preferred stock consisted of the following (dollars in thousands):

Series	Shares		Proceeds net of issuance costs	Conversion to junior preferred stock	Carrying amount	Liquidation value
	Authorized	Outstanding				
A	5,405,992	5,405,992	$ 5,237	$ —	$ 5,237	$ 5,406
B	3,530,768	3,500,000	4,495	—	4,495	4,550
C	5,342,196	5,322,396	10,669	—	10,669	10,751
D	12,525,000	12,500,000	49,812	—	49,812	50,000
E	17,142,908	17,142,908	119,831	—	119,831	120,000
Junior Preferred Stock	50,680,942	6,496,160	275	10,766	11,041	6,496
	94,627,806	50,367,456	$ 190,319	$ 10,766	$ 201,085	$ 197,203

As of December 31, 2009, our convertible preferred stock consisted of the following (dollars in thousands):

Series	Shares		Proceeds net of Issuance costs	Conversion to junior preferred stock	Carrying amount	Liquidation value
	Authorized	Outstanding				
A	5,405,992	5,405,992	$ 5,237	$ —	$ 5,237	$ 5,406
B	3,530,768	3,500,000	4,495	—	4,495	4,550
C	5,342,197	5,322,396	10,669	—	10,669	10,751
D	12,525,000	12,500,000	49,812	—	49,812	50,000
E	27,857,195	26,866,790	187,841	—	187,841	188,068
Junior Preferred Stock	61,395,230	6,506,160	281	10,766	11,047	6,506
	116,056,382	60,101,338	$ 258,335	$ 10,766	$ 269,101	$ 265,281

2010 Convertible Preferred Stock Financing

In June 2010, we issued 13,204,185 shares of Series F convertible preferred stock at $7.63 per share for gross proceeds of $100.7 million. At June 30, 2010, our convertible preferred stock consisted of the following (dollars in thousands):

Series	Shares		Proceeds net of issuance costs	Conversion to junior preferred stock	Carrying amount	Liquidation value
	Authorized	Outstanding				
A	5,405,992	5,405,992	$ 5,237	$ —	$ 5,237	$ 5,406
B	3,530,768	3,500,000	4,495	—	4,495	4,550
C	5,342,197	5,322,396	10,669	—	10,669	10,751
D	12,525,000	12,500,000	49,812	—	49,812	50,000
E	26,866,790	26,866,790	187,841	—	187,841	188,068
F (unaudited)	19,659,240	13,204,185	97,935	—	97,935	100,748
Junior Preferred Stock	80,064,065	6,506,160	281	10,766	11,047	6,506
	153,394,052	73,305,523	$ 356,270	$ 10,766	$ 367,036	$ 366,029

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
(A development stage enterprise)

Notes to Financial Statements—(Continued)

9. Convertible Preferred Stock and Junior Preferred Stock (Continued)

During July 2010, we issued an additional 1,061,597 shares of Series F convertible preferred stock at $7.63 per share for gross proceeds of $8.1 million.

The significant rights, privileges and preferences of our convertible preferred stock are as follows:

Voting Rights

The holders of Series A, Series B, Series C, Series D, Series E, Series F and junior convertible preferred stock are all entitled to 10 votes for each share of common stock into which such share may be converted, and the vote of the holders of a majority of our convertible preferred stock is required to effect certain corporate actions. In addition, the vote of the holders of a majority of each of our Series D and Series E and 40% of the holders of Series F convertible preferred stock voting together as a single class and on an as-if-converted basis is required to effect, among other things, (i) a modification of our articles of incorporation (ii) any winding up or liquidation of our company, (iii) a sale, license or other disposition of all or substantially all of our assets, and (iv) certain mergers or acquisitions of our company with or into any other corporation or entity.

Dividends

Holders of Series A, Series B, Series C, Series D, Series E, Series F and junior convertible preferred stock are entitled to receive non-cumulative dividends at the per annum rate of $0.08, $0.10, $0.16, $0.32, $0.56, $0.61 and $0.08 per share, respectively, when and if declared by our board of directors. Junior preferred stock is only entitled to dividends after distribution to all other classes of convertible preferred stock. No dividends have been declared since inception.

Liquidation Preference

In the event of any liquidation, dissolution or winding up of our company whether voluntary or involuntary, the holders of Series A, Series B, Series C, Series D, Series E and Series F convertible preferred stock are entitled to receive out of the assets of our company, an amount equal to $1.00, $1.30, $2.02, $4.00, $7.00 and $7.63 per share, respectively, plus any declared but unpaid dividends. The remaining assets, if any, shall be distributed among holders of the junior preferred stock at $1.00 per share, and after that to the common stockholders. If upon such liquidation, dissolution or winding up event, our assets are insufficient to provide for the cash payment of the full preferential amount to the holders of Series A, Series B, Series C, Series D, Series E and Series F convertible preferred stock, such assets shall be distributed ratably among the holders of those classes of stock in proportion to the full preferential amount each holder is otherwise entitled to receive.

Conversion Rights

Each share of convertible preferred stock, at the option of the holder, is convertible at any time into the number of fully paid and nonassessable shares of common stock, as adjusted to reflect stock dividends, stock splits and recapitalization, that results from dividing the original issue price by the applicable conversion price in effect at the time of the conversion. Additionally, any shares of Series A through F convertible preferred stock, at the option of the holder, may be converted at any time into fully paid and nonassessable shares of junior preferred stock at the same rate as such shares would be convertible into shares of common stock. Any shares of junior preferred stock may be converted to common stock on an one-for-one basis. The initial per share conversion price of the Series A, Series B, Series C, Series D, Series E and Series F convertible preferred stock is $1.00, $1.30, $2.02, $4.00, $7.00 and $7.63 per share, respectively, and subject to adjustment in accordance with anti-dilution provisions contained in our amended and restated certificate of incorporation.

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
(A development stage enterprise)

Notes to Financial Statements—(Continued)

9. Convertible Preferred Stock and Junior Preferred Stock (Continued)

Each share of convertible preferred stock is convertible on a one-for-one basis into common stock. At December 31, 2009, we had reserved sufficient shares of common stock for issuance upon conversion of the convertible preferred stock. If not previously converted at the option of the holder, the conversion of the convertible preferred stock is automatic and will be converted at the then applicable conversion prices upon the earlier of any of the following events: (i) affirmative election of the holders of at least a majority of the then outstanding shares of the convertible preferred stock and at least a majority of the Series D convertible preferred stock, or (ii) the closing of a firm commitment underwritten public offering based on an effective registration statement under the Securities Act of 1933 for the offer and sale of our common stock in which the per share price is at least $7.63, adjusted for stock splits, stock dividends, and recapitalizations, and the gross cash proceeds to us, before underwriting discounts, commissions and fees are at least $50 million.

Redemption

Our convertible preferred stock is not redeemable.

Warrants to Purchase Convertible Preferred Stock

In connection with the loan and security agreement we entered into during November 2004, we issued warrants to purchase 15,384 shares of our Series B convertible preferred stock at $1.30 per share. The warrants are immediately exercisable and expire during November 2011. We valued the warrants using the Black-Scholes option pricing model. The aggregate estimated fair value of the warrants, assuming 75% volatility, a 3.60% risk-free rate of interest, a contractual life of seven years and a per share fair value of our convertible preferred stock at the time of issuance of $1.30 per share, amounted to $21,000 and was recorded as a deferred financing cost in other current assets. The amortization of this deferred charge is recognized as additional interest expense over the term of the financing arrangement. As of December 31, 2005, the entire fair value of these warrants had been amortized as interest expense. As of June 30, 2010, none of these warrants have been exercised.

In connection with the drawdown under the loan and security agreement entered into during November 2004, we issued warrants during 2005 to purchase an additional 15,384 shares of Series B convertible preferred stock at $1.30 per share. We valued the warrants using the Black-Scholes option pricing model. The aggregate estimated fair value of the warrants, assuming 75% volatility, a 3.88% risk-free rate of interest, a contractual life of seven years and per share fair value range of our convertible preferred stock at the time of issuance of $1.30 - $2.02 per share, amounted to $11,000 and was recorded as a deferred financing cost in other current assets. The amortization of this deferred charge will be recognized as additional interest expense over the term of the loan. As of December 31, 2008, the entire fair value of these warrants had been amortized as interest expense. As of June 30, 2010, none of these warrants have been exercised.

In connection with the loan and security agreement we entered into during January 2006, we issued warrants to purchase 14,644 shares of our Series C convertible preferred stock at $2.02 per share. The warrants are immediately exercisable and expire seven years after issuance. We valued the warrants using the Black-Scholes option pricing model. The aggregate fair value of the warrants, assuming 75% volatility, a 4.35% risk-free rate of interest, a contractual life of seven years and a per share fair value of our convertible preferred stock at the time of issuance of $2.02 per share, amounted to $23,000 and was recorded as a deferred financing cost in other assets. During 2007, we issued an additional 5,157 shares in connection with the loan agreement. The aggregate fair value of these warrants, assuming 60% volatility, a 4.48% risk-free rate of interest, a contractual life of seven years and a per share fair value of our convertible preferred stock at the time of issuance of $4.00 per share,

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
(A development stage enterprise)

Notes to Financial Statements—(Continued)

9. Convertible Preferred Stock and Junior Preferred Stock (Continued)

amounted to $16,000. The amortization of this deferred charge was recognized as additional interest expense over the term of the financing arrangement. During the years ended December 31, 2007 and 2008, we recorded interest expense totaling $16,000 and $13,000, respectively, associated with amortizing the fair value of the warrants. No additional interest expense was recorded during 2009. As of December 31, 2009, the entire fair value of these warrants had been amortized as interest expense. As of June 30, 2010, none of these warrants have been exercised.

The fair value of the warrants outstanding is classified as a liability and revalued on each reporting period with the resulting gains and losses recorded in other income or expense. For the years ended December 31, 2007 and 2009, we recorded losses of $10,000 and $84,000, respectively, as a result of an increase in the fair value of the warrants. For the year ended December 31, 2008 we recorded a gain of $9,000 as a result of a decrease in the fair value of the warrants. For the six-month period ended June 30, 2010 we recorded a loss of $56,000 as a result of an increase in fair value.

10. Common Stock

Our amended and restated certificate of incorporation authorized us to issue 121,668,835 shares of common stock as of June 30, 2010 with a $0.0001 par value per share. Common stockholders are entitled to dividends when and if declared by our board of directors. There have been no dividends declared to date. The holder of each share of common stock is entitled to one vote.

On September 1, 2000, we issued 4,341,006 shares of restricted common stock at $0.0013 per share to our founders under a restricted stock purchase agreement, as amended on March 4, 2004. On January 25, 2004, 246,752 shares of restricted common stock at $0.0013 per share were issued to a certain consultant under a restricted stock purchase agreement, as amended on March 4, 2004. For each agreement, 30% of the shares vest immediately on March 4, 2004, and the remaining shares vest over a four-year period. In August 2005, these shares were converted into junior preferred stock. These shares were fully vested as of December 31, 2009.

Early Exercise of Employee Options

Stock options granted under our stock options plans provide employee option holders the right to exercise unvested options in exchange for restricted common stock. The stock option tables in Note 11 include unvested shares which amounted to 406,833, 310,729, 118,291, and 310,929 at December 31, 2007, 2008, 2009 and June 30, 2010, respectively, which are subject to a repurchase right held by us at the original issuance price in the event the optionees' employment is terminated either voluntarily or involuntarily. Generally, this right lapses as to 25% on the first anniversary of the vesting start date and in 36 equal monthly amounts thereafter.

These repurchase terms are considered to be a forfeiture provision and do not result in variable accounting. The restricted shares issued upon early exercise of stock options are legally issued and outstanding. However, these restricted shares are only deemed outstanding for basic earnings per share computation purposes upon the respective repurchase rights lapsing. We treat cash received from employees for the exercise of unvested options as a refundable deposit shown as a liability in our balance sheets. As of December 31, 2007, 2008, 2009 and June 30, 2010, we included cash received for early exercise of options of $89,000, $0.2 million, $0.2 million and $0.5 million, respectively, in accrued liabilities. Amounts from accrued liabilities are transferred into common stock and additional paid-in capital as the shares vest.

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
(A development stage enterprise)

Notes to Financial Statements—(Continued)

11. Stock Option Plans

2005 Stock Plan

During August 2005, we adopted the 2005 Stock Plan, or 2005 Plan. The 2005 Plan provides for the granting of stock options to our employees, directors and consultants. Options granted under the 2005 Plan may be either incentive stock options or nonqualified stock options. Incentive stock options, or ISO, may be granted only to our employees. Nonqualified stock options, or NSO, may be granted to all eligible recipients. At December 31, 2009 and June 30, 2010, there were 18,306,169 and 23,306,169 shares, respectively, of common stock authorized for issuance under the 2005 plan.

Options under the 2005 Plan may be granted for periods of up to ten years and at prices no less than 85% of the estimated fair value of the shares on the date of grant as determined by our board of directors, provided, however, that (i) the exercise price of an ISO and NSO shall not be less than 100% and 85%, respectively, of the estimated fair value of the shares on the date of grant, and (ii) the exercise price of an ISO or an NSO granted to a more than 10% stockholder shall not be less than 110% of the estimated fair value of the shares on the date of grant. The options generally vest over four years, however, option holders may early exercise but shares are subject to a right of repurchase. The vesting provisions of individual options may vary but provide for vesting of at least 20% per year.

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
(A development stage enterprise)

Notes to Financial Statements—(Continued)

11. Stock Option Plans (Continued)

The following summarizes option activity under the 2005 Plan:

		Common Stock Options Outstanding		
	Shares available for grant	Number of shares	Exercise price	Weighted average exercise price
Shares reserved at plan inception	1,533,496			
Options granted	(974,825)	974,825	$ 0.35	$ 0.35
Balances, December 31, 2005	558,671	974,825	$ 0.35	$ 0.35
Additional shares reserved	2,453,470			
Options granted	(1,545,100)	1,545,100	$ 0.35	$ 0.35
Options exercised	—	(273,390)	$ 0.35	$ 0.35
Options canceled	48,168	(48,168)	$ 0.35	$ 0.35
Balances, December 31, 2006	1,515,209	2,198,367	$ 0.35	$ 0.35
Additional shares reserved	3,100,000			
Options granted	(4,445,398)	4,445,398	$ 0.35 - 0.98	$ 0.92
Options exercised	—	(274,266)	$ 0.35 - 0.98	$ 0.46
Options repurchased and added back into pool	14,064			
Options canceled	402,419	(402,419)	$ 0.35 - 0.98	$ 0.47
Balances, December 31, 2007	586,294	5,967,080	$ 0.35 - 0.98	$ 0.79
Additional shares reserved	5,807,847			
Options granted	(4,548,250)	4,548,250	$ 1.26 - 3.48	$ 2.62
Options exercised	—	(620,451)	$ 0.35 - 3.48	$ 0.72
Options canceled	213,299	(213,299)	$ 0.35 - 3.48	$ 1.09
Balances, December 31, 2008	2,059,190	9,681,580	$ 0.35 - 3.48	$ 1.65
Additional shares reserved	5,411,356			
Options granted	(3,572,500)	3,572,500	$ 1.93 - 4.25	$ 2.83
Options exercised	—	(168,481)	$ 0.35 - 3.48	$ 1.85
Options repurchased and added back into pool	10,355			
Options canceled	163,850	(163,850)	$ 0.98 - 3.48	$ 2.68
Balances, December 31, 2009	4,072,251	12,921,749	$ 0.35 - 4.25	$ 1.96
Additional shares reserved (unaudited)	5,000,000			
Options granted (unaudited)	(5,196,055)	5,196,055	$ 4.25 - 5.42	$ 4.51
Options exercised (unaudited)		(609,369)	$ 0.35 - 4.25	$ 1.31
Options canceled (unaudited)	161,010	(161,010)	$ 0.98 - 4.25	$ 2.65
Balances, June 30, 2010 (unaudited)	4,037,206	17,347,425	$ 0.35 - 5.42	$ 2.74

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
(A development stage enterprise)

Notes to Financial Statements—(Continued)

11. Stock Option Plans (Continued)

The following table summarizes information with respect to stock options outstanding and exercisable under the 2005 Plan at December 31, 2009 (dollars in thousands, except per share values):

	Options outstanding				Options vested and exercisable		
Exercise price	Number outstanding	Weighted average remaining contractual life (Years)	Weighted average exercise price	Aggregate intrinsic value	Number vested	Weighted average exercise price	Aggregate intrinsic value
$0.35 - 0.98	5,153,200	7.11	$ 0.80		3,431,820	$ 0.74	
$1.26 - 1.93	3,133,713	8.68	$ 1.59		704,642	$ 1.29	
$2.82 - 3.48	3,648,836	8.94	$ 3.30		823,880	$ 3.48	
$4.25	986,000	9.95	$ 4.25		37,833	$ 4.25	
	12,921,749		$ 1.96	$ 29,614	4,998,175	$ 1.30	$ 14,765

The following table summarizes information with respect to stock options outstanding and exercisable under the 2005 Plan at June 30, 2010 (dollars in thousands, except per share values):

	Options outstanding				Options vested and exercisable		
Exercise price	Number outstanding	Weighted average remaining contractual life (Years)	Weighted average exercise price	Aggregate intrinsic value	Number vested	Weighted average exercise price	Aggregate intrinsic value
$0.35 - 0.98	4,697,366	6.54	$ 0.80		3,683,087	$ 0.73	
$1.26 - 1.93	2,939,379	8.07	$ 1.59		1,272,279	$ 1.50	
$2.82 - 3.48	3,585,436	8.43	$ 3.30		1,269,593	$ 3.39	
$4.25 - 5.42	6,125,244	9.64	$ 4.25		734,942	$ 4.25	
	17,347,425		$ 2.74	$ 46,519	6,959,901	$ 1.73	$ 25,688

We have computed the aggregate intrinsic value amounts disclosed in the above table based upon the difference between the original exercise price of the options and our estimate of the deemed fair value of our common stock of $4.25 and $5.42 per share at December 31, 2009 and June 30, 2010, respectively.

The total intrinsic value of options exercised during the year ended December 31, 2009 and the six-month periods ended June 30, 2009 and June 30, 2010 was $0.3 million, $12,000 and $2.9 million, respectively.

2004 Stock Plan

During March 2004, we adopted the 2004 Equity Incentive Plan, or 2004 Plan. The 2004 Plan provides for the granting of stock options to our employees, directors and consultants. Options granted under the 2004 Plan may be either incentive stock options or nonqualified stock options. ISOs may be granted only to our employees. NSOs may be granted to all eligible recipients.

During August 2005, we amended this plan so that the option is now an option to purchase junior preferred stock. As a result of this amendment, we account for options to purchase junior preferred stock under variable plan accounting. Options available for grant under the 2004 Plan, as of that date, were canceled.

Options under the 2004 Plan may be granted for periods of up to ten years and at prices no less than 85% of the estimated fair value of the shares on the date of grant as determined by our board of directors, provided,

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
(A development stage enterprise)

Notes to Financial Statements—(Continued)

11. Stock Option Plans (Continued)

however, that (i) the exercise price of an ISO and NSO shall not be less than 100% and 85%, respectively, of the estimated fair value of the shares on the date of grant, and (ii) the exercise price of an ISO or an NSO granted to a more than 10% stockholder shall not be less than 110% of the estimated fair value of the shares on the date of grant. The options generally vest over four years, however, option holders may early exercise but shares are subject to a right of repurchase. The vesting provisions of individual options may vary but provide for vesting of at least 20% per year.

The following table summarizes option activity under the 2004 Plan:

	Junior preferred stock options outstanding		
	Number of shares	Exercise price	Weighted average exercise price
Shares reserved at plan inception			
Additional shares reserved			
Options granted	2,758,000	$ 0.10 - 0.13	$ 0.10
Options exercised	(1,690,750)	$ 0.10	$ 0.10
Balances, December 31, 2004	1,067,250	$ 0.10 - 0.13	$ 0.10
Options granted	566,625	$ 0.13	$ 0.13
Options exercised	(1,013,395)	$ 0.10 - 0.13	$ 0.12
Options canceled	(83,646)	$ 0.10 - 0.13	$ 0.10
Reserve shares canceled	—		
Balances, December 31, 2005	536,834	$ 0.10 - 0.13	$ 0.11
Options granted	—	$ —	$ —
Options exercised	(53,604)	$ 0.10 - 0.13	$ 0.11
Options canceled	(134,584)	$ 0.10 - 0.13	$ 0.13
Balances, December 31, 2006	348,646	$ 0.10 - 0.13	$ 0.11
Options exercised	(45,000)	$ 0.13	$ 0.13
Balances, December 31, 2007	303,646	$ 0.10 - 0.13	$ 0.11
Options exercised	(65,728)	$ 0.13	$ 0.13
Balances, December 31, 2008	237,918	$ 0.10 - 0.13	$ 0.11
Options exercised	(10,000)	$ 0.13	$ 0.13
Balances, December 31, 2009	227,918	$ 0.10 - 0.13	$ 0.11
Options exercised (unaudited)	—		
Balances, June 30, 2010 (unaudited)	227,918	$ 0.10 - 0.13	$ 0.11

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
(A development stage enterprise)

Notes to Financial Statements—(Continued)

11. Stock Option Plans (Continued)

The following table summarizes information with respect to stock options outstanding and exercisable under the 2004 Plan at December 31, 2009 (dollars in thousands, except per share values):

	Options outstanding				Options vested and exercisable		
Exercise price	Number outstanding	Weighted average remaining contractual life (Years)	Weighted average exercise price	Aggregate intrinsic value	Number vested	Weighted average exercise price	Aggregate intrinsic value
$0.10	172,918	4.42	$ 0.10		172,918	$ 0.10	
$0.13	55,000	4.80	$ 0.13		55,000	$ 0.13	
	227,918		$ 0.11	$ 944	227,918	$ 0.11	$ 944

The following table summarizes information with respect to stock options outstanding and exercisable under the 2004 Plan at June 30, 2010 (dollars in thousands, except per share values):

	Options outstanding				Options vested and exercisable		
Exercise price	Number outstanding	Weighted average remaining contractual life (Years)	Weighted average exercise price	Aggregate intrinsic value	Number vested	Weighted average exercise price	Aggregate intrinsic value
$0.10	172,918	3.92	$ 0.10		172,918	$ 0.10	
$0.13	55,000	4.30	$ 0.13		55,000	$ 0.13	
	227,918		$ 0.11	$ 1,211	227,918	$ 0.11	$ 1,211

We have computed the aggregate intrinsic value amounts disclosed in the above table based upon the difference between the original exercise price of the options and our estimate of the deemed fair value of our common stock of $4.25 and $5.42 per share at December 31, 2009 and June 30, 2010, respectively.

The total intrinsic value of options exercised during the year ended December 31, 2009 and the six-month periods ended June 30, 2009 and June 30, 2010 was not material.

Stock-based Compensation

Stock-based compensation expense related to options granted to employees and non-employees was allocated to research and development expense, sales, general and administrative expense as follows (in thousands):

	Years ended December 31,			Six-month periods ended June 30,		Cumulative period from July 14, 2000 (date of inception) to June 30, 2010
	2007	2008	2009	2009	2010	
				(unaudited)		(unaudited)
Research and development	$ 398	$ 1,183	$ 2,314	$ 1,062	$ 2,498	$ 6,443
Sales, general and administrative	184	387	748	332	1,242	2,638
Total stock-based compensation expense	$ 582	$ 1,570	$ 3,062	$ 1,394	$ 3,740	$ 9,081

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
(A development stage enterprise)

Notes to Financial Statements—(Continued)

11. Stock Option Plans (Continued)

Employee Stock-based Compensation

During the years ended December 31, 2007, 2008 and 2009, we granted 4,170,898, 4,364,750 and 3,425,000 stock options, respectively, to employees with a weighted-average grant date fair value of $0.63, $1.46 and $1.29 per share, respectively, and during the six-month period ended June 30, 2010 we granted 5,173,055 options to employees with a weighted-average grant date fair value of $2.17 per share. As of December 31, 2009 and June 30, 2010, there was unrecognized compensation costs of $7.9 million and $15.8 million, respectively, related to these stock options. We expect to recognize those costs over a weighted-average period of 3.3 years as of June 30, 2010. Future option grants will increase the amount of compensation expense to be recorded in these periods.

We estimated the fair value of employee stock options using the Black-Scholes option pricing model. The fair value of employee stock options is being amortized on a straight-line basis over the requisite service period of the awards. The fair value of employee stock options was estimated using the following assumptions:

	Years ended December 31,			Six-month periods ended June 30,	
	2007	2008	2009	2009	2010
				(unaudited)	
Expected term	7.0 years	7.0 years	5.7 years	5.7 years	5.9 years
Expected volatility	60%	50 - 52%	46 - 48%	48%	46 - 55%
Risk-free interest rate	3.5 - 5.1%	2.8 - 3.5%	1.8 - 3.0%	1.8 - 3.0%	2.2 - 2.6%
Dividend yield	—	—	—	—	—

Expected term — Expected term represents the period that our stock-based awards are expected to be outstanding. Our assumptions about the expected term have been on our historic cancellation and exercise experience and trends as well as our expectations for future periods.

Expected volatility — The expected volatility was based on the historical stock volatilities of several publicly listed comparable companies over a period equal to the expected terms of the options, as we do not have any trading history to use the volatility of our own common stock.

Expected dividend yield — We have never paid dividends and do not expect to pay dividends.

Risk-free interest rate — The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for zero coupon U.S. Treasury notes with maturities approximately equal to the option's expected term.

Fair value of common stock — The fair value of the shares of common stock underlying the stock options has historically been the responsibility of and determined by our board of directors. Because there has been no public market for our common stock, our board of directors has determined fair value of the common stock at the time of grant of the option by considering a number of objective and subjective factors including independent third-party valuations of our common stock, sales of convertible preferred stock to unrelated third parties, operating and financial performance, the lack of liquidity of capital stock and general and industry specific economic outlook, amongst other factors. The fair value of the underlying common stock shall be determined by our board of directors until such time as our common stock is listed on an established stock exchange or national market system.

Forfeiture rate — We estimate our forfeiture rate based on an analysis of our actual forfeitures and will continue to evaluate the adequacy of the forfeiture rate based on actual forfeiture experience, analysis of employee turnover behavior and other factors. The impact from a forfeiture rate adjustment will be recognized in

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
(A development stage enterprise)

Notes to Financial Statements—(Continued)

11. Stock Option Plans (Continued)

full in the period of adjustment, and if the actual number of future forfeitures differs from that estimated, we may be required to record adjustments to stock-based compensation expense in future periods.

Each of the inputs discussed above is subjective and generally requires significant management and director judgment to determine.

Stock-based Compensation Associated with Junior Preferred Stock

In connection with our equity restructuring in 2005 in which all authorized and issued shares of common stock were converted into shares of junior preferred stock, all outstanding options to purchase common stock were converted into options to purchase junior preferred stock. We recorded deferred stock-based compensation of $5.6 million in connection with the exchange of common stock options for junior preferred stock options which was fully amortized during 2009 as all the options became fully vested. As a result of a repricing which occurred in 2005, we applied variable accounting to the junior preferred stock options resulting in additional stock-based compensation of $95,000, $0.1 million, $0.5 million and $0.3 million for the years ended December 31, 2007, 2008 and 2009 and the six-month period ended June 30, 2010, respectively. Stock-based compensation expense for these options were $1.1 million, $0.6 million, $0.6 million and $0.3 million for the years ended December 31, 2007, 2008 and 2009 and the six-month period ended June 30, 2010, respectively.

Employee stock-based compensation and net loss for 2005 in the Statement of Convertible Preferred Stock and Stockholders' Equity (Deficit) has been revised from $1.3 million and $7.9 million to $4.3 million and $10.9 million, respectively, to correct for an error in the calculation of employee stock-based compensation in 2005.

Options Granted to Non-employees

During the years ended December 31, 2007, 2008, 2009 and for the six-month period ended June 30, 2010, we granted options to purchase 274,500, 191,500, 147,500 and 23,000 shares of common stock, respectively, to non-employees at exercise prices ranging from $0.98 to $5.42 per share.

Stock-based compensation expense will fluctuate as the estimated fair value of the common stock fluctuates over the vesting period. In connection with the grant of stock options to non-employees, we recognized stock-based compensation expense of $0.2 million, $0.3 million, $0.4 million and $1.6 million, for the years ended December 31, 2007, 2008 and 2009 and the period from July 14, 2000, the date of inception, to June 30, 2010, respectively. Compensation expense of $0.1 million and $0.6 million was recorded for the six-month periods ended June 30, 2009 and 2010, respectively.

Stock-based compensation expense related to stock options granted to non-employees is recognized as the stock options are earned. We believe that the estimated fair value of the stock options is more readily measurable than the fair value of the services rendered. The fair value of the stock options granted to non-employees is calculated at each reporting date using the Black-Scholes option pricing model using the following assumptions:

	Years ended December 31,			Six-month periods ended June 30,	
	2007	2008	2009	2009	2010
				(unaudited)	
Contractual life	10 years	10 years	10 years	10 years	10 years
Expected volatility	60%	75%	75%	75%	60 - 75%
Risk-free interest rate	4.1%	2.4 - 4.1%	2.8 - 3.7%	2.8 - 3.7%	3.7 - 3.9%
Dividend yield	—	—	—	—	—

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
(A development stage enterprise)

Notes to Financial Statements—(Continued)

11. Stock Option Plans (Continued)

Shares Reserved for Future Issuance

As of December 31, 2009 and June 30, 2010 we had reserved shares of Common Stock for issuance as follows:

	December 31, 2009	June 30, 2010 (unaudited)
Conversion of Convertible Preferred Stock*	60,101,338	73,305,523
Issuance of Common Stock Options	16,994,000	21,384,631
Issuance of Junior Preferred Stock Options*	227,918	227,918
Issuance upon exercise of Convertible Preferred Stock warrants*	50,569	50,569
	77,373,825	94,968,641

* The convertible preferred stock, junior preferred stock options and convertible preferred stock warrants were computed on an as-converted basis using the conversion ratios in effect as of June 30, 2010 for all periods presented.

12. Employee Benefit Plan

During 2005, we established a 401(k) Plan to provide tax deferred salary deductions for all eligible employees. Participants may make voluntary contributions to the 401(k) Plan up to 90% of their eligible compensation, limited by certain Internal Revenue Service restrictions. We do not match employee contributions.

13. Subsequent Events

We have evaluated the events occurring after the June 30, 2010 balance sheet date and believe that there are no subsequent events, other than those included in the notes to the financial statements, that require disclosure.

Table of Contents

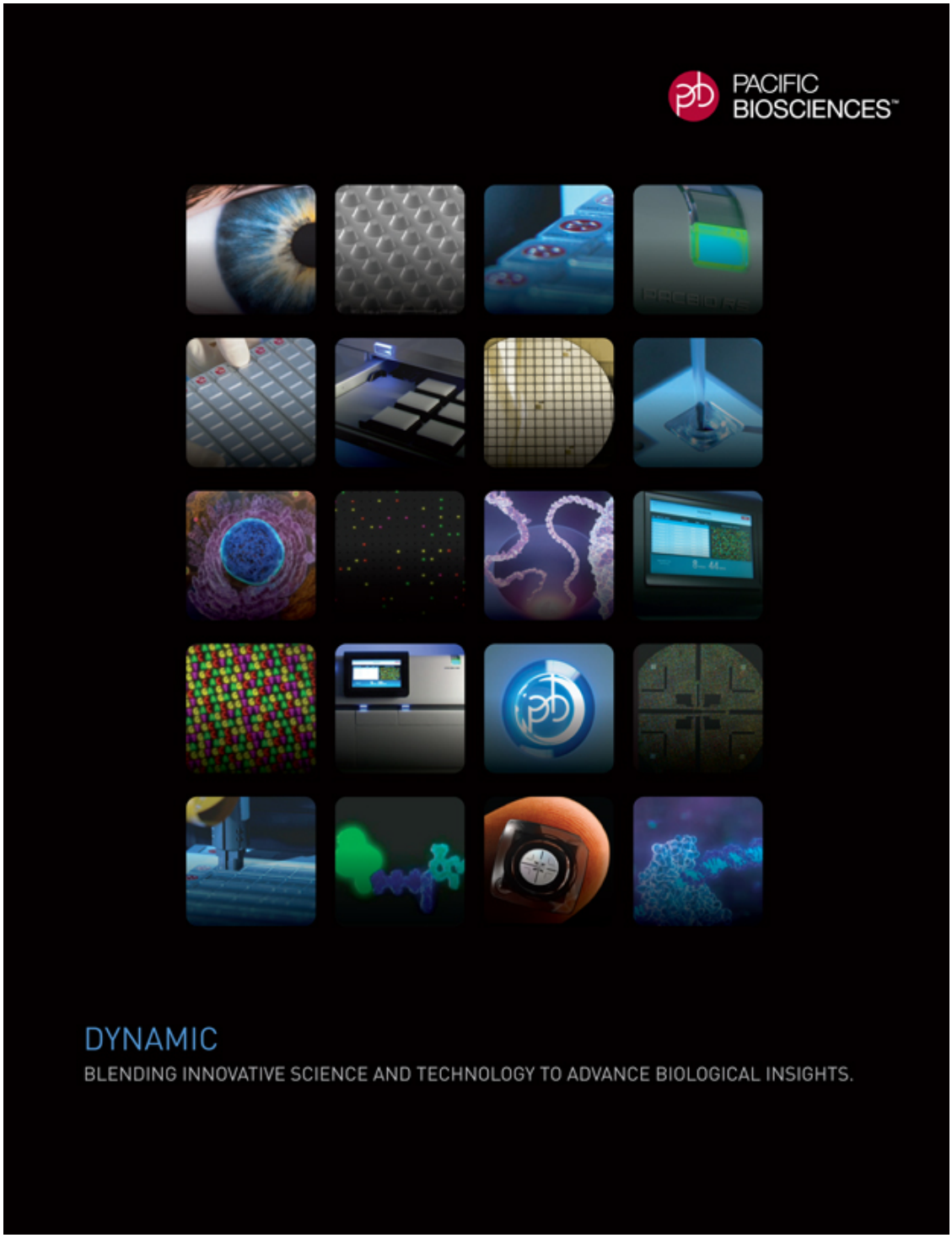


Table of Contents

PART II

INFORMATION NOT REQUIRED IN THE PROSPECTUS

Item 13. Other expenses of issuance and distribution.

Estimated expenses, other than underwriting discounts and commissions, payable by the Registrant in connection with the sale of the common stock being registered under this registration statement are as follows:

SEC registration fee	$ 14,260
FINRA filing fee	20,500
Listing fee	*
Printing and engraving expenses	*
Legal fees and expenses	*
Accounting fees and expenses	*
Blue Sky fees and expenses (including legal fees)	*
Transfer agent and registrar fees and expenses	*
Miscellaneous	*
Total	$ *

* To be filed by amendment.

Item 14. Indemnification of directors and officers.

Upon the closing of this offering, the Registrant's amended and restated certificate of incorporation will contain provisions that eliminate, to the maximum extent permitted by the General Corporation Law of the State of Delaware, the personal liability of the Registrant's directors and executive officers for monetary damages for breach of their fiduciary duties as directors or officers. The Registrant's amended and restated certificate of incorporation and bylaws will provide that the Registrant must indemnify its directors and executive officers and may indemnify its employees and other agents to the fullest extent permitted by the General Corporation Law of the State of Delaware.

Sections 145 and 102(b)(7) of the General Corporation Law of the State of Delaware provide that a corporation may indemnify any person made a party to an action by reason of the fact that he or she was a director, executive officer, employee or agent of the corporation or is or was serving at the request of a corporation against expenses, including attorneys' fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by him or her in connection with such action if he or she acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interests of the corporation and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful, except that, in the case of an action by or in right of the corporation, no indemnification may generally be made in respect of any claim as to which such person is adjudged to be liable to the corporation.

The Registrant intends to enter into indemnification agreements with its directors and executive officers, in addition to the indemnification provided for in its amended and restated certificate of incorporation and bylaws, and intends to enter into indemnification agreements with any new directors and executive officers in the future.

The Registrant has purchased and intends to maintain insurance on behalf of each and any person who is or was a director or officer of the Registrant against any loss arising from any claim asserted against him or her and incurred by him or her in any such capacity, subject to certain exclusions.

The Underwriting Agreement, to be attached as Exhibit 1.1, provides for indemnification by the underwriters of the Registrant and its executive officers and directors, and by the Registrant of the underwriters, for certain liabilities, including liabilities arising under the Securities Act.

See also the undertakings set out in response to Item 17 herein.

Item 15. Recent sales of unregistered securities.

During the last three years, we sold the following unregistered securities:

(1) From January 1, 2007 through July 31, 2010, we sold and issued to our employees, consultants or former service providers an aggregate of 120,728 shares of common stock pursuant to option exercises under the 2004 Equity Incentive Plan, as amended, at prices ranging from $0.10 to $0.13 per share for an aggregate purchase price of $14,473.

(2) From January 1, 2007 through July 31, 2010, we sold and issued to our employees, consultants or former service providers an aggregate of 1,888,903 shares of common stock pursuant to option exercises under the 2005 Stock Plan, as amended, at prices ranging from $0.35 to $6.37 per share for an aggregate purchase price of $2,345,980.

(3) From January 1, 2007 through July 31, 2010, we granted options under our 2005 Stock Plan, as amended, to purchase 18,769,703 shares of common stock to our employees, directors and consultants, having exercise prices ranging from $0.98 to $6.37 per share for an aggregate exercise price of $56,242,373.

(4) Between July 2008 and July 2009, we sold and issued 26,866,790 shares of Series E convertible preferred stock to 63 accredited investors, at $7.00 per share, for a total consideration of $188,067,530.

(5) Between June and July 2010, we sold and issued 14,265,782 shares of Series F convertible preferred stock to 19 accredited investors, at $7.63 per share, for a total consideration of $108,847,917.

None of the foregoing transactions involved any underwriters, underwriting discounts or commissions, or any public offering, and the registrant believes that each transaction was exempt from the registration requirements of the Securities Act in reliance on the following exemptions:

- with respect to the transactions described in paragraphs (1), (2) and (3), Rule 701 promulgated under the Securities Act as transactions pursuant to a compensatory benefit plan approved by the registrant's board of directors; and
- with respect to the transactions described in paragraphs (4) and (5), Section 4(2) of the Securities Act, or Rule 506 of Regulation D promulgated thereunder, as transactions by an issuer not involving a public offering. Each recipient of the securities in these transactions represented his or her intention to acquire the securities for investment only and not with a view to, or for resale in connection with, any distribution thereof, and appropriate legends were affixed to the share certificates issued in each such transaction. In each case, the recipient received adequate information about the registrant or had adequate access, through his or her relationship with the registrant, to information about the registrant.

There were no underwriters employed in connection with any of the transactions set forth in Item 15.

Item 16. Exhibits and financial statement schedules.

(a) Exhibits:

Exhibit number	Exhibit title
1.1*	Form of Underwriting Agreement
3.1	Amended and Restated Certificate of Incorporation of the Registrant, as currently in effect
3.2*	Form of Amended and Restated Certificate of Incorporation of the Registrant, to be effective upon closing of the offering
3.3	Amended and Restated Bylaws of the Registrant, as currently in effect
3.4*	Form of Amended and Restated Bylaws of the Registrant, to be effective upon closing of the offering
4.1*	Specimen Common Stock Certificate of the Registrant
4.2	Fifth Amended and Restated Investor Rights Agreement, dated June 16, 2010
5.1*	Opinion of Wilson Sonsini Goodrich & Rosati, Professional Corporation
10.1	Form of Director and Executive Officer Indemnification Agreement
10.2	2004 Equity Incentive Plan and forms of option agreements thereunder
10.3	2005 Stock Plan and forms of option agreements thereunder
10.4	2010 Equity Incentive Plan and forms of option agreements thereunder to be in effect upon the closing of this offering
10.5	2010 Employee Stock Purchase Plan and forms of agreement thereunder to be in effect upon the closing of this offering
10.6	2010 Outside Director Equity Incentive Plan and forms of agreement thereunder to be in effect upon the closing of this offering
10.7†*	Collaboration Agreement by and between the Registrant and Gen-Probe Incorporated, dated as of June 15, 2010
10.8†*	Exclusive License Agreement by and between the Registrant and Cornell Research Foundation, Inc., dated as of February 1, 2004
10.9†*	License Agreement by and between the Registrant and GE Healthcare Bio-Sciences Corp., dated as of September 11, 2006
10.10†*	Exclusive License Agreement by and between the Registrant and Indiana University Research and Technology Corporation, dated May 15, 2005
10.11	Amended and Restated Lease Agreement by and between the Registrant and Menlo Business Park, LLC, dated as of December 17, 2007
10.12	Lease Agreement by and between the Registrant and Menlo Business Park LLC, dated August 14, 2009
10.13	Industrial Lease Agreement by and between the Registrant and AMB Property, L.P., dated December 10, 2009
10.14	Industrial Lease Agreement by and between the Registrant and AMB Property, L.P., dated September 24, 2009
10.15	First Amendment to the September 24, 2009 Industrial Lease Agreement by and between the Registrant and AMB Property, L.P., dated as of May 19, 2010

Exhibit number	Exhibit title
10.16	Industrial Lease Agreement by and between the Registrant and AMB Property, L.P., dated February 8, 2010
21.1	List of subsidiaries of the Registrant
23.1	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm
23.2*	Consent of Wilson Sonsini Goodrich & Rosati, Professional Corporation (included in Exhibit 5.1)
24.1	Power of Attorney (see page II-6 to this registration statement on Form S-1)

* To be filed by amendment.

† Confidential treatment has been requested for portions of this exhibit. These portions have been omitted from this Registration Statement and have been filed separately with the Securities and Exchange Commission.

Item 17. Undertakings.

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933, as amended, and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933, as amended, and will be governed by the final adjudication of such issue.

We hereby undertake that:

(a) We will provide to the underwriters at the closing as specified in the underwriting agreement certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

(b) For purposes of determining any liability under the Securities Act of 1933, as amended, the information omitted from a form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in the form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act of 1933, as amended, shall be deemed to be part of this registration statement as of the time it was declared effective.

(c) For the purpose of determining any liability under the Securities Act of 1933, as amended, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Signatures

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Menlo Park, State of California, on August 16, 2010.

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.

By: /S/ HUGH C. MARTIN
Hugh C. Martin
President and Chief Executive Officer

Power of attorney

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Hugh C. Martin and Susan K. Barnes, jointly and severally, as his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign the Registration Statement on Form S-1 of Pacific Biosciences of California, Inc. and any or all amendments (including post-effective amendments) thereto and any new registration statement with respect to the offering contemplated thereby filed pursuant to Rule 462(b) of the Securities Act, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises hereby ratifying and confirming all that said attorneys-in-fact and agents, or his or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities indicated below:

Signature	Title	Date
/S/ HUGH C. MARTIN Hugh C. Martin	Chief Executive Officer	August 16, 2010
/S/ SUSAN K. BARNES Susan K. Barnes	Chief Financial Officer	August 16, 2010
/S/ BROOK BYERS Brook Byers	Director	August 16, 2010
/S/ WILLIAM W. ERICSON William W. Ericson	Director	August 16, 2010
/S/ MICHAEL HUNKAPILLER Michael Hunkapiller	Director	August 16, 2010
/S/ RANDALL S. LIVINGSTON Randall S. Livingston	Director	August 16, 2010

Table of Contents

Signature	Title	Date
/S/ SUSAN SIEGEL Susan Siegel	Director	August 16, 2010
/S/ DAVID B. SINGER David B. Singer	Director	August 16, 2010

Table of Contents

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Table of Contents

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* To be filed by amendment.

† Confidential treatment has been requested for portions of this exhibit. These portions have been omitted from this Registration Statement and have been filed separately with the Securities and Exchange Commission.

AMENDED AND RESTATED CERTIFICATE OF INCORPORATION OF PACIFIC BIOSCIENCES OF CALIFORNIA, INC.

Hugh Martin hereby certifies that:

ONE: The date of filing the original Certificate of Incorporation of this company with the Secretary of State of the State of Delaware was July 14, 2000.

TWO: The original Certificate of Incorporation of this company was amended and restated on each of October 8, 2002 and March 3, 2004.

THREE: The Certificate of Incorporation was thereafter amended and restated on March 4, 2004 to effect a stock split whereby each share of company common stock and non-voting common stock then issued and outstanding was reclassified and converted into 1523.1601 shares of fully paid and non-assessable company common stock.

FOUR: The Certificate of Incorporation was further amended and restated on July 19, 2004, and amended and restated on August 11, 2005, when the name of this company was changed from "Nanofluidics, Inc." to "Pacific Biosciences of California, Inc."

FIVE: The Certificate of Incorporation was further amended on January 20, 2006 to increase the authorized number of shares of Series C Preferred Stock, and amended and restated on each of November 30, 2006 and July 10, 2008, and further amended on each of October 10, 2008, January 5, 2009 and July 27, 2009.

SIX: He is the duly elected and acting Chief Executive Officer of Pacific Biosciences of California, Inc., a Delaware corporation.

SEVEN: The Certificate of Incorporation of this company is hereby further amended and restated to read as follows (this "**Restated Certificate**"):

I.

The name of this company is **Pacific Biosciences of California, Inc.** (the "**Company**" or the "**Corporation**").

II.

The address of the registered office of this Company in the State of Delaware is 3500 South DuPont Highway, City of Dover, County of Kent, 19901, and the name of the registered agent of this Corporation in the State of Delaware at such address is Incorporating Services, Ltd.

III.

The purpose of the Company is to engage in any lawful act or activity for which a corporation may be organized under the Delaware General Corporation Law ("**DGCL**").

IV.

A. The Company is authorized to issue two classes of stock to be designated, respectively, "Common Stock" and "Preferred Stock." The total number of shares which the Company is authorized to issue is 275,062,887 shares, of which 121,668,835 shall be Common Stock (the "**Common Stock**") and 153,394,052 shares shall be Preferred Stock (the "**Preferred Stock**"). Each of the Common Stock and Preferred Stock shall have a par value of one hundredth cent ($0.0001) per share.

B. The number of authorized shares of Common Stock may be increased or decreased (but not below the number of shares of Common Stock then outstanding) by the affirmative vote of the holders of a majority of the capital stock of the Company (voting together as a single class on an as-if-converted basis).

C. 5,405,992 shares of Preferred Stock shall be designated "Series A Preferred Stock" (the "**Series A Preferred**"), 3,530,768 shares of Preferred Stock shall be designated "Series B Preferred Stock" (the "**Series B Preferred**"), 5,342,197 shares shall be designated "Series C Preferred Stock" (the "**Series C Preferred**"), 12,525,000 shares shall be designated "Series D Preferred Stock" (the "**Series D Preferred**"), 26,866,790 shares shall be designated "Series E Preferred Stock" (the "**Series E Preferred**"), 19,659,240 shares shall be designated "Series F Preferred Stock" (the "**Series F Preferred**" and together with the Series A Preferred, Series B Preferred, Series C Preferred, Series D Preferred and Series E Preferred, the "**Senior Preferred**") and 80,064,065 shares shall be designated "Junior Preferred Stock" (the "**Junior Preferred**").

D. The rights, preferences, privileges, restrictions and other matters relating to the Preferred Stock are as follows:

1. **Dividend Rights**.

(a) Holders of Senior Preferred, in preference to the holders of Junior Preferred and Common Stock, shall be entitled to receive, on a *pari passu* basis, when, as and if declared by the Board of Directors (the "**Board**"), but only out of funds that are legally available therefor, cash dividends at the rate of eight percent (8%) of the applicable Original Issue Price (as defined below) per annum on each outstanding share of Senior Preferred. Such dividends shall be non-cumulative.

(b) The Original Issue Price of the Series A Preferred shall be $1.00 (as adjusted for any stock dividends, combinations, splits, recapitalizations and the like with respect to such shares after the filing date hereof). The Original Issue Price of the Series B Preferred shall be $1.30 (as adjusted for any stock dividends, combinations, splits, recapitalizations and the like with respect to such shares after the filing date hereof). The Original Issue Price of the Series C Preferred shall be $2.02 (as adjusted for any stock dividends, combinations, splits, recapitalizations and the

like with respect to such shares after the filing date hereof). The Original Issue Price of the Series D Preferred shall be $4.00 (as adjusted for any stock dividends, combinations, splits, recapitalizations and the like with respect to such shares after the filing date hereof). The Original Issue Price of the Series E Preferred shall be $7.00 (as adjusted for any stock dividends, combinations, splits, recapitalizations and the like with respect to such shares after the filing date hereof). The Original Issue Price of the Series F Preferred shall be $7.63 (as adjusted for any stock dividends, combinations, splits, recapitalizations and the like with respect to such shares after the filing date hereof). The Original Issue Price of the Junior Preferred shall be $1.00 (as adjusted for any stock dividends, combinations, splits, recapitalizations and the like with respect to such shares after the filing date hereof).

(c) So long as any shares of Senior Preferred are outstanding, the Company shall not pay or declare any dividend, whether in cash or property, or make any other distribution on the Common Stock or Junior Preferred, or purchase, redeem or otherwise acquire for value any shares of Common Stock or Junior Preferred until all dividends as set forth in Section 1(a) above on the outstanding Senior Preferred shall have been paid or declared and set apart, except for:

(i) acquisitions of Common Stock or Junior Preferred by the Company pursuant to agreements with service providers (including employees) which permit the Company to repurchase such shares upon termination of the provision of services to the Company;

(ii) acquisitions of Common Stock or Junior Preferred in exercise of the Company's repurchase option or right of first refusal on such shares; or

(iii) acquisitions of Common Stock or Junior Preferred approved by the Company's Board of Directors, including the approval of each of the Representatives of the Senior Preferred (as defined below).

(d) In the event dividends are paid on any share of Common Stock or Junior Preferred, the Company shall pay an additional dividend on all outstanding shares of Senior Preferred in a per share amount equal (on an as-if-converted to Common Stock basis) to the amount paid or set aside for each share of Common Stock or Junior Preferred, as the case may be.

(e) The holders of Senior Preferred expressly waive their rights, if any, as described in Sections 502, 503 and 506 of the California General Corporation Law ("**CGCL**") as they relate to repurchases of shares of Common Stock or Junior Preferred pursuant to Sections 1(c)(i), 1(c)(ii) and 1(c)(iii) above.

2. **Voting Rights**.

(a) **General Rights**. On any matter presented to the stockholders of the Company for their action or consideration at any meeting of stockholders of the Company (or by written consent of stockholders in lieu of meeting), each holder of shares of Preferred Stock shall be entitled to the number of votes equal to ten (10) multiplied by the number of shares of Common Stock into which such shares of Preferred Stock could be converted (pursuant to Section 5 hereof) immediately after the close of business on the record date fixed for such meeting or the effective

date of such written consent and shall have voting rights and powers equal (except as described previously in this sentence) to the voting rights and powers of the Common Stock and shall be entitled to notice of any stockholders' meeting in accordance with the Bylaws of the Company. Fractional votes shall not, however, be permitted and any fractional voting rights available on an as-converted basis (after aggregating all shares into which shares of Preferred Stock held by each holder could be converted) shall be rounded to the nearest whole number (with one-half being rounded upward). Each holder of shares of Common Stock shall be entitled to one vote per share of Common Stock. Except as otherwise provided herein or as required by law, the Preferred Stock shall vote together with the Common Stock at any annual or special meeting of the stockholders and not as a separate class, and may act by written consent in the same manner as the Common Stock.

(b) **Separate Vote of Preferred Stock**.

(i) For so long as at least 16,382,700 shares of Series F Preferred remain outstanding, in addition to any other vote or consent required herein or by law, the vote or written consent of the holders of at least a majority of the outstanding shares of Series F Preferred shall be necessary for effecting or validating the following actions, and for so long as any shares of Series F Preferred remain outstanding, in addition to any other vote or consent required herein or by law, the vote or written consent of the holders of at least forty percent (40%) of the outstanding shares of Series F Preferred shall be necessary for effecting or validating the following actions:

(A) Any amendment, alteration or repeal of any provision of the Certificate of Incorporation or the Bylaws of the Company (including any filing of a Certificate of Designation) that adversely alters or changes the voting or other powers, preferences or other special rights, privileges or restrictions of the Series F Preferred;

(B) Any increase of the total number of authorized shares of Series F Preferred;

(C) Any authorization, designation or issuance, whether by reclassification, merger or otherwise, of any new class or series of stock or any other securities convertible into equity securities of the Company ranking on a parity with or senior to the Series F Preferred with respect to any rights or preferences or any increase in the authorized or designated number of any such new class or series;

(D) Any declaration of dividends or other distributions or repurchases with respect to Common Stock or Junior Preferred (except for acquisitions of Common Stock or Junior Preferred by the Company permitted by Section 1(c)(i) hereof);

(E) Any agreement by the Company or its stockholders regarding, or any consummation of, a Liquidation Event (as defined in Section 3(a)), Asset Transfer (as defined in Section 4(b)) or Acquisition (as defined in Section 4(b)); or

(F) Any action that alters or changes the rights, preferences and privileges of the Series F Preferred.

(ii) For so long as any shares of Series E Preferred remain outstanding, in addition to any other vote or consent required herein or by law, the vote or written consent of the holders of at least a majority of the outstanding shares of Series E Preferred shall be necessary for effecting or validating the following actions:

(A) Any amendment, alteration or repeal of any provision of the Certificate of Incorporation or the Bylaws of the Company (including any filing of a Certificate of Designation) that adversely alters or changes the voting or other powers, preferences or other special rights, privileges or restrictions of the Series E Preferred;

(B) Any increase of the total number of authorized shares of Series E Preferred;

(C) Any authorization, designation or issuance, whether by reclassification, merger or otherwise, of any new class or series of stock or any other securities convertible into equity securities of the Company ranking on a parity with or senior to the Series E Preferred with respect to any rights or preferences or any increase in the authorized or designated number of any such new class or series;

(D) Any declaration of dividends or other distributions or repurchases with respect to Common Stock or Junior Preferred (except for acquisitions of Common Stock or Junior Preferred by the Company permitted by Section 1(c)(i) hereof);

(E) Any agreement by the Company or its stockholders regarding, or any consummation of, a Liquidation Event (as defined in Section 3(a)), Asset Transfer (as defined in Section 4(b)) or Acquisition (as defined in Section 4(b)); or

(F) Any action that alters or changes the rights, preferences and privileges of the Series E Preferred.

(iii) For so long as any shares of Series D Preferred remain outstanding, in addition to any other vote or consent required herein or by law, the vote or written consent of the holders of at least a majority of the outstanding shares of Series D Preferred shall be necessary for effecting or validating the following actions:

(A) Any amendment, alteration or repeal of any provision of the Certificate of Incorporation or the Bylaws of the Company (including any filing of a Certificate of Designation) that alters or changes the voting or other powers, preferences or other special rights, privileges or restrictions of the Series D Preferred;

(B) Any increase of the total number of authorized shares of Series D Preferred;

(C) Any authorization, designation or issuance, whether by reclassification, merger or otherwise, of any new class or series of stock or any other securities convertible into equity securities of the Company ranking on a parity with or senior to the Series D Preferred with respect to any rights or preferences or any increase in the authorized or designated number of any such new class or series;

(D) Any declaration of dividends or other distributions or repurchases with respect to Common Stock or Junior Preferred (except for acquisitions of Common Stock or Junior Preferred by the Company permitted by Section 1(c)(i) hereof);

(E) Any agreement by the Company or its stockholders regarding, or any consummation of, a Liquidation Event, Asset Transfer or Acquisition;

(F) Any action that alters or changes the rights, preferences and privileges of the Series D Preferred; or

(G) Any increase or decrease in the authorized number of directors.

(iv) For so long as any shares of Preferred Stock remain outstanding, in addition to any other vote or consent required herein or by law, the vote or written consent of the holders of at least a majority of the outstanding shares of Preferred Stock shall be necessary for effecting or validating the following actions:

(A) Any amendment, alteration, or repeal of any provision of the Certificate of Incorporation or the Bylaws of the Company (including any filing of a Certificate of Designation), that alters or changes the voting or other powers, preferences, or other special rights, privileges or restrictions of the Preferred Stock;

(B) Any increase or decrease in the authorized number of shares of Preferred Stock or any series thereof;

(C) Any authorization or any designation, whether by reclassification, merger or otherwise, of any new class or series of stock or any other securities convertible into equity securities of the Company ranking on a parity with or senior to any series of Preferred Stock or any increase in the authorized or designated number of any such new class or series;

(D) Any declaration of dividends or other distributions with respect to Common Stock or Junior Preferred (except for acquisitions of Common Stock or Junior Preferred by the Company permitted by Section 1(c)(i), (ii) and (iii) hereof);

(E) Any agreement by the Company or its stockholders regarding, or any consummation of, a Liquidation Event, Asset Transfer or Acquisition;

(F) Any action that alters or changes the rights, preferences and privileges of the Preferred Stock; or

(G) Any increase or decrease in the authorized number of directors.

(c) **Election of Board of Directors**.

(i) For so long as any shares of Senior Preferred remain outstanding the holders of Senior Preferred, voting as a separate class, shall be entitled to elect four (4) members of the Board at each meeting or pursuant to each consent of the Company's stockholders for the election of directors, and to remove from office such directors and to fill any vacancy caused by the resignation, death or removal of such directors. The members of the Board elected or appointed pursuant to this Section shall be known as the "**Representatives of the Senior Preferred**."

(ii) The holders of Common Stock and Junior Preferred, voting together as a single class on an as-if-converted basis, shall be entitled to elect two (2) members of the Board at each meeting or pursuant to each consent of the Company's stockholders for the election of directors, and to remove from office such directors and to fill any vacancy caused by the resignation, death or removal of such directors.

(iii) The holders of Common Stock and Preferred Stock, voting together as a single class on an as-if-converted basis, shall be entitled to elect all remaining members of the Board at each meeting or pursuant to each consent of the Company's stockholders for the election of directors, and to remove from office such directors and to fill any vacancy caused by the resignation, death or removal of such directors.

(iv) No person entitled to vote at an election for directors may cumulate votes to which such person is entitled, unless, at the time of such election, the Company is subject to Section 2115 of CGCL. During such time or times that the Company is subject to Section 2115(b) of the CGCL, every stockholder entitled to vote at an election for directors may cumulate such stockholder's votes and give one candidate a number of votes equal to the number of directors to be elected multiplied by the number of votes to which such stockholder's shares are otherwise entitled, or distribute the stockholder's votes on the same principle among as many candidates as such stockholder desires. No stockholder, however, shall be entitled to so cumulate such stockholder's votes unless (i) the names of such candidate or candidates have been placed in nomination prior to the voting and (ii) the stockholder has given notice at the meeting, prior to the voting, of such stockholder's intention to cumulate such stockholder's votes. If any stockholder has given proper notice to cumulate votes, all stockholders may cumulate their votes for any candidates who have been properly placed in nomination. Under cumulative voting, the candidates receiving the highest number of votes, up to the number of directors to be elected, are elected.

(v) During such time or times that the Company is subject to Section 2115(b) of the CGCL, one or more directors may be removed from office at any time without cause by the affirmative vote of the holders of a majority of the outstanding shares entitled to vote for that director as provided above; *provided*, *however*, that unless the entire Board is removed, no individual director may be removed when the votes cast against such director's removal, or not consenting in writing to such removal, would be sufficient to elect that director if voted cumulatively at an election which the same total number of votes were cast (or, if such action is taken by written consent, all shares entitled to vote were voted) and the entire number of directors authorized at the time of such director's most recent election were then being elected.

3. **Liquidation Rights**.

(a) Upon any liquidation, dissolution, or winding up of the Company, whether voluntary or involuntary (a "**Liquidation Event**"), before any distribution or payment shall be made to the holders of any Common Stock or Junior Preferred in respect of such shares, the holders of Senior Preferred shall be entitled to be paid out of the assets of the Company legally available for distribution, or the consideration received in such transaction, for each share of Senior Preferred held by them, an amount per share of Senior Preferred equal to the applicable Original Issue Price plus all declared and unpaid dividends on such Senior Preferred. If, upon any such Liquidation Event, the assets of the Company (or the consideration received in the Acquisition or Asset Transfer (as such terms are defined in Section 4(b) below)) shall be insufficient to make payment in full to all holders of Senior Preferred of the liquidation preference set forth in this Section 3(a), then such assets (or consideration) shall be distributed among the holders of Senior Preferred at the time outstanding, ratably in proportion to the full amounts to which they would otherwise be respectively entitled.

(b) After the payment of the full liquidation preference of the Senior Preferred as set forth in Section 3(a) above, and before any distribution or payment shall be made to the holders of any Common Stock, the remaining assets of the Company legally available for distribution in such Liquidation Event (or the consideration received by the Company or its stockholders in the Acquisition or Asset Transfer), if any, shall be distributed ratably to the holders of the Junior Preferred until such time as the holders of Junior Preferred have received $1.00 per share plus all accrued but unpaid dividends, if any.

(c) After the payment of the full liquidation preference of the Preferred Stock as set forth in Sections 3(a) and 3(b) above, the remaining assets of the Company legally available for distribution in such Liquidation Event (or the consideration received by the Company or its stockholders in the Acquisition or Asset Transfer), if any, shall be distributed ratably to the holders of the Common Stock.

4. **Asset Transfer or Acquisition Rights**.

(a) In the event that the Company is a party to an Acquisition or Asset Transfer (as hereinafter defined), then each holder of Preferred Stock and Common Stock shall be entitled to receive, for each share of Preferred Stock or Common Stock, as the case may be, then held, out of the proceeds of such Acquisition or Asset Transfer, the amount of cash, securities or other property to which such holder would be entitled to receive in a Liquidation Event pursuant to Sections 3(a), 3(b) or 3(c), as the case may be, above.

(b) For the purposes of this Section 4: (i) "**Acquisition**" shall mean: (A) any consolidation or merger of the Company with or into any other corporation or other entity or person, or any other corporate reorganization, in which the outstanding shares of capital stock of the Company immediately prior to such consolidation, merger or reorganization, represent less than 50% of the voting power (on an as-if fully converted basis) of the surviving entity (or, if the surviving entity is a wholly owned subsidiary, its parent) immediately after such consolidation, merger or reorganization; or (B) any transaction or series of related transactions, including any recapitalization

or reclassification, to which the Company is a party in which in excess of fifty percent (50%) of the Company's voting power (on an as-if converted basis) is transferred; provided that an Acquisition shall not include any transaction or series of transactions solely for the purpose of reincorporation or principally for bona fide equity financing purposes in which cash is received by the Company or any successor or indebtedness of the Company is cancelled or converted or a combination thereof; and (ii) "**Asset Transfer**" shall mean a sale, lease, exclusive license or other disposition, in a single transaction or series of related transactions, of all or substantially all of the assets of the Company, or the sale or disposition (whether by merger or otherwise) of one or more subsidiaries of the Company if substantially all of the assets of the Company and its subsidiaries taken as a whole are held by such subsidiary or subsidiaries, except where such sale, lease, exclusive license or other disposition is to a wholly owned subsidiary of the Company.

(c) In any Acquisition or Asset Transfer, if the consideration to be received is securities of a corporation or other property other than cash, its value will be deemed its fair market value determined as follows:

(i) For securities not subject to investment letters or other similar restrictions on free marketability:

(A) if traded on a securities exchange, the value shall be deemed to be the average of the closing prices of the securities on such exchange or market over the thirty-day (30) day period ending three (3) days prior to the closing of such transaction;

(B) if actively traded over-the-counter, the value shall be deemed to be the average of the closing bid prices over the thirty-day (30) day period ending three (3) days prior to the closing of such transaction; or

(C) if there is no active public market, the value shall be the fair market value thereof, as determined in good faith by the Board.

(ii) The method of valuation of securities subject to investment letters or other similar restrictions on free marketability (other than the restrictions arising solely by virtue of a stockholder's status as an affiliate or former affiliate) shall take into account an appropriate discount (as determined in good faith by the Board) from the market value as determined pursuant to Section 4(c)(i) above so as to reflect the approximate fair market value thereof.

5. **Conversion Rights**.

The holders of Preferred Stock shall have the following rights with respect to the conversion of Preferred Stock into shares of Common Stock (the "**Conversion Rights**"):

(a) **Optional Conversion**. Subject to and in compliance with the provisions of this Section 5, any shares of Preferred Stock may, at the option of the holder, be converted at any time into fully-paid and nonassessable shares of Common Stock. Additionally, subject to and in compliance with the provisions of this Section 5, any shares of Senior Preferred may, at the option of the holder, be converted at any time into fully-paid and nonassessable shares of Junior Preferred at the same rate as such shares would be convertible into shares of Common Stock.

The number of shares of Common Stock or Junior Preferred to which a holder of Senior Preferred shall be entitled upon conversion shall, in the case of the Series A Preferred, be the product obtained by multiplying the "Series A Preferred Conversion Rate" then in effect by the number of shares of Series A Preferred being converted; in the case of the Series B Preferred, be the product obtained by multiplying the "Series B Preferred Conversion Rate" then in effect by the number of shares of Series B Preferred being converted; in the case of the Series C Preferred, be the product obtained by multiplying the "Series C Preferred Conversion Rate" then in effect by the number of shares of Series C Preferred being converted; in the case of the Series D Preferred, be the product obtained by multiplying the "Series D Preferred Conversion Rate" then in effect by the number of shares of Series D Preferred being converted; in the case of the Series E Preferred, be the product obtained by multiplying the "Series E Preferred Conversion Rate" then in effect by the number of shares of Series E Preferred being converted; in the case of the Series F Preferred, be the product obtained by multiplying the "Series F Preferred Conversion Rate" then in effect by the number of shares of Series F Preferred being converted; and in the case of the Junior Preferred, be the product obtained by multiplying the "Junior Preferred Conversion Rate" then in effect by the number of shares of Junior Preferred being converted; in each case, determined as provided in Section 5(b).

(b) **Conversion Rate**. The conversion rate in effect at any time for conversion of the Series A Preferred (the "**Series A Preferred Conversion Rate**") shall be the quotient obtained by dividing the Original Issue Price of the Series A Preferred by the "Series A Preferred Conversion Price;" for conversion of the Series B Preferred (the "**Series B Preferred Conversion Rate**") shall be the quotient obtained by dividing the Original Issue Price of the Series B Preferred by the "Series B Preferred Conversion Price;" for conversion of the Series C Preferred (the "**Series C Preferred Conversion Rate**") shall be the quotient obtained by dividing the Original Issue Price of the Series C Preferred by the "Series C Preferred Conversion Price;" for conversion of the Series D Preferred (the "**Series D Preferred Conversion Rate**") shall be the quotient obtained by dividing the Original Issue Price of the Series D Preferred by the "Series D Preferred Conversion Price;" for conversion of the Series E Preferred (the "**Series E Preferred Conversion Rate**") shall be the quotient obtained by dividing the Original Issue Price of the Series E Preferred by the "Series E Preferred Conversion Price;" for conversion of the Series F Preferred (the "**Series F Preferred Conversion Rate**") shall be the quotient obtained by dividing the Original Issue Price of the Series F Preferred by the "Series F Preferred Conversion Price;" and for conversion of the Junior Preferred (the "**Junior Preferred Conversion Rate**") shall be the quotient obtained by dividing the Original Issue Price of the Junior Preferred by the "Junior Preferred Conversion Price;" in each case, calculated as provided in Section 5(c).

(c) **Conversion Price**. The conversion prices for the Series A Preferred, Series B Preferred, Series C Preferred, Series D Preferred, Series E Preferred, Series F Preferred and Junior Preferred shall initially be the Original Issue Price of the Series A Preferred (the "**Series A Preferred Conversion Price**"), the Original Issue Price of the Series B Preferred (the "**Series B Preferred Conversion Price**"), the Original Issue Price of the Series C Preferred (the "**Series C Preferred Conversion Price**"), the Original Issue Price of the Series D Preferred (the "**Series D Preferred Conversion Price**"), the Original Issue Price of the Series E Preferred (the "**Series E Preferred Conversion Price**"), the Original Issue Price of the Series F Preferred (the "**Series F Preferred Conversion Price**") and the Original Issue Price of the Junior Preferred (the "**Junior Preferred Conversion Price**"), respectively. Such initial Series A Preferred Conversion Price,

Series B Preferred Conversion Price, Series C Preferred Conversion Price, Series D Preferred Conversion Price, Series E Preferred Conversion Price, Series F Preferred Conversion Price and Junior Preferred Conversion Price shall be adjusted from time to time in accordance with this Section 5. All references to the Series A Preferred Conversion Price, the Series B Preferred Conversion Price, the Series C Preferred Conversion Price, the Series D Conversion Price, the Series E Conversion Price, the Series F Preferred Conversion Price or the Junior Preferred Conversion Price herein shall mean the price as so adjusted.

(d) **Mechanics of Conversion**. Each holder of Senior Preferred who desires to convert the same into shares of Common Stock or Junior Preferred, as the case may be, and each holder of Junior Preferred who desires to convert the same into shares of Common Stock pursuant to this Section 5 shall surrender the certificate or certificates therefor, duly endorsed, at the office of the Company or any transfer agent for Preferred Stock (or the holder shall notify the Company or its transfer agent that such certificates have been lost, stolen or destroyed and shall execute an agreement reasonably satisfactory to the Company to indemnify the Company from any loss incurred by it in connection with such certificates), and shall give written notice to the Company at such office that such holder elects to convert the same. Such notice shall state the number of shares of Series A Preferred, Series B Preferred, Series C Preferred, Series D Preferred, Series E Preferred, Series F Preferred or Junior Preferred, as appropriate, being converted. Thereupon, the Company shall promptly issue and deliver at such office to such holder a certificate or certificates for the number of shares of Common Stock or Junior Preferred, as applicable, to which such holder is entitled and shall promptly pay (i) in cash or, to the extent sufficient funds are not then legally available therefor, in Common Stock (at the Common Stock's fair market value determined in good faith by the Board as of the date of such conversion), any declared and unpaid dividends on the shares of Preferred Stock being converted and (ii) in cash (at the fair market value thereof determined in good faith by the Board as of the date of conversion) the value of any fractional share of Common Stock or Junior Preferred otherwise issuable to any holder of Preferred Stock. Such conversion shall be deemed to have been made at the close of business on the date of such surrender of the certificates representing the shares of Preferred Stock to be converted (or delivery of the indemnity agreement in lieu thereof as provided above), and the person entitled to receive the shares of Common Stock or Junior Preferred, as applicable, issuable upon such conversion shall be treated for all purposes as the record holder of such shares of Common Stock or Junior Preferred, as applicable, on such date.

(e) **Adjustment for Stock Splits and Combinations**. If at any time or from time to time after the date of the filing of this Restated Certificate the Company effects a subdivision of the outstanding Common Stock without a corresponding subdivision of the Preferred Stock, the Conversion Price of each affected series of Preferred Stock (including the Junior Preferred) in effect immediately before that subdivision shall be proportionately decreased. Conversely, if at any time or from time to time after the date of the filing of this Restated Certificate the Company combines the outstanding shares of Common Stock into a smaller number of shares without a corresponding combination of the Preferred Stock (including the Junior Preferred), the Conversion Price in effect immediately before the combination shall be proportionately increased. Any adjustment under this Section 5(e) shall become effective at the close of business on the date the subdivision or combination becomes effective.

(f) **Adjustment for Common Stock Dividends and Distributions**. If at any time or from time to time after the date of the filing of this Restated Certificate the Company pays to holders of Common Stock a dividend or other distribution in additional shares of Common Stock without a corresponding dividend or other distribution to holders of Preferred Stock, the Conversion Price then in effect for each series of Preferred Stock shall be decreased as of the time of such issuance, as provided below:

(i) The then-existing Conversion Price of each series of Preferred Stock (including the Junior Preferred) shall be adjusted by multiplying the Conversion Price then in effect by a fraction:

(A) the numerator of which is the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance, and

(B) the denominator of which is the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance plus the number of shares of Common Stock issuable in payment of such dividend or distribution;

(ii) If the Company fixes a record date to determine which holders of Common Stock are entitled to receive such dividend or other distribution, the Conversion Price of each series of Preferred Stock (including the Junior Preferred) shall be fixed as of the close of business on such record date and the number of shares of Common Stock shall be calculated immediately prior to the close of business on such record date; and

(iii) If such record date is fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the Conversion Price of each series of Preferred Stock (including the Junior Preferred) shall be recomputed accordingly as of the close of business on such record date and thereafter the Conversion Price shall be adjusted pursuant to this Section 5(f) to reflect the actual payment of such dividend or distribution.

(g) **Adjustment for Reclassification, Exchange, Substitution, Reorganization, Merger or Consolidation**. If at any time or from time to time after the date of the filing of this Restated Certificate, the Common Stock issuable upon the conversion of the Preferred Stock is changed into the same or a different number of shares of any class or classes of stock, whether by recapitalization, reclassification, merger, consolidation or otherwise (other than an Acquisition or Asset Transfer as defined in Section 4 or a subdivision or combination of shares or stock dividend or a reorganization, merger, consolidation or sale of assets provided for elsewhere in this Section 5), in any such event each holder of Preferred Stock (including the Junior Preferred) shall then have the right to convert such stock into the kind and amount of stock and other securities and property receivable upon such recapitalization, reclassification, merger, consolidation or other change by holders of the maximum number of shares of Common Stock into which such shares of Preferred Stock could have been converted immediately prior to such recapitalization, reclassification, merger, consolidation or change, all subject to further adjustment as provided herein or with respect to such other securities or property by the terms thereof. In any such case, appropriate adjustment shall be made in the application of the provisions of this Section 5 with respect to the rights of the holders of Preferred Stock after the capital reorganization to the end that the provisions of this Section 5 (including adjustment of the Conversion Price then in effect and the number of shares issuable upon conversion of Preferred Stock) shall be applicable after that event and be as nearly equivalent as practicable.

(h) **Sale of Shares Below Conversion Price**.

(i) If at any time or from time to time after the date of the filing of this Restated Certificate, the Company issues or sells, or is deemed by the express provisions of this Section 5(h) to have issued or sold, Additional Shares of Common Stock (as defined below), other than as provided in Section 5(f) or 5(g) above, for an Effective Price (as defined below) less than the then effective Conversion Price of any series of Senior Preferred (with respect to such series, a "**Qualifying Dilutive Issuance**"), then and in each such case, the then existing Conversion Price of each affected series of Senior Preferred shall be reduced, as of the opening of business on the date of such issue or sale, to a price determined by multiplying the Conversion Price in effect immediately prior to such issuance or sale by a fraction:

(A) the numerator of which shall be (1) the number of shares of Common Stock deemed outstanding (as determined below) immediately prior to such issue or sale, or deemed issue or sale, plus (2) the number of shares of Common Stock which the Aggregate Consideration (as defined below) received or deemed received by the Company for the total number of Additional Shares of Common Stock so issued or sold, or deemed issued or sold, would purchase at such then-existing Conversion Price of the affected series of Senior Preferred, and

(B) the denominator of which shall be the number of shares of Common Stock deemed outstanding (as determined below) immediately prior to such issue or sale, or deemed issue or sale, plus the total number of Additional Shares of Common Stock so issued or sold, or deemed issued or sold.

For the purposes of the preceding sentence, the number of shares of Common Stock deemed to be outstanding as of a given date shall be the sum of (A) the number of shares of Common Stock outstanding, (B) the number of shares of Common Stock into which the then outstanding shares of Preferred Stock could be converted if fully converted on the day immediately preceding the given date, and (C) the number of shares of Common Stock which are directly or indirectly issuable upon the exercise, exchange or conversion of all other rights, options and Convertible Securities (as defined below) outstanding on the day immediately preceding the given date.

(ii) No adjustment shall be made to the Conversion Price of any series of Senior Preferred in an amount less than one cent per share. Any adjustment otherwise required by this Section 5(h) that is not required to be made due to the preceding sentence shall be included in any subsequent adjustment to the Conversion Price of the affected series of Senior Preferred.

(iii) For the purpose of making any adjustment required under this Section 5(h), the aggregate consideration received by the Company for any issue or sale of securities (the "**Aggregate Consideration**") shall: (A) to the extent it consists of cash, be computed at the gross amount of cash received by the Company before deduction of any underwriting or similar

commissions, compensation or concessions paid or allowed by the Company in connection with such issue or sale and without deduction of any expenses payable by the Company, (B) to the extent it consists of property other than cash, be computed at the fair value of that property as determined pursuant to Section 4(c), before deduction of any underwriting or similar commissions, compensation or concessions paid or allowed by the Company in connection with such issue or sale and without deduction of any expenses payable by the Company, and (C) if Additional Shares of Common Stock, Convertible Securities (as defined below) or rights or options to purchase either Additional Shares of Common Stock or Convertible Securities are issued or sold together with other stock or securities or other assets of the Company for a consideration which covers both, be computed as the portion of the consideration so received that may be reasonably determined in good faith by the Board to be allocable to such Additional Shares of Common Stock, Convertible Securities or rights or options.

(iv) For the purpose of the adjustment required under this Section 5(h), if the Company grants, issues or sells (whether directly or by assumption in a merger or otherwise) (x) Preferred Stock or other stock, options, warrants, purchase rights, evidences of indebtedness or other securities directly or indirectly convertible into or exchangeable for Additional Shares of Common Stock (such convertible stock or securities being herein referred to as "**Convertible Securities**") or (y) rights or options for the purchase of Additional Shares of Common Stock or Convertible Securities, whether or not such Convertible Securities, rights or options are immediately exercisable, exchangeable or convertible, and if the Effective Price of such Additional Shares of Common Stock directly or indirectly issuable upon conversion or exchange of such Convertible Securities or exercise of such rights or options is less than the Conversion Price of any series of Senior Preferred, in each case the Company shall be deemed to have issued at the time of the grant, issuance or sale of such rights or options or Convertible Securities the maximum number of Additional Shares of Common Stock directly or indirectly issuable upon exercise, exchange or conversion thereof and to have received as consideration for the issuance of such shares an amount equal to the total amount of the consideration, if any, received by the Company for the issuance of such rights or options or Convertible Securities plus:

(A) in the case of such rights or options, the minimum amounts of consideration, if any, payable to the Company upon the exercise of such rights or options; and

(B) in the case of Convertible Securities, the minimum amounts of consideration, if any, payable to the Company upon the conversion or exchange thereof (other than by cancellation of liabilities or obligations evidenced by such Convertible Securities); *provided* that if the minimum amounts of such consideration cannot be ascertained, but are a function of antidilution or similar protective clauses, the Company shall be deemed to have received the minimum amounts of consideration without reference to such clauses.

(v) If the minimum amount of consideration payable to the Company upon the exercise, exchange or conversion of rights, options or Convertible Securities is reduced over time or on the occurrence or non-occurrence of specified events other than by reason of antidilution adjustments, the Effective Price shall be recalculated using the figure to which such minimum amount of consideration is reduced; *provided further*, that if the minimum amount of

consideration payable to the Company upon the exercise, exchange or conversion of such rights, options or Convertible Securities is subsequently increased, the Effective Price shall be again recalculated using the increased minimum amount of consideration payable to the Company upon the exercise, exchange or conversion of such rights, options or Convertible Securities.

(vi) No further adjustment of the Conversion Price of any series of Senior Preferred Stock, as adjusted upon the grant, issuance or sale of such rights, options or Convertible Securities, shall be made as a result of the actual issuance of Additional Shares of Common Stock or the exercise of any such rights or options or the conversion or exchange of any such Convertible Securities. If any such rights or options or the conversion or exchange privilege represented by any such Convertible Securities shall expire without having been exercised, the Conversion Price of the affected series of Senior Preferred as adjusted upon the grant, issuance or sale of such rights, options or Convertible Securities shall be readjusted to the Conversion Price which would have been in effect had an adjustment been made on the basis that the only Additional Shares of Common Stock so issued were the Additional Shares of Common Stock, if any, actually granted, issued or sold on the exercise of such rights or options or rights of conversion or exchange of such Convertible Securities, and such Additional Shares of Common Stock, if any, were granted, issued or sold for the consideration actually received by the Company upon such exercise, plus the consideration, if any, actually received by the Company for the granting of all such rights or options, whether or not exercised, plus the consideration received for granting, issuing or selling the Convertible Securities actually converted or exchanged, plus the consideration, if any, actually received by the Company (other than by cancellation of liabilities or obligations evidenced by such Convertible Securities) on the conversion or exchange of such Convertible Securities, *provided* that such readjustment shall not apply to prior conversions of Senior Preferred.

(vii) For the purpose of making any adjustment to the Conversion Price of Senior Preferred Stock required under this Section 5(h), "**Additional Shares of Common Stock**" shall mean all shares of Common Stock issued by the Company or deemed to be issued pursuant to this Section 5(h) (including shares of Common Stock subsequently reacquired or retired by the Company), other than:

(A) shares of Preferred Stock issued and outstanding on the date hereof;

(B) shares of Common Stock actually issued upon conversion of the Preferred Stock;

(C) shares of Junior Preferred actually issued upon conversion of the Senior Preferred or pursuant to the exercise of Convertible Securities outstanding as of the date of the filing of this Restated Certificate in accordance with the terms of such Convertible Securities;

(D) shares of Common Stock or options therefor issued after the date of the filing of this Restated Certificate to employees, officers or directors of, or consultants or advisors to the Company or any subsidiary pursuant to stock purchase or stock option plans or other arrangements that are approved by the Board or a committee authorized by the Board, provided that no committee authorized by the Board may make any amendments to the Company's stock option plans;

(E) shares of Common Stock issued pursuant to the exercise of Convertible Securities outstanding as of the date of the filing of this Restated Certificate in accordance with the terms of such Convertible Securities;

(F) shares of Common Stock issued or issuable pursuant to a stock split or stock dividend by the Company;

(G) shares of Common Stock or Convertible Securities issued for consideration other than cash pursuant to a merger, consolidation, acquisition, strategic alliance or similar business combination approved by the Board including the Representatives of the Senior Preferred;

(H) shares of Common Stock or Convertible Securities issued pursuant to any equipment loan or leasing arrangement, any debt financing from a bank or similar financial institution or any real property leasing arrangement approved by the Board including the Representatives of the Senior Preferred;

(I) shares of Common Stock or Convertible Securities issued to third-party service providers in exchange for or as partial consideration for services rendered to the Company approved by the Board including the Representatives of the Senior Preferred; and

(J) any Common Stock or Convertible Securities issued in connection with strategic transactions involving the Company and other entities, including (i) joint ventures, manufacturing, marketing or distribution arrangements or (ii) technology transfer or development arrangements; *provided* that the issuance of shares therein has been approved by the Company's Board including the Representatives of the Senior Preferred.

References to Common Stock in the subsections of this clause (vii) above shall mean all shares of Common Stock issued by the Company or deemed to be issued pursuant to this Section 5(h). The "**Effective Price**" of Additional Shares of Common Stock shall mean the quotient determined by dividing the total number of Additional Shares of Common Stock issued or sold, or deemed to have been issued or sold by the Company under this Section 5(i), into the Aggregate Consideration received, or deemed to have been received by the Company for such issue under this Section 5(h), for such Additional Shares of Common Stock. In the event that the number of shares of Additional Shares of Common Stock or the Effective Price cannot be ascertained at the time of issuance, such Additional Shares of Common Stock shall be deemed issued immediately upon the occurrence of the first event that makes such number of shares or the Effective Price, as applicable, determinable.

(viii) In the event that the Company issues or sells, or is deemed to have issued or sold, Additional Shares of Common Stock in a Qualifying Dilutive Issuance (the "**First Dilutive Issuance**"), then in the event that the Company issues or sells, or is deemed to have issued or sold, Additional Shares of Common Stock in a Qualifying Dilutive Issuance other than the First Dilutive Issuance as a part of the same transaction or series of related transactions as the First Dilutive Issuance (a "**Subsequent Dilutive Issuance**"), then and in each such case upon a Subsequent Dilutive Issuance the Conversion Price of each affected series of Senior Preferred shall be reduced to the Conversion Price that would have been in effect had the First Dilutive Issuance and each Subsequent Dilutive Issuance all occurred on the closing date of the First Dilutive Issuance. Additionally, with respect to any Qualifying Dilutive Issuance, the adjustment of the Conversion Price under this Section 5(h) shall be made first to the Series A Preferred; second to the Series B Preferred taking into account the prior adjustment to the Series A Preferred; third to the Series C Preferred taking into account the prior adjustments to the Series A Preferred and Series B Preferred; fourth to the Series D Preferred taking into account the prior adjustments to the Series A Preferred, Series B Preferred and Series C Preferred; fifth to the Series E Preferred taking into account the prior adjustments to the Series A Preferred, Series B Preferred, Series C Preferred and Series D Preferred; and sixth to the Series F Preferred taking into account the prior adjustments to the Series A Preferred, Series B Preferred, Series C Preferred, Series D Preferred and Series E Preferred.

(i) **Certificate of Adjustment**. In each case of an adjustment or readjustment of the Conversion Price of any series of Preferred Stock for the number of shares of Common Stock or other securities issuable upon conversion of Preferred Stock, if the Preferred Stock is then convertible pursuant to this Section 5, the Company, at its expense, shall compute such adjustment or readjustment in accordance with the provisions hereof and shall, upon request, prepare a certificate showing such adjustment or readjustment, and shall mail such certificate, by first class mail, postage prepaid, to each registered holder of the affected series of Preferred Stock so requesting at such holder's address as shown in the Company's books. The certificate shall set forth such adjustment or readjustment, showing in detail the facts upon which such adjustment or readjustment is based, including a statement of (i) the consideration received or deemed to be received by the Company for any Additional Shares of Common Stock issued or sold or deemed to have been issued or sold, (ii) the Conversion Price at the time in effect, (iii) the number of Additional Shares of Common Stock and (iv) the type and amount, if any, of other property which at the time would be received upon conversion of the Preferred Stock. Failure to request or provide such notice shall have no effect on any such adjustment.

(j) **Notices of Record Date**. Upon (i) any taking by the Company of a record of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any dividend or other distribution, or (ii) any Acquisition (as defined in Section 4) or other capital reorganization of the Company, any reclassification or recapitalization of the capital stock of the Company, any merger or consolidation of the Company with or into any other corporation, or any Asset Transfer (as defined in Section 4), or any voluntary or involuntary dissolution, liquidation or winding up of the Company, in each such case the Company shall mail to each holder of Preferred Stock a notice specifying (A) the date on which any such record is to be taken for the purpose of such dividend or distribution, and a description of such dividend or distribution, (B) the date on which any such Acquisition, reorganization, reclassification, transfer, consolidation, merger, Asset Transfer, dissolution, liquidation or winding up is expected to become effective, and a description of the material terms and conditions of the impending transaction, and (C) the date, if any, that is to be fixed as to when the holders of record of Common Stock (or other securities) shall be entitled to exchange their shares of Common Stock (or other securities) for

securities or other property deliverable upon such Acquisition, reorganization, reclassification, transfer, consolidation, merger, Asset Transfer, dissolution, liquidation or winding up, and the amount per share and character of such exchange applicable to the Preferred Stock and the Common Stock. Such notice shall be sent at least twenty (20) days prior to the record date or effective date specified therein (or such shorter period approved by the holders of a majority of the outstanding Preferred Stock). In the event the requirements of this Section 5(j) are not complied with, the Company shall forthwith either:

(i) Cause such closing to be postponed until such time as the requirements of this Section 5(j) have been complied with or waived; or

(ii) Cancel such transactions, in which event the respective rights, preferences and privileges of the holders of Preferred Stock shall revert to and be the same as such rights, preferences and privileges existing immediately prior to the date of the first notice referred to in Section 5(j).

(k) **Automatic Conversion**.

(i) Each share of Preferred Stock shall automatically be converted into shares of Common Stock, based on the then-effective Conversion Price applicable to the respective series of Preferred Stock, (A) at any time upon the affirmative election of the holders of a majority of the outstanding shares of Preferred Stock, or (B) immediately upon the closing of a firmly underwritten public offering pursuant to a registration statement filed with and declared effective by the Securities and Exchange Commission under the Securities Act of 1933, as amended, covering the offer and sale of Common Stock for the account of the Company in which (i) the per share price is at least the Original Issue Price of the Series F Preferred (as adjusted for stock splits, stock dividends, recapitalizations and the like after the filing date hereof), and (ii) the gross cash proceeds to the Company (before underwriting discounts, commissions and fees) are at least $50,000,000, *provided, however*, that the affirmative election of the holders of a majority of the outstanding shares of Series D Preferred shall be required for an automatic conversion of the Preferred Stock pursuant to Section 5(k)(i)(A). Upon such automatic conversion, any declared and unpaid dividends shall be paid in accordance with the provisions of Section 1(d).

(ii) Upon the occurrence of either of the events specified in Section 5(k)(i) above, the outstanding shares of the specified Preferred Stock shall be converted automatically without any further action by the holders of such shares and whether or not the certificates representing such shares are surrendered to the Company or its transfer agent; *provided, however*, that the Company shall not be obligated to issue certificates evidencing the shares of Common Stock issuable upon such conversion unless the certificates evidencing such shares of Preferred Stock are either delivered to the Company or its transfer agent as provided below, or the holder notifies the Company or its transfer agent that such certificates have been lost, stolen or destroyed and executes an agreement reasonably satisfactory to the Company to indemnify the Company from any loss incurred by it in connection with such certificates. Upon the occurrence of such automatic conversion of the Preferred Stock, the holders of Preferred Stock shall surrender the certificates representing such shares (or deliver the indemnity agreement in lieu thereof as provided above) at the office of the Company or any transfer agent for the Preferred Stock. Thereupon, there

shall be issued and delivered to such holder promptly at such office and in its name as shown on such surrendered certificate or certificates (or indemnity agreement in lieu thereof), a certificate or certificates for the number of shares of Common Stock into which the shares of Preferred Stock surrendered were convertible on the date on which such automatic conversion occurred, and any declared and unpaid dividends shall be paid in accordance with the provisions of Section 1(d). If the conversion is in connection with a public offering pursuant to Section 5(k)(i)(B) above, the conversion shall be conditioned upon the closing with the underwriters of the sale of securities pursuant to such offering, in which event the person(s) or entity entitled to receive the Common Stock upon such conversion of Preferred Stock shall not be deemed to have converted such Preferred Stock until immediately prior to the closing of such sale of securities.

(l) **Fractional Shares**. No fractional shares of Common Stock or Junior Preferred shall be issued upon conversion of Preferred Stock or Senior Preferred, as the case may be. All shares of Common Stock or Junior Preferred (including fractions thereof) issuable upon conversion of more than one share of Preferred Stock or Senior Preferred by a holder thereof shall be aggregated for purposes of determining whether the conversion would result in the issuance of any fractional share. If, after the aforementioned aggregation, the conversion would result in the issuance of any fractional share, the Company shall, in lieu of issuing any fractional share, pay cash equal to the product of such fraction multiplied by the fair market value of one share of Common Stock or Junior Preferred, as the case may be, on the date of conversion (as determined in good faith by the Board).

(m) **Reservation of Stock Issuable Upon Conversion**. The Company shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock and Junior Preferred, solely for the purpose of effecting the conversion of the shares of the Preferred Stock and Senior Preferred, respectively, such number of its shares of Common Stock and Junior Preferred as shall from time to time be sufficient to effect the conversion of all outstanding shares of Preferred Stock and Senior Preferred, respectively. If at any time the number of authorized but unissued shares of Common Stock and Junior Preferred shall not be sufficient to effect the conversion of all then outstanding shares of Preferred Stock and Senior Preferred, respectively, the Company will take such corporate action as may be necessary to increase its authorized but unissued shares of Common Stock and Junior Preferred to such number of shares as shall be sufficient for such purpose, including, without limitation, engaging in its best efforts to obtain the requisite stockholder approval of any necessary amendment to the Restated Certificate.

(n) **Notices**. Any notice required by the provisions of this Section 5 shall be in writing and shall be deemed effectively given: (i) upon personal delivery to the party to be notified, (ii) when sent by confirmed electronic mail or facsimile if sent during normal business hours of the recipient; if not, then on the next business day, (iii) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (iv) one (1) day after deposit with a nationally recognized overnight courier, specifying next day delivery, with verification of receipt. All notices shall be addressed to each holder of record at the applicable address of such holder appearing on the books of the Company.

(o) **Payment of Taxes**. The Company will pay all taxes (other than taxes based upon income) and other governmental charges that may be imposed with respect to the issue or delivery of shares of Common Stock or Junior Preferred upon conversion of shares of Preferred Stock or Senior Preferred, respectively, excluding any tax or other charge imposed in connection with any transfer involved in the issue and delivery of shares of Common Stock or Junior Preferred in a name other than that in which the shares of Preferred Stock or Senior Preferred so converted were registered.

6. **No Reissuance of Preferred Stock**.

No shares of Preferred Stock acquired by the Company by reason of redemption, purchase, conversion or otherwise shall be reissued, sold or transferred, and all such shares of Preferred Stock shall be automatically and immediately cancelled, retired and eliminated from the shares that the Company shall be authorized to issue.

V.

A. To the fullest extent permitted by applicable law, as the same exists or may hereafter be amended, a director of the Company shall not be personally liable to the Company or its stockholders for monetary damages for any action taken, or any failure to take any action, as a director.

B. The Company shall indemnify and hold harmless, to the fullest extent permitted by applicable law, as the same exists or may hereafter be amended, any director or officer of the Company who was or is made or is threatened to be made a party or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "**Proceeding**") by reason of the fact that he or she, or a person for whom he or she is the legal representative, is or was a director, officer, employee or agent of the Company or is or was serving at the request of the Company as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust, enterprise or non-profit entity, including service with respect to employee benefit plans, against all liability and loss suffered and expenses reasonably incurred by such person in connection with any such Proceeding. The right to indemnification shall extend to the heirs, executors, administrators and estate of any such director or officer. The Company shall be required to indemnify a person in connection with a Proceeding initiated by such person only if the Proceeding was authorized by the Board. The right to indemnification provided in this Article will not be exclusive of any other rights to which any person seeking indemnification may otherwise be entitled, including without limitation, pursuant to any bylaw, agreement, vote of stockholders or disinterested directors, or otherwise, both as to action in their official capacities and as to action in another capacity while holding such office.

C. The Company shall have the power to indemnify and hold harmless, to the fullest extent permitted by applicable law, as the same exists or may hereafter be amended, any employee or agent of the Company who was or is made or is threatened to be made a party or is otherwise involved in any Proceeding by reason of the fact that he or she, or a person for whom he or she is the legal representative, is or was an employee or agent of the Company or is or was serving at the request of the Company as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust, enterprise or non-profit entity, including service with respect to employee benefit plans, against all liability and loss suffered and expenses reasonably incurred by such person in connection with any such Proceeding.

D. Neither any amendment nor repeal of this Article, nor the adoption of any provision of this Restated Certificate inconsistent with this Article, shall eliminate or reduce the effect of this Article in respect of any matter occurring, or any cause of action, suit or claim accruing or arising or that, but for this Article, would accrue or arise, prior to such amendment, repeal or adoption of an inconsistent provision.

VI.

For the management of the business and for the conduct of the affairs of the Company, and in further definition, limitation and regulation of the powers of the Company, of its directors and of its stockholders or any class thereof, as the case may be, it is further *provided* that:

A. The management of the business and the conduct of the affairs of the Company shall be vested in its Board. The number of directors which shall constitute the whole Board shall be fixed by the Board in the manner provided in the Bylaws, subject to any restrictions which may be set forth in this Restated Certificate.

B. The Board of Directors is expressly empowered to adopt, amend or repeal the Bylaws of the Company. The stockholders shall also have the power to adopt, amend or repeal the Bylaws of the Company; provided however, that, in addition to any vote of the holders of any class or series of stock of the Company required by law or by this Restated Certificate, the affirmative vote of the holders of a majority of the voting power of all of the then-outstanding shares of the capital stock of the Company entitled to vote generally in the election of directors, voting together as a single class, shall be required to adopt, amend or repeal any provision of the Bylaws of the Company.

C. The directors of the Company need not be elected by written ballot unless the Bylaws so provide.

* * * *

EIGHT: This Restated Certificate has been duly approved by the Board of Directors of the Company.

NINE: This Restated Certificate was approved by the holders of the requisite number of shares of said corporation in accordance with Section 228 of the DGCL. This Restated Certificate has been duly adopted in accordance with the provisions of Sections 242 and 245 of the DGCL by the stockholders of the Company.

IN WITNESS WHEREOF, Pacific Biosciences of California, Inc. has caused this Amended and Restated Certificate of Incorporation to be signed by its Chief Executive Officer this 16th day of June 2010.

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.

Signature: /s/ Hugh Martin

Hugh Martin
Chief Executive Officer

[*Signature Page to Amended and Restated Certificate of Incorporation of Pacific Biosciences of California, Inc.*]

AMENDED AND RESTATED

BYLAWS

OF

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
(A DELAWARE CORPORATION)

AMENDED AND RESTATED

BYLAWS

OF

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
(A DELAWARE CORPORATION)

ARTICLE I

OFFICES

Section 1. Registered Office. The registered office of the corporation in the State of Delaware shall be in the City of Dover, County of Kent.

Section 2. Other Offices. The corporation shall also have and maintain an office or principal place of business at such place as may be fixed by the Board of Directors, and may also have offices at such other places, both within and without the State of Delaware, as the Board of Directors may from time to time determine or the business of the corporation may require.

ARTICLE II

CORPORATE SEAL

Section 3. Corporate Seal. The Board of Directors may adopt a corporate seal. The corporate seal shall consist of a die bearing the name of the corporation and the inscription, “Corporate Seal-Delaware.” Said seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

ARTICLE III

STOCKHOLDERS’ MEETINGS

Section 4. Place of Meetings. Meetings of the stockholders of the corporation may be held at such place, either within or without the State of Delaware, as may be determined from time to time by the Board of Directors. The Board of Directors may, in its sole discretion, determine that the meeting shall not be held at any place, but may instead be held solely by means of remote communication as provided under the Delaware General Corporation Law (“DGCL”).

Section 5. Annual Meeting.

(a) The annual meeting of the stockholders of the corporation, for the purpose of election of directors and for such other business as may lawfully come before it, shall be held on such date and at such time as may be designated from time to time by the Board of Directors. Nominations of persons for election to the Board of Directors of the corporation and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders: (i) pursuant to the corporation's notice of meeting of stockholders; (ii) by or at the direction of the Board of Directors; or (iii) by any stockholder of the corporation who was a stockholder of record at the time of giving of notice provided for in the following paragraph, who is entitled to vote at the meeting and who complied with the notice procedures set forth in Section 5.

(b) At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (iii) of Section 5(a) of these Bylaws, (i) the stockholder must have given timely notice thereof in writing to the Secretary of the corporation, (ii) such other business must be a proper matter for stockholder action under the DGCL, (iii) if the stockholder, or the beneficial owner on whose behalf any such proposal or nomination is made, has provided the corporation with a Solicitation Notice (as defined in this Section 5(b)), such stockholder or beneficial owner must, in the case of a proposal, have delivered a proxy statement and form of proxy to holders of at least the percentage of the corporation's voting shares required under applicable law to carry any such proposal, or, in the case of a nomination or nominations, have delivered a proxy statement and form of proxy to holders of a percentage of the corporation's voting shares reasonably believed by such stockholder or beneficial owner to be sufficient to elect the nominee or nominees proposed to be nominated by such stockholder, and must, in either case, have included in such materials the Solicitation Notice, and (iv) if no Solicitation Notice relating thereto has been timely provided pursuant to this section, the stockholder or beneficial owner proposing such business or nomination must not have solicited a number of proxies sufficient to have required the delivery of such a Solicitation Notice under this Section 5. To be timely, a stockholder's notice shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the ninetieth (90th) day nor earlier than the close of business on the one hundred twentieth (120th) day prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is advanced more than thirty (30) days prior to or delayed by more than thirty (30) days after the anniversary of the preceding year's annual meeting, notice by the stockholder to be timely must be so delivered not earlier than the close of business on the one hundred twentieth (120th) day prior to such annual meeting and not later than the close of business on the later of the ninetieth (90th) day prior to such annual meeting or the tenth (10th) day following the day on which public announcement of the date of such meeting is first made. In no event shall the public announcement of an adjournment of an annual meeting commence a new time period for the giving of a stockholder's notice as described above. Such stockholder's notice shall set forth: (A) as to each person whom the stockholder proposed to nominate for election or reelection as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case

pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "1934 Act") and Rule 14a-4(d) thereunder (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (B) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (C) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of such stockholder, as they appear on the corporation's books, and of such beneficial owner, (ii) the class and number of shares of the corporation which are owned beneficially and of record by such stockholder and such beneficial owner, and (iii) whether either such stockholder or beneficial owner intends to deliver a proxy statement and form of proxy to holders of, in the case of the proposal, at least the percentage of the corporation's voting shares required under applicable law to carry the proposal or, in the case of a nomination or nominations, a sufficient number of holders of the corporation's voting shares to elect such nominee or nominees (an affirmative statement of such intent, a "Solicitation Notice").

(c) Notwithstanding anything in the second sentence of Section 5(b) of these Bylaws to the contrary, in the event that the number of directors to be elected to the Board of Directors of the Corporation is increased and there is no public announcement naming all of the nominees for director or specifying the size of the increased Board of Directors made by the corporation at least one hundred (100) days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice required by this Section 5 shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive offices of the corporation not later than the close of business on the tenth (10th) day following the day on which such public announcement is first made by the corporation.

(d) Only such persons who are nominated in accordance with the procedures set forth in this Section 5 shall be eligible to serve as directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section 5. Except as otherwise provided by law, the Chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made, or proposed, as the case may be, in accordance with the procedures set forth in these Bylaws and, if any proposed nomination or business is not in compliance with these Bylaws, to declare that such defective proposal or nomination shall not be presented for stockholder action at the meeting and shall be disregarded.

(e) Notwithstanding the foregoing provisions of this Section 5, in order to include information with respect to a stockholder proposal in the proxy statement and form of proxy for a stockholders' meeting, stockholders must provide notice as required by the regulations promulgated under the 1934 Act. Nothing in these Bylaws shall be deemed to affect any rights of stockholders to request inclusion of proposals in the corporation proxy statement pursuant to Rule 14a-8 under the 1934 Act.

(f) For purposes of this Section 5, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the 1934 Act.

Section 6. Special Meetings.

(a) Special meetings of the stockholders of the corporation may be called, for any purpose or purposes, by (i) the Chairman of the Board of Directors, (ii) the Chief Executive Officer, (iii) the Board of Directors pursuant to a resolution adopted by a majority of the total number of authorized directors (whether or not there exist any vacancies in previously authorized directorships at the time any such resolution is presented to the Board of Directors for adoption) or (iv) by the holders of shares entitled to cast not less than ten percent (10%) of the votes at the meeting, and shall be held at such place, on such date, and at such time as the Board of Directors shall fix.

At any time or times that the corporation is subject to Section 2115(b) of the California General Corporation Law ("CGCL"), stockholders holding five percent (5%) or more of the outstanding shares shall have the right to call a special meeting of stockholders as set forth in Section 18(b) herein.

(b) If a special meeting is properly called by any person or persons other than the Board of Directors, the request shall be in writing, specifying the general nature of the business proposed to be transacted, and shall be delivered personally or sent by certified or registered mail, return receipt requested, or by telegraphic or other facsimile transmission to the Chairman of the Board of Directors, the Chief Executive Officer, or the Secretary of the corporation. No business may be transacted at such special meeting otherwise than specified in such notice. The Board of Directors shall determine the time and place of such special meeting, which shall be held not less than thirty-five (35) nor more than one hundred twenty (120) days after the date of the receipt of the request. Upon determination of the time and place of the meeting, the officer receiving the request shall cause notice to be given to the stockholders entitled to vote, in accordance with the provisions of Section 7 of these Bylaws. Nothing contained in this paragraph (b) shall be construed as limiting, fixing, or affecting the time when a meeting of stockholders called by action of the Board of Directors may be held.

Section 7. Notice of Meetings. Except as otherwise provided by law, notice, given in writing or by electronic transmission, of each meeting of stockholders shall be given not less than ten (10) nor more than sixty (60) days before the date of the meeting to each stockholder entitled to vote at such meeting, such notice to specify the place, if any, date and hour, in the case of special meetings, the purpose or purposes of the meeting, and the means of remote communications, if any, by which stockholders and proxyholders may be deemed to be present in person and vote at any such meeting. If mailed, notice is given when deposited in the United States mail, postage prepaid, directed to the stockholder at such stockholder's address as it appears on the records of the corporation. Notice of the time, place, if any, and purpose of any meeting of stockholders may be waived in writing, signed by the person entitled to notice thereof or by electronic transmission by such person, either before or after such meeting, and will be

waived by any stockholder by his attendance thereat in person, by remote communication, if applicable, or by proxy, except when the stockholder attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Any stockholder so waiving notice of such meeting shall be bound by the proceedings of any such meeting in all respects as if due notice thereof had been given.

Section 8. Quorum. At all meetings of stockholders, except where otherwise provided by statute or by the Certificate of Incorporation, or by these Bylaws, the presence, in person, by remote communication, if applicable, or by proxy duly authorized, of the holders of a majority of the outstanding shares of stock entitled to vote shall constitute a quorum for the transaction of business. In the absence of a quorum, any meeting of stockholders may be adjourned, from time to time, either by the chairman of the meeting or by vote of the holders of a majority of the shares represented thereat, but no other business shall be transacted at such meeting. The stockholders present at a duly called or convened meeting, at which a quorum is present, may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum. Except as otherwise provided by statute, or by the Certificate of Incorporation or these Bylaws, in all matters other than the election of directors, the affirmative vote of a majority of shares present in person, by remote communication, if applicable, or represented by proxy duly authorized at the meeting and entitled to vote generally on the subject matter shall be the act of the stockholders. Except as otherwise provided by statute, the Certificate of Incorporation or these Bylaws, directors shall be elected by a plurality of the votes of the shares present in person, by remote communication, if applicable, or represented by proxy duly authorized at the meeting and entitled to vote generally on the election of directors. Where a separate vote by a class or classes or series is required, except where otherwise provided by the statute or by the Certificate of Incorporation or these Bylaws, a majority of the outstanding shares of such class or classes or series, present in person, by remote communication, if applicable, or represented by proxy duly authorized, shall constitute a quorum entitled to take action with respect to that vote on that matter. Except where otherwise provided by statute or by the Certificate of Incorporation or these Bylaws, the affirmative vote of the majority (plurality, in the case of the election of directors) of shares of such class or classes or series present in person, by remote communication, if applicable, or represented by proxy at the meeting shall be the act of such class or classes or series.

Section 9. Adjournment and Notice of Adjourned Meetings. Any meeting of stockholders, whether annual or special, may be adjourned from time to time either by the chairman of the meeting or by the vote of a majority of the shares present in person, by remote communication, if applicable, or represented by proxy. When a meeting is adjourned to another time or place, if any, notice need not be given of the adjourned meeting if the time and place, if any, thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting, the corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than thirty (30) days or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Section 10. Voting Rights. For the purpose of determining those stockholders entitled to vote at any meeting of the stockholders, except as otherwise provided by law, only persons in whose names shares stand on the stock records of the corporation on the record date, as provided in Section 12 of these Bylaws, shall be entitled to vote at any meeting of stockholders. Every person entitled to vote or execute consents shall have the right to do so either in person, by remote communication, if applicable, or by an agent or agents authorized by a proxy granted in accordance with Delaware law. An agent so appointed need not be a stockholder. No proxy shall be voted after three (3) years from its date of creation unless the proxy provides for a longer period.

Section 11. Joint Owners of Stock. If shares or other securities having voting power stand of record in the names of two (2) or more persons, whether fiduciaries, members of a partnership, joint tenants, tenants in common, tenants by the entirety, or otherwise, or if two (2) or more persons have the same fiduciary relationship respecting the same shares, unless the Secretary is given written notice to the contrary and is furnished with a copy of the instrument or order appointing them or creating the relationship wherein it is so provided, their acts with respect to voting shall have the following effect: (a) if only one (1) votes, his act binds all; (b) if more than one (1) votes, the act of the majority so voting binds all; (c) if more than one (1) votes, but the vote is evenly split on any particular matter, each faction may vote the securities in question proportionally, or may apply to the Delaware Court of Chancery for relief as provided in the DGCL, Section 217(b). If the instrument filed with the Secretary shows that any such tenancy is held in unequal interests, a majority or even-split for the purpose of subsection (c) shall be a majority or even-split in interest.

Section 12. List of Stockholders. The Secretary shall prepare and make, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at said meeting, arranged in alphabetical order, showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with the notice of the meeting, or during ordinary business hours, at the principal place of business of the corporation. In the event that the corporation determines to make the list available on an electronic network, the corporation may take reasonable steps to ensure that such information is available only to stockholders of the corporation. The list shall be open to examination of any stockholder during the time of the meeting as provided by law.

Section 13. Action Without Meeting.

(a) Unless otherwise provided in the Certificate of Incorporation, and notwithstanding anything set forth in Section 5 of these Bylaws to the contrary, any action required by statute to be taken at any annual or special meeting of the stockholders, or any action which may be taken at any annual or special meeting of the stockholders, may be taken without a meeting, without prior notice and without a vote, if a consent in writing, or by electronic transmission setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted.

(b) Every written consent or electronic transmission shall bear the date of signature of each stockholder who signs the consent, and no written consent or electronic transmission shall be effective to take the corporate action referred to therein unless, within sixty (60) days of the earliest dated consent delivered to the corporation in the manner herein required, written consents or electronic transmissions signed by a sufficient number of stockholders to take action are delivered to the corporation by delivery to its registered office in the State of Delaware, its principal place of business or an officer or agent of the corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery made to a corporation's registered office shall be by hand or by certified or registered mail, return receipt requested.

(c) Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing or by electronic transmission and who, if the action had been taken at a meeting, would have been entitled to notice of the meeting if the record date for such meeting had been the date that written consents signed by a sufficient number of stockholders to take action were delivered to the corporation as provided in Section 228(c) of the DGCL. If the action which is consented to is such as would have required the filing of a certificate under any section of the DGCL if such action had been voted on by stockholders at a meeting thereof, then the certificate filed under such section shall state, in lieu of any statement required by such section concerning any vote of stockholders, that written consent has been given in accordance with Section 228 of the DGCL.

(d) A telegram, cablegram or other electronic transmission consenting to an action to be taken and transmitted by a stockholder or proxyholder, shall be deemed to be written, signed and dated for the purposes of this section, provided that any such telegram, cablegram or other electronic transmission sets forth or is delivered with information from which the corporation can determine (i) that the telegram, cablegram or other electronic transmission was transmitted by the stockholder or proxyholder or by a person or persons authorized to act for the stockholder and (ii) the date on which such stockholder or proxyholder or authorized person or persons transmitted such telegram, cablegram or electronic transmission. The date on which such telegram, cablegram or electronic transmission is transmitted shall be deemed to be the date on which such consent was signed. No consent given by telegram, cablegram or other electronic transmission shall be deemed to have been delivered until such consent is reproduced in paper form and until such paper form shall be delivered to the corporation by delivery to its registered office in the state of Delaware, its principal place of business or an officer or agent of the corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery made to a corporation's registered office shall be made by hand or by certified or registered mail, return receipt requested. Notwithstanding the foregoing limitations on delivery, consents given by telegram, cablegram or other electronic transmission may be otherwise delivered to the principal place of business of the corporation or to an officer or agent of the corporation having custody of the book in which proceedings of meetings of stockholders are recorded if, to the extent and in the manner provided by resolution of the board of directors of the corporation. Any copy, facsimile or other reliable reproduction of a consent in writing may be substituted or used in lieu of the original writing for any and all purposes for which the original writing could be used, provided that such copy, facsimile or other reproduction shall be a complete reproduction of the entire original writing.

Section 14. Organization.

(a) At every meeting of stockholders, the Chairman of the Board of Directors, or, if a Chairman has not been appointed or is absent, the President, or, if the President is absent, a chairman of the meeting chosen by a majority in interest of the stockholders entitled to vote, present in person or by proxy, shall act as chairman. The Secretary, or, in his absence, an Assistant Secretary directed to do so by the President, shall act as secretary of the meeting.

(b) The Board of Directors of the corporation shall be entitled to make such rules or regulations for the conduct of meetings of stockholders as it shall deem necessary, appropriate or convenient. Subject to such rules and regulations of the Board of Directors, if any, the chairman of the meeting shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of such chairman, are necessary, appropriate or convenient for the proper conduct of the meeting, including, without limitation, establishing an agenda or order of business for the meeting, rules and procedures for maintaining order at the meeting and the safety of those present, limitations on participation in such meeting to stockholders of record of the corporation and their duly authorized and constituted proxies and such other persons as the chairman shall permit, restrictions on entry to the meeting after the time fixed for the commencement thereof, limitations on the time allotted to questions or comments by participants and regulation of the opening and closing of the polls for balloting on matters which are to be voted on by ballot. The date and time of the opening and closing of the polls for each matter upon which the stockholders will vote at the meeting shall be announced at the meeting. Unless and to the extent determined by the Board of Directors or the chairman of the meeting, meetings of stockholders shall not be required to be held in accordance with rules of parliamentary procedure.

ARTICLE IV

DIRECTORS

Section 15. Number and Term of Office.

Unless otherwise provided in the Certificate of Incorporation, and subject to the rights of the holders of any series of preferred stock, the authorized number of directors of the corporation shall be fixed by the Board of Directors from time to time.

Directors need not be stockholders unless so required by the Certificate of Incorporation. If for any cause, the directors shall not have been elected at an annual meeting, they may be elected as soon thereafter as convenient.

Section 16. Powers. The powers of the corporation shall be exercised, its business conducted and its property controlled by the Board of Directors, except as may be otherwise provided by statute or by the Certificate of Incorporation.

Section 17. Term of Directors.

(a) Subject to the rights of the holders of any series of preferred stock to elect directors under specified circumstances, directors shall be elected at each annual meeting of stockholders for a term of one year. Each director shall serve until his successor is duly elected and qualified or until his death, resignation or removal. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

(b) No person entitled to vote at an election for directors may cumulate votes to which such person is entitled, unless, at the time of such election, the corporation is subject to Section 2115(b) of the CGCL. During such time or times that the corporation is subject to Section 2115(b) of the CGCL, every stockholder entitled to vote at an election for directors may cumulate such stockholder's votes and give one candidate a number of votes equal to the number of directors to be elected multiplied by the number of votes to which such stockholder's shares are otherwise entitled, or distribute the stockholder's votes on the same principle among as many candidates as such stockholder thinks fit. No stockholder, however, shall be entitled to so cumulate such stockholder's votes unless (i) the names of such candidate or candidates have been placed in nomination prior to the voting and (ii) the stockholder has given notice at the meeting, prior to the voting, of such stockholder's intention to cumulate such stockholder's votes. If any stockholder has given proper notice to cumulate votes, all stockholders may cumulate their votes for any candidates who have been properly placed in nomination. Under cumulative voting, the candidates receiving the highest number of votes, up to the number of directors to be elected, are elected.

Section 18. Vacancies.

(a) Unless otherwise provided in the Certificate of Incorporation, and subject to the rights of the holders of any series of preferred stock, any vacancies on the Board of Directors resulting from death, resignation, disqualification, removal or other causes and any newly created directorships resulting from any increase in the number of directors shall, unless the Board of Directors determines by resolution that any such vacancies or newly created directorships shall be filled by stockholders, be filled only by the affirmative vote of a majority of the directors then in office, even though less than a quorum of the Board of Directors. Any director elected in accordance with the preceding sentence shall hold office for the remainder of the full term of the director for which the vacancy was created or occurred and until such director's successor shall have been elected and qualified. A vacancy in the Board of Directors shall be deemed to exist under this Bylaw in the case of the death, removal or resignation of any director.

(b) At any time or times that the corporation is subject to §2115(b) of the CGCL, if, after the filling of any vacancy, the directors then in office who have been elected by stockholders shall constitute less than a majority of the directors then in office, then

(i) any holder or holders of an aggregate of five percent (5%) or more of the total number of shares at the time outstanding having the right to vote for those directors may call a special meeting of stockholders; or

(ii) the Superior Court of the proper county shall, upon application of such stockholder or stockholders, summarily order a special meeting of the stockholders, to be held to elect the entire board, all in accordance with Section 305(c) of the CGCL, the term of office of any director shall terminate upon that election of a successor.

Section 19. Resignation. Any director may resign at any time by delivering his or her notice in writing or by electronic transmission to the Secretary, such resignation to specify whether it will be effective at a particular time, upon receipt by the Secretary or at the pleasure of the Board of Directors. If no such specification is made, it shall be deemed effective at the pleasure of the Board of Directors. Unless otherwise provided in the Certificate of Incorporation, and subject to the rights of the holders of any series of preferred stock, when one or more directors shall resign from the Board of Directors, effective at a future date, a majority of the directors then in office, including those who have so resigned, shall have power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective, and each Director so chosen shall hold office for the unexpired portion of the term of the Director whose place shall be vacated and until his successor shall have been duly elected and qualified.

Section 20. Removal.

(a) Unless otherwise provided in the Certificate of Incorporation, and subject to the rights of the holders of any series of preferred stock and any limitations imposed by applicable law, and assuming the corporation is not subject to Section 2115 of the CGCL, the Board of Directors or any director may be removed from office at any time (i) with cause by the affirmative vote of the holders of a majority of the voting power of all men-outstanding shares of capital stock of the corporation entitled to vote generally at an election of directors or (ii) without cause by the affirmative vote of the holders of a majority of the voting power of all then-outstanding shares of capital stock of the corporation, entitled to vote generally at an election of directors.

(b) During such time or times that the corporation is subject to Section 2115(b) of the CGCL, the Board of Directors or any individual director may be removed from office at any time without cause by the affirmative vote of the holders of at least a majority of the outstanding shares entitled to vote on such removal; provided, however, that unless the entire Board is removed, no individual director may be removed when the votes cast against such director's removal, or not consenting in writing to such removal, would be sufficient to elect that director if voted cumulatively at an election which the same total number of votes were cast (or, if such action is taken by written consent, all shares entitled to vote were voted) and the entire number of directors authorized at the time of such director's most recent election were then being elected.

Section 21. Meetings.

(a) Regular Meetings. Unless otherwise restricted by the Certificate of Incorporation, regular meetings of the Board of Directors may be held at any time or date and at any place within or without the State of Delaware which has been designated by the Board of Directors and publicized among all directors, either orally or in writing, including a voice-

messaging system or other system designated to record and communicate messages, facsimile, telegraph or telex, or by electronic mail or other electronic means. No further notice shall be required for a regular meeting of the Board of Directors.

(b) Special Meetings. Unless otherwise restricted by the Certificate of Incorporation, special meetings of the Board of Directors may be held at any time and place within or without the State of Delaware whenever called by the Chairman of the Board, the President or any two of the directors.

(c) Meetings by Electronic Communications Equipment. Any member of the Board of Directors, or of any committee thereof, may participate in a meeting by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting by such means shall constitute presence in person at such meeting.

(d) Notice of Special Meetings. Notice of the time and place of all special meetings of the Board of Directors shall be orally or in writing, by telephone, including a voice messaging system or other system or technology designed to record and communicate messages, facsimile, telegraph or telex, or by electronic mail or other electronic means, during normal business hours, at least twenty-four (24) hours before the date and time of the meeting. If notice is sent by US mail, it shall be sent by first class mail, postage prepaid at least three (3) days before the date of the meeting. Notice of any meeting may be waived in writing or by electronic transmission at any time before or after the meeting and will be waived by any director by attendance thereat, except when the director attends the meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened.

(e) Waiver of Notice. The transaction of all business at any meeting of the Board of Directors, or any committee thereof, however called or noticed, or wherever held, shall be as valid as though had at a meeting duly held after regular call and notice, if a quorum be present and if, either before or after the meeting, each of the directors not present who did not receive notice shall sign a written waiver of notice or shall waive notice by electronic transmission. All such waivers shall be filed with the corporate records or made a part of the minutes of the meeting.

Section 22. Quorum and Voting.

(a) Unless the Certificate of Incorporation requires a greater number, a quorum of the Board of Directors shall consist of a majority of the directors then in office; *provided*, *however*, that a quorum shall not be less than one-third (1/3) of the exact number of directors fixed from time to time by the Board of Directors in accordance with the Certificate of Incorporation; *provided*, *further*, at any meeting, whether a quorum be present or otherwise, a majority of the directors present may adjourn from time to time until the time fixed for the next regular meeting of the Board of Directors, without notice other than by announcement at the meeting.

(b) At each meeting of the Board of Directors at which a quorum is present, all questions and business shall be determined by the affirmative vote of a majority of the directors present, unless a different vote be required by law, the Certificate of Incorporation or these Bylaws.

Section 23. Action Without Meeting. Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all members of the Board of Directors or committee, as the case may be, consent thereto in writing or by electronic transmission, and such writing or writings or transmission or transmissions are filed with the minutes of proceedings of the Board of Directors or committee. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form.

Section 24. Fees and Compensation. Directors shall be entitled to such compensation for their services as may be approved by the Board of Directors, including, if so approved, by resolution of the Board of Directors, a fixed sum and expenses of attendance, if any, for attendance at each regular or special meeting of the Board of Directors and at any meeting of a committee of the Board of Directors. Nothing herein contained shall be construed to preclude any director from serving the corporation in any other capacity as an officer, agent, employee, or otherwise and receiving compensation therefor.

Section 25. Committees.

(a) Executive Committee. The Board of Directors may appoint an Executive Committee to consist of one (1) or more members of the Board of Directors. The Executive Committee, to the extent permitted by law and provided in the resolution of the Board of Directors shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the corporation, and may authorize the seal of the corporation to be affixed to all papers which may require it; but no such committee shall have the power or authority in reference to (i) approving or adopting, or recommending to the stockholders, any action or matter expressly required by the DGCL to be submitted to stockholders for approval, or (ii) adopting, amending or repealing any bylaw of the corporation.

(b) Other Committees. The Board of Directors may, from time to time, appoint such other committees as may be permitted by law. Such other committees appointed by the Board of Directors shall consist of one (1) or more members of the Board of Directors and shall have such powers and perform such duties as may be prescribed by the resolution or resolutions creating such committees, but in no event shall any such committee have the powers denied to the Executive Committee in these Bylaws.

(c) Term. The Board of Directors, subject to any requirements of any outstanding series of preferred stock and the provisions of subsections (a) or (b) of this Bylaw may at any time increase or decrease the number of members of a committee or terminate the existence of a committee. The membership of a committee member shall terminate on the date of his death or voluntary resignation from the committee or from the Board of Directors. The Board of Directors may at any time for any reason remove any individual committee member

and the Board of Directors may fill any committee vacancy created by death, resignation, removal or increase in the number of members of the committee. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee, and, in addition, in the absence or disqualification of any member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not be or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member.

(d) Meetings. Unless the Board of Directors shall otherwise provide, regular meetings of the Executive Committee or any other committee appointed pursuant to this Section 25 shall be held at such times and places as are determined by the Board of Directors, or by any such committee, and when notice thereof has been given to each member of such committee, no further notice of such regular meetings need be given thereafter. Special meetings of any such committee may be held at any place which has been determined from time to time by such committee, and may be called by any director who is a member of such committee, upon notice to the members of such committee of the time and place of such special meeting given in the manner provided for the giving of notice to members of the Board of Directors of the time and place of special meetings of the Board of Directors. Notice of any special meeting of any committee may be waived in writing at any time before or after the meeting and will be waived by any director by attendance thereat, except when the director attends such special meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Unless otherwise provided by the Board of Directors in the resolutions authorizing the creation of the committee, a majority of the authorized number of members of any such committee shall constitute a quorum for the transaction of business, and the act of a majority of those present at any meeting at which a quorum is present shall be the act of such committee.

Section 26. Organization. At every meeting of the directors, the Chairman of the Board of Directors, or, if a Chairman has not been appointed or is absent, the President, or if the President is absent, the most senior Vice President, (if a director) or, in the absence of any such person, a chairman of the meeting chosen by a majority of the directors present, shall preside over the meeting. The Secretary, or in his absence, any Assistant Secretary directed to do so by the President, shall act as secretary of the meeting.

ARTICLE V

OFFICERS

Section 27. Officers Designated. The officers of the corporation shall include, if and when designated by the Board of Directors, the Chairman of the Board of Directors, the Chief Executive Officer, the President, one or more Vice Presidents, the Secretary, the Chief Financial Officer, the Treasurer and the Controller, all of whom shall be elected at the annual organizational meeting of the Board of Directors. The Board of Directors may also appoint one or more Assistant Secretaries, Assistant Treasurers, Assistant Controllers and such other officers and agents with such powers and duties as it shall deem necessary. The Board of Directors may

assign such additional titles to one or more of the officers as it shall deem appropriate. Any one person may hold any number of offices of the corporation at any one time unless specifically prohibited therefrom by law. The salaries and other compensation of the officers of the corporation shall be fixed by or in the manner designated by the Board of Directors.

Section 28. Tenure and Duties of Officers.

(a) General. All officers shall hold office at the pleasure of the Board of Directors and until their successors shall have been duly elected and qualified, unless sooner removed. Any officer elected or appointed by the Board of Directors may be removed at any time by the Board of Directors. If the office of any officer becomes vacant for any reason, the vacancy may be filled by the Board of Directors.

(b) Duties of Chairman of the Board of Directors. The Chairman of the Board of Directors, when present, shall preside at all meetings of the stockholders and the Board of Directors. The Chairman of the Board of Directors shall perform other duties commonly incident to the office and shall also perform such other duties and have such other powers as the Board of Directors shall designate from time to time. If there is no President, then the Chairman of the Board of Directors shall also serve as the Chief Executive Officer of the corporation and shall have the powers and duties prescribed in paragraph (c) of this Section 28.

(c) Duties of President. The President shall preside at all meetings of the stockholders and at all meetings of the Board of Directors, unless the Chairman of the Board of Directors has been appointed and is present. Unless some other officer has been elected Chief Executive Officer of the corporation, the President shall be the chief executive officer of the corporation and shall, subject to the control of the Board of Directors, have general supervision, direction and control of the business and officers of the corporation. The President shall perform other duties commonly incident to the office and shall also perform such other duties and have such other powers as the Board of Directors shall designate from time to time.

(d) Duties of Vice Presidents. The Vice Presidents may assume and perform the duties of the President in the absence or disability of the President or whenever the office of President is vacant. The Vice Presidents shall perform other duties commonly incident to their office and shall also perform such other duties and have such other powers as the Board of Directors or the President shall designate from time to time.

(e) Duties of Secretary. The Secretary shall attend all meetings of the stockholders and of the Board of Directors and shall record all acts and proceedings thereof in the minute book of the corporation. The Secretary shall give notice in conformity with these Bylaws of all meetings of the stockholders and of all meetings of the Board of Directors and any committee thereof requiring notice. The Secretary shall perform all other duties provided for in these Bylaws and other duties commonly incident to the office and shall also perform such other duties and have such other powers as the Board of Directors shall designate from time to time. The President may direct any Assistant Secretary to assume and perform the duties of the Secretary in the absence or disability of the Secretary, and each Assistant Secretary shall perform other duties commonly incident to the office and shall also perform such other duties and have such other powers as the Board of Directors or the President shall designate from time to time.

(f) Duties of Chief Financial Officer. The Chief Financial Officer shall keep or cause to be kept the books of account of the corporation in a thorough and proper manner and shall render statements of the financial affairs of the corporation in such form and as often as required by the Board of Directors or the President. The Chief Financial Officer, subject to the order of the Board of Directors, shall have the custody of all funds and securities of the corporation. The Chief Financial Officer shall perform other duties commonly incident to his office and shall also perform such other duties and have such other powers as the Board of Directors or the President shall designate from time to time. The President may direct the Treasurer or any Assistant Treasurer, or the Controller or any Assistant Controller to assume and perform the duties of the Chief Financial Officer in the absence or disability of the Chief Financial Officer, and each Treasurer and Assistant Treasurer and each Controller and Assistant Controller shall perform other duties commonly incident to the office and shall also perform such other duties and have such other powers as the Board of Directors or the President shall designate from time to time.

Section 29. Delegation of Authority. The Board of Directors may from time to time delegate the powers or duties of any officer to any other officer or agent, notwithstanding any provision hereof.

Section 30. Resignations. Any officer may resign at any time by giving notice in writing or by electronic transmission notice to the Board of Directors or to the President or to the Secretary. Any such resignation shall be effective when received by the person or persons to whom such notice is given, unless a later time is specified therein, in which event the resignation shall become effective at such later time. Unless otherwise specified in such notice, the acceptance of any such resignation shall not be necessary to make it effective. Any resignation shall be without prejudice to the rights, if any, of the corporation under any contract with the resigning officer.

Section 31. Removal. Unless otherwise provided in the Certificate of Incorporation, any officer may be removed from office at any time, either with or without cause, by the affirmative vote of a majority of the directors in office at the time, or by the unanimous written consent of the directors in office at the time, or by any committee or superior officers upon whom such power of removal may have been conferred by the Board of Directors.

ARTICLE VI

EXECUTION OF CORPORATE INSTRUMENTS AND VOTING
OF SECURITIES OWNED BY THE CORPORATION

Section 32. Execution of Corporate Instruments. The Board of Directors may, in its discretion, determine the method and designate the signatory officer or officers, or other person or persons, to execute on behalf of the corporation any corporate instrument or document, or to sign on behalf of the corporation the corporate name without limitation, or to enter into contracts on behalf of the corporation, except where otherwise provided by law or these Bylaws, and such execution or signature shall be binding upon the corporation.

All checks and drafts drawn on banks or other depositaries on funds to the credit of the corporation or in special accounts of the corporation shall be signed by such person or persons as the Board of Directors shall authorize so to do.

Unless authorized or ratified by the Board of Directors or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

Section 33. Voting of Securities Owned by the Corporation. All stock and other securities of other corporations owned or held by the corporation for itself, or for other parties in any capacity, shall be voted, and all proxies with respect thereto shall be executed, by the person authorized so to do by resolution of the Board of Directors, or, in the absence of such authorization, by the Chairman of the Board of Directors, the Chief Executive Officer, the President, or any Vice President.

ARTICLE VII

SHARES OF STOCK

Section 34. Form and Execution of Certificates. Certificates for the shares of stock of the corporation shall be in such form as is consistent with the Certificate of Incorporation and applicable law. Every holder of stock in the corporation shall be entitled to have a certificate signed by or in the name of the corporation by the Chairman of the Board of Directors, or the President or any Vice President and by the Treasurer or Assistant Treasurer or the Secretary or Assistant Secretary, certifying the number of shares owned by him in the corporation. Any or all of the signatures on the certificate may be facsimiles. In case any officer, transfer agent, or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent, or registrar before such certificate is issued, it may be issued with the same effect as if he were such officer, transfer agent, or registrar at the date of issue. Each certificate shall state upon the face or back thereof, in full or in summary, all of the powers, designations, preferences, and rights, and the limitations or restrictions of the shares authorized to be issued or shall, except as otherwise required by law, set forth on the face or back a statement that the corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating, optional, or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights. Within a reasonable time after the issuance or transfer of uncertificated stock, the corporation shall send to the registered owner thereof a written notice containing the information required to be set forth or stated on certificates pursuant to this section or otherwise required by law or with respect to this section a statement that the corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

Section 35. Lost Certificates. A new certificate or certificates shall be issued in place of any certificate or certificates theretofore issued by the corporation alleged to have been lost, stolen, or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen, or destroyed. The corporation may require, as a condition precedent to the issuance of a new certificate or certificates, the owner of such lost, stolen, or destroyed certificate or certificates, or the owner's legal representative, to agree to indemnify the corporation in such manner as it shall require or to give the corporation a surety bond in such form and amount as it may direct as indemnity against any claim that may be made against the corporation with respect to the certificate alleged to have been lost, stolen, or destroyed.

Section 36. Transfers.

(a) Transfers of record of shares of stock of the corporation shall be made only upon its books by the holders thereof, in person or by attorney duly authorized, and upon the surrender of a properly endorsed certificate or certificates for a like number of shares.

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

Section 37. Fixing Record Dates.

(a) In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, the Board of Directors may fix, in advance, a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date shall, subject to applicable law, not be more than sixty (60) nor less than ten (10) days before the date of such meeting. If no record date is fixed by the Board of Directors, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; *provided, however,* that the Board of Directors may fix a new record date for the adjourned meeting.

(b) In order that the corporation may determine the stockholders entitled to consent to corporate action in writing without a meeting, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which date shall not be more than ten (10) days after the date upon which the resolution fixing the record date is adopted by the Board of Directors. Any stockholder of record seeking to have the stockholders authorize or take corporate action by written consent shall, by written notice to the Secretary, request the Board of Directors to fix a record date. The Board of Directors shall promptly, but in all events within ten (10) days after the date on which such a request is received, adopt a resolution fixing the record date. If no record date has been fixed by the Board of Directors within ten (10) days of the date on which such a request is received, the record date for determining stockholders entitled to

consent to corporate action in writing without a meeting, when no prior action by the Board of Directors is required by applicable law, shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the corporation by delivery to its registered office in the State of Delaware, its principal place of business or an officer or agent of the corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery made to the corporation's registered office shall be by hand or by certified or registered mail, return receipt requested. If no record date has been fixed by the Board of Directors and prior action by the Board of Directors is required by law, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting shall be at the close of business on the day on which the Board of Directors adopts the resolution taking such prior action.

(c) In order that the corporation may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the stockholders entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted, and which record date shall be not more than sixty (60) days prior to such action. If no record date is fixed, the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

Section 38. Registered Stockholders. The corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

ARTICLE VIII

OTHER SECURITIES OF THE CORPORATION

Section 39. Execution of Other Securities. All bonds, debentures and other corporate securities of the corporation, other than stock certificates (covered in Section 34), may be signed by the Chairman of the Board of Directors, the President or any Vice President, or such other person as may be authorized by the Board of Directors, and the corporate seal impressed thereon or a facsimile of such seal imprinted thereon and attested by the signature of the Secretary or an Assistant Secretary, or the Chief Financial Officer or Treasurer or an Assistant Treasurer; *provided, however,* that where any such bond, debenture or other corporate security shall be authenticated by the manual signature, or where permissible facsimile signature, of a trustee under an indenture pursuant to which such bond, debenture or other corporate security shall be issued, the signatures of the persons signing and attesting the corporate seal on such bond, debenture or other corporate security may be the imprinted facsimile of the signatures of such persons. Interest coupons appertaining to any such bond, debenture or other corporate security, authenticated by a trustee as aforesaid, shall be signed by the Treasurer or an Assistant Treasurer of the corporation or such other person as may be authorized by the Board of

Directors, or bear imprinted thereon the facsimile signature of such person. In case any officer who shall have signed or attested any bond, debenture or other corporate security, or whose facsimile signature shall appear thereon or on any such interest coupon, shall have ceased to be such officer before the bond, debenture or other corporate security so signed or attested shall have been delivered, such bond, debenture or other corporate security nevertheless may be adopted by the corporation and issued and delivered as though the person who signed the same or whose facsimile signature shall have been used thereon had not ceased to be such officer of the corporation.

ARTICLE IX

DIVIDENDS

Section 40. Declaration of Dividends. Dividends upon the capital stock of the corporation, subject to the provisions of the Certificate of Incorporation and applicable law, if any, may be declared by the Board of Directors pursuant to law at any regular or special meeting. Dividends may be paid in cash, in property, or in shares of the capital stock, subject to the provisions of the Certificate of Incorporation and applicable law.

Section 41. Dividend Reserve. Before payment of any dividend, there may be set aside out of any funds of the corporation available for dividends such sum or sums as the Board of Directors from time to time, in their absolute discretion, think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the corporation, or for such other purpose as the Board of Directors shall think conducive to the interests of the corporation, and the Board of Directors may modify or abolish any such reserve in the manner in which it was created.

ARTICLE X

FISCAL YEAR

Section 42. Fiscal Year. The fiscal year of the corporation shall be fixed by resolution of the Board of Directors.

ARTICLE XI

INDEMNIFICATION

Section 43. Indemnification of Directors, Executive Officers, Other Officers, Employees and Other Agents.

(a) Directors and Executive Officers. The corporation shall indemnify its directors and executive officers (for the purposes of this Article XI, “executive officers” shall have the meaning defined in Rule 3b-7 promulgated under the 1934 Act) to the fullest extent not prohibited by the DGCL or any other applicable law; *provided*, *however*, that the corporation

may modify the extent of such indemnification by individual contracts with its directors and executive officers and; and, *provided*, *further,* that the corporation shall not be required to indemnify any director or executive officer in connection with any proceeding (or part thereof) initiated by such person unless (i) such indemnification is expressly required to be made by law, (ii) the proceeding was authorized by the Board of Directors of the corporation, (iii) such indemnification is provided by the corporation, in its sole discretion, pursuant to the powers vested in the corporation under the Delaware General Corporation Law or any other applicable law or (iv) such indemnification is required to be made under subsection (d).

(b) Other Officers, Employees and Other Agents. The corporation shall have power to indemnify its other officers, employees and other agents as set forth in the DGCL or any other applicable law. The Board of Directors shall have the power to delegate the determination of whether indemnification shall be given to any such person except executive officers to such officers or other persons as the Board of Directors shall determine.

(c) Expenses. The corporation shall advance to any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was a director or executive officer of the corporation, or is or was serving at the request of the corporation as a director, executive officer or officer of another corporation, partnership, joint venture, trust or other enterprise, prior to the final disposition of the proceeding, promptly following request therefor, all expenses incurred by any director or executive officer in connection with such proceeding, provided, however, that, if the DGCL requires, an advancement of expenses incurred by a director or officer in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such indemnitee, including, without limitation, service to an employee benefit plan) shall be made only upon delivery to the corporation of an undertaking, by or on behalf of such indemnitee, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal that such indemnitee is not entitled to be indemnified for such expenses under this Section 43 or otherwise.

Notwithstanding the foregoing, unless otherwise determined pursuant to paragraph (e) of this Bylaw, no advance shall be made by the corporation to an executive officer of the corporation (except by reason of the fact that such executive officer is or was a director of the corporation, in which event this paragraph shall not apply) in any action, suit or proceeding, whether civil, criminal, administrative or investigative, if a determination is reasonably and promptly made (i) by a majority vote of a quorum consisting of directors who were not parties to the proceeding, even if not a quorum, or (ii) by a committee of such directors designated by a majority of such directors, even though less than a quorum, or (iii) if there are no such directors, or such directors so direct, by independent legal counsel in a written opinion, that the facts known to the decision-making party at the time such determination is made demonstrate clearly and convincingly that such person acted in bad faith or in a manner that such person did not believe to be in or not opposed to the best interests of the corporation.

(d) Enforcement. Without the necessity of entering into an express contract, all rights to indemnification and advances to directors and executive officers under this Bylaw

shall be deemed to be contractual rights and be effective to the same extent and as if provided for in a contract between the corporation and the director or executive officer. Any right to indemnification or advances granted by this Bylaw to a director or executive officer shall be enforceable by or on behalf of the person holding such right in any court of competent jurisdiction if (i) the claim for indemnification or advances is denied, in whole or in part, or (ii) no disposition of such claim is made within ninety (90) days of request therefor. The claimant in such enforcement action, if successful in whole or in part, shall be entitled to be paid also the expense of prosecuting the claim. In connection with any claim for indemnification, the corporation shall be entitled to raise as a defense to any such action that the claimant has not met the standards of conduct that make it permissible under the DGCL or any other applicable law for the corporation to indemnify the claimant for the amount claimed. In connection with any claim by an executive officer of the corporation (except in any action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such executive officer is or was a director of the corporation) for advances, the corporation shall be entitled to raise a defense as to any such action clear and convincing evidence that such person acted in bad faith or in a manner that such person did not believe to be in or not opposed to the best interests of the corporation, or with respect to any criminal action or proceeding that such person acted without reasonable cause to believe that his conduct was lawful. Neither the failure of the corporation (including its Board of Directors, independent legal counsel or its stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he has met the applicable standard of conduct set forth in the DGCL or any other applicable law, nor an actual determination by the corporation (including its Board of Directors, independent legal counsel or its stockholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that claimant has not met the applicable standard of conduct. In any suit brought by a director or executive officer to enforce a right to indemnification or to an advancement of expenses hereunder, the burden of proving that the director or executive officer is not entitled to be indemnified, or to such advancement of expenses, under this Article XI or otherwise shall be on the corporation.

(e) Non-Exclusivity of Rights. The rights conferred on any person by this Bylaw shall not be exclusive of any other right which such person may have or hereafter acquire under any applicable statute, provision of the Certificate of Incorporation, Bylaws, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding office. The corporation is specifically authorized to enter into individual contracts with any or all of its directors, officers, employees or agents respecting indemnification and advances, to the fullest extent not prohibited by the DGCL or any other applicable law.

(f) Survival of Rights. The rights conferred on any person by this Bylaw shall continue as to a person who has ceased to be a director, executive officer, officer, employee or other agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

(g) Insurance. To the fullest extent permitted by the DGCL, or any other applicable law, the corporation, upon approval by the Board of Directors, may purchase

insurance on behalf of any person required or permitted to be indemnified pursuant to this Bylaw.

(h) Amendments. Any repeal or modification of this Bylaw shall only be prospective and shall not affect the rights under this Bylaw in effect at the time of the alleged occurrence of any action or omission to act that is the cause of any proceeding against any agent of the corporation.

(i) Saving Clause. If this Bylaw or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the corporation shall nevertheless indemnify each director and executive officer to the full extent not prohibited by any applicable portion of this Bylaw that shall not have been invalidated, or by any other applicable law. If this Section 43 shall be invalid due to the application of the indemnification provisions of another jurisdiction, then the corporation shall indemnify each director and executive officer to the full extent under applicable law.

(j) Certain Definitions. For the purposes of this Bylaw, the following definitions shall apply:

(1) The term “proceeding” shall be broadly construed and shall include, without limitation, the investigation, preparation, prosecution, defense, settlement, arbitration and appeal of, and the giving of testimony in, any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative.

(2) The term “expenses” shall be broadly construed and shall include, without limitation, court costs, attorneys’ fees, witness fees, fines, amounts paid in settlement or judgment and any other costs and expenses of any nature or kind incurred in connection with any proceeding.

(3) The term the “corporation” shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, and employees or agents, so that any person who is or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under the provisions of this Bylaw with respect to the resulting or surviving corporation as he would have with respect to such constituent corporation if its separate existence had continued.

(4) References to a “director,” “executive officer,” “officer,” “employee,” or “agent” of the corporation shall include, without limitation, situations where such person is serving at the request of the corporation as, respectively, a director, executive officer, officer, employee, trustee or agent of another corporation, partnership, joint venture, trust or other enterprise.

(5) References to "other enterprises" shall include employee benefit plans; references to "fines" shall include any excise taxes assessed on a person with respect to an employee benefit plan; and references to "serving at the request of the corporation" shall include any service as a director, officer, employee or agent of the corporation which imposes duties on, or involves services by, such director, officer, employee, or agent with respect to an employee benefit plan, its participants, or beneficiaries; and a person who acted in good faith and in a manner he reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the corporation" as referred to in this Bylaw.

ARTICLE XII

NOTICES

Section 44. Notices.

(a) Notice to Stockholders. Written notice to stockholders of stockholder meetings shall be given as provided in Section 7 herein. Without limiting the manner by which notice may otherwise be given effectively to stockholders under any agreement or contract with such stockholder, and except as otherwise required by law, written notice to stockholders for purposes other than stockholder meetings may be sent by United States mail or nationally recognized overnight courier, or by facsimile, telegraph or telex or by electronic mail or other electronic means.

(b) Notice to Directors. Any notice required to be given to any director may be given by the method stated in subsection (a), or as provided for in Section 21 of these Bylaws. If such notice is not delivered personally, it shall be sent to such address as such director shall have filed in writing with the Secretary, or, in the absence of such filing, to the last known post office address of such director.

(c) Affidavit of Mailing. An affidavit of mailing, executed by a duly authorized and competent employee of the corporation or its transfer agent appointed with respect to the class of stock affected or other agent, specifying the name and address or the names and addresses of the stockholder or stockholders, or director or directors, to whom any such notice or notices was or were given, and the time and method of giving the same, shall in the absence of fraud, be prima facie evidence of the facts therein contained.

(d) Methods of Notice. It shall not be necessary that the same method of giving notice be employed in respect of all recipients of notice, but one permissible method may be employed in respect of any one or more, and any other permissible method or methods may be employed in respect of any other or others.

(e) Notice to Person with Whom Communication Is Unlawful. Whenever notice is required to be given, under any provision of law or of the Certificate of Incorporation or Bylaws of the corporation, to any person with whom communication is unlawful, the giving of such notice to such person shall not be required and there shall be no duty to apply to any governmental authority or agency for a license or permit to give such notice to such person. Any

action or meeting which shall be taken or held without notice to any such person with whom communication is unlawful shall have the same force and effect as if such notice had been duly given. In the event that the action taken by the corporation is such as to require the filing of a certificate under any provision of the DGCL, the certificate shall state, if such is the fact and if notice is required, that notice was given to all persons entitled to receive notice except such persons with whom communication is unlawful.

ARTICLE XIII

AMENDMENTS

Section 45. Amendments. Unless otherwise provided in the Certificate of Incorporation, the Board of Directors is expressly empowered to adopt, amend or repeal Bylaws of the corporation. The stockholders shall also have power to adopt, amend or repeal the Bylaws of the corporation; provided, however, that, in addition to any vote of the holders of any class or series of stock of the corporation required by law or by the Certificate of Incorporation, the affirmative vote of the holders of at least a majority of the voting power of all of the then-outstanding shares of the capital stock of the corporation entitled to vote generally in the election of directors, voting together as a single class, shall be required to adopt, amend or repeal any provision of the Bylaws of the corporation.

ARTICLE XIV

RIGHT OF FIRST REFUSAL

Section 46. Right of First Refusal. No stockholder shall sell, assign, pledge, or in any manner transfer any of the shares of common stock of the corporation or any right or interest therein, whether voluntarily or by operation of law, or by gift or otherwise, except by a transfer which meets the requirements hereinafter set forth in this bylaw:

(a) If the stockholder desires to sell or otherwise transfer any of his shares of common stock, then the stockholder shall first give written notice thereof to the corporation. The notice shall name the proposed transferee and state the number of shares to be transferred, the proposed consideration, and all other terms and conditions of the proposed transfer.

(b) For thirty (30) days following receipt of such notice, the corporation shall have the option to purchase all of the shares specified in the notice at the price and upon the terms set forth in such notice; *provided*, *however*, that, with the consent of the stockholder, the corporation shall have the option to purchase a lesser portion of the shares specified in said notice at the price and upon the terms set forth therein. In the event of a gift, property settlement or other transfer in which the proposed transferee is not paying the full price for the shares, and that is not otherwise exempted from the provisions of this Section 46, the price shall be deemed to be the fair market value of the stock at such time as determined in good faith by the Board of Directors. In the event the corporation elects to purchase all of the shares or, with consent of the stockholder, a lesser portion of the shares, it shall give written notice to the transferring stockholder of its election and settlement for said shares shall be made as provided below in paragraph (d).

(c) The corporation may assign its rights hereunder.

(d) In the event the corporation and/or its assignee(s) elect to acquire any of the shares of the transferring stockholder as specified in said transferring stockholder's notice, the Secretary of the corporation shall so notify the transferring stockholder and settlement thereof shall be made in cash within thirty (30) days after the Secretary of the corporation receives said transferring stockholder's notice; provided that if the terms of payment set forth in said transferring stockholder's notice were other than cash against delivery, the corporation and/or its assignee(s) shall pay for said shares on the same terms and conditions set forth in said transferring stockholder's notice.

(e) In the event the corporation and/or its assignees(s) do not elect to acquire all of the shares specified in the transferring stockholder's notice, said transferring stockholder may, within the sixty-day period following the expiration of the option rights granted to the corporation and/or its assignees(s) herein, transfer the shares specified in said transferring stockholder's notice which were not acquired by the corporation and/or its assignees(s) as specified in said transferring stockholder's notice. All shares so sold by said transferring stockholder shall continue to be subject to the provisions of this bylaw in the same manner as before said transfer.

(f) Anything to the contrary contained herein notwithstanding, the following transactions shall be exempt from the provisions of this bylaw:

(1) A stockholder's transfer of any or all shares held either during such stockholder's lifetime or on death by will or intestacy to such stockholder's immediate family or to any custodian or trustee for the account of such stockholder or such stockholder's immediate family or to any limited partnership of which the stockholder, members of such stockholder's immediate family or any trust for the account of such stockholder or such stockholder's immediate family will be the general of limited partner(s) of such partnership. "Immediate family" as used herein shall mean spouse, lineal descendant, father, mother, brother, or sister of the stockholder making such transfer.

(2) A stockholder's bona fide pledge or mortgage of any shares with a commercial lending institution, provided that any subsequent transfer of said shares by said institution shall be conducted in the manner set forth in this bylaw.

(3) A stockholder's transfer of any or all of such stockholder's shares to the corporation or to any other stockholder of the corporation.

(4) A stockholder's transfer of any or all of such stockholder's shares to a person who, at the time of such transfer, is an officer or director of the corporation.

(5) A corporate stockholder's transfer of any or all of its shares pursuant to and in accordance with the terms of any merger, consolidation, reclassification of shares or capital reorganization of the corporate stockholder, or pursuant to a sale of all or substantially all of the stock or assets of a corporate stockholder.

(6) A corporate stockholder's transfer of any or all of its shares to any or all of its stockholders.

(7) A transfer by a stockholder which is a limited or general partnership to any or all of its partners or former partners.

In any such case, the transferee, assignee, or other recipient shall receive and hold such stock subject to the provisions of this bylaw, and there shall be no further transfer of such stock except in accord with this bylaw.

(g) The provisions of this bylaw shall not apply to shares of common stock issued upon conversion of any preferred stock.

(h) The provisions of this bylaw may be waived with respect to any transfer either by the corporation, upon duly authorized action of its Board of Directors, or by the stockholders, upon the express written consent of the owners of a majority of the voting power of the corporation (excluding the votes represented by those shares to be transferred by the transferring stockholder). This bylaw may be amended or repealed either by a duly authorized action of the Board of Directors or by the stockholders, upon the express written consent of the owners of a majority of the voting power of the corporation.

(i) Any sale or transfer, or purported sale or transfer, of securities of the corporation shall be null and void unless the terms, conditions, and provisions of this bylaw are strictly observed and followed.

(j) The foregoing right of first refusal shall terminate upon the date securities of the corporation are first offered to the public pursuant to a registration statement filed with, and declared effective by, the United States Securities and Exchange Commission under the Securities Act of 1933, as amended.

(k) The certificates representing shares of stock of the corporation subject to the foregoing right of first refusal shall bear on their face the following legend so long as the foregoing right of first refusal remains in effect:

"THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO A RIGHT OF FIRST REFUSAL OPTION IN FAVOR OF THE CORPORATION AND/OR ITS ASSIGNEE(S), AS PROVIDED IN THE BYLAWS OF THE CORPORATION."

ARTICLE XV

LOANS TO OFFICERS

Section 47. Loans to Officers. Except as otherwise prohibited under applicable law, and unless otherwise provided in the Certificate of Incorporation, the corporation may lend money to, or guarantee any obligation of, or otherwise assist any officer or other employee of the corporation or of its subsidiaries, including any officer or employee who is a Director of the

corporation or its subsidiaries, whenever, in the judgment of the Board of Directors, such loan, guarantee or assistance may reasonably be expected to benefit the corporation. The loan, guarantee or other assistance may be with or without interest and may be unsecured, or secured in such manner as the Board of Directors shall approve, including, without limitation, a pledge of shares of stock of the corporation. Nothing in these Bylaws shall be deemed to deny, limit or restrict the powers of guaranty or warranty of the corporation at common law or under any statute.

ARTICLE XVI

MISCELLANEOUS

Section 48. Annual Report.

(a) Subject to the provisions of paragraph (b) of this Bylaw, the Board of Directors shall cause an annual report to be sent to each stockholder of the corporation not later than one hundred twenty (120) days after the close of the corporation's fiscal year. Such report shall include a balance sheet as of the end of such fiscal year and an income statement and statement of changes in financial position for such fiscal year, accompanied by any report thereon of independent accounts or, if there is no such report, the certificate of an authorized officer of the corporation that such statements were prepared without audit from the books and records of the corporation. When there are more than 100 stockholders of record of the corporation's shares, as determined by Section 605 of the CGCL, additional information as required by Section 1501(b) of the CGCL shall also be contained in such report, provided that if the corporation has a class of securities registered under Section 12 of the 1934 Act, the 1934 Act shall take precedence. Such report shall be sent to stockholders at least fifteen (15) days prior to the next annual meeting of stockholders after the end of the fiscal year to which it relates.

(b) If and so long as there are fewer than 100 holders of record of the corporation's shares, the requirement of sending of an annual report to the stockholders of the corporation is hereby expressly waived.

Exhibit 4.2

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.

FIFTH AMENDED AND RESTATED

INVESTOR RIGHTS AGREEMENT

TABLE OF CONTENTS

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.

FIFTH AMENDED AND RESTATED INVESTOR RIGHTS AGREEMENT

THIS FIFTH AMENDED AND RESTATED INVESTOR RIGHTS AGREEMENT (the "***Agreement***") is entered into as of June 16, 2010, by and among **PACIFIC BIOSCIENCES OF CALIFORNIA, INC.**, a Delaware corporation (the "***Company***") and each of the persons and entities listed on Exhibit A hereto and referred to hereinafter collectively as the "***Investors***" and each individually as an "***Investor***."

RECITALS

WHEREAS, the Company and certain of the Investors entered into the Fourth Amended and Restated Investor Rights Agreement, dated as of July 11, 2008, as subsequently amended, pursuant to which the Company granted registration, information and pre-emptive rights to certain of the Holders (the "***Prior Agreement***");

WHEREAS, certain of the Investors are purchasing shares of the Company's Series F Preferred Stock (the "***Series F Stock***") pursuant to that certain Series F Preferred Stock Purchase Agreement (the "***Purchase Agreement***") of even date herewith (the purchase and sale of such Series F Stock referred to herein as the "***Financing***");

WHEREAS, in connection with the consummation of the Financing, the parties desire to enter into this Agreement in order to grant registration, information and other rights to the purchasers of the Series F Stock as set forth below; and

WHEREAS, this Agreement hereby amends, restates and supersedes in its entirety the Prior Agreement.

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree hereto as follows:

SECTION 1. GENERAL

1.1 Definitions. As used in this Agreement the following terms shall have the following respective meanings:

(a) "***Exchange Act***" means the Securities Exchange Act of 1934, as amended, or any similar successor federal statute and the rules and regulations thereunder, all as the same shall be in effect from time to time.

(b) "***Form S-3***" means such form under the Securities Act as in effect on the date hereof or any successor or similar registration form under the Securities Act subsequently adopted by the SEC which permits inclusion or incorporation of substantial information by reference to other documents filed by the Company with the SEC.

(c) "***Holder***" means any person owning of record Registrable Securities that have not been sold to the public or any assignee of record of such Registrable Securities in accordance with Section 2.9 hereof.

(d) "***Initial Offering***" means the Company's first underwritten public offering of its Common Stock to the general public that is effected pursuant to a registration statement filed with, and declared effective by, the Commission under the Securities Act.

(e) "***Major Investor***" shall mean (i) any Investor (together with its affiliates) that owns not less than two hundred eighty-five thousand seven hundred (285,700) shares of Series E Stock or three hundred thousand (300,000) shares of Registrable Securities (as adjusted for stock splits and combinations), (ii) Entrepreneur America Mentors LLC so long as it holds 222,992 shares of Registrable Securities, or (iii) registered investment advisers (as well as any of their affiliates) that hold on a discretionary basis on behalf of their clients 300,000 or more shares of Registrable Securities. Solely for the purposes of Section 3.1 hereof "Major Investor" shall also mean the Cornell Research Foundation, Inc.

(f) "***Register***," "***registered***," and "***registration***" refer to a registration effected by preparing and filing a registration statement in compliance with the Securities Act, and the declaration or ordering of effectiveness of such registration statement or document.

(g) "***Registrable Securities***" means (a) Common Stock of the Company issuable or issued (i) upon conversion of the Shares; (ii) upon conversion of shares of Junior Preferred Stock of the Company that were originally issued upon conversion of the Shares or (iii) upon conversion of the shares of Series B Preferred Stock issuable upon exercise of those warrants to purchase Series B Preferred Stock held by Lighthouse Capital Partners V, L.P. or its affiliates, (b) for the purposes of Section 2 hereof, the shares of Common Stock issuable or issued upon conversion of the Junior Preferred Stock held by the Cornell Research Foundation, Inc. and (c) any Common Stock of the Company issued as (or issuable upon the conversion or exercise of any warrant, right or other security which is issued as) a dividend or other distribution with respect to, or in exchange for or in replacement of, any of the above-described securities. Notwithstanding the foregoing, Registrable Securities shall not include any securities (i) sold by a person to the public either pursuant to a registration statement or Rule 144, (ii) sold in a private transaction in which the transferor's rights under Section 2 of this Agreement are not assigned or (iii) held by a Holder (together with its affiliates) if, as reflected on the Company's list of stockholders, such Holder (together with its affiliates) holds less than 1% of the Company's outstanding Common Stock (treating all shares of Preferred Stock on an as-converted basis), the Company has completed its Initial Offering and all shares of Common Stock of the Company issuable or issued upon conversion of the Shares held by and issuable to such Holder (and its affiliates) may be sold pursuant to Rule 144 during any ninety (90) day period.

(h) "***Registrable Securities then outstanding***" shall be the number of shares of the Company's Common Stock that are Registrable Securities and either (a) are then issued and outstanding or (b) are issuable pursuant to then exercisable or convertible securities.

(i) "***Registration Expenses***" shall mean all expenses incurred by the Company in complying with Sections 2.2, 2.3 and 2.4 hereof, including, without limitation, all registration and filing fees, printing expenses, escrow fees, fees and disbursements of counsel for the Company, reasonable fees and disbursements not to exceed forty thousand dollars ($40,000) for a single special counsel for the Holders, blue sky fees and expenses and the expense of any special audits incident to or required by any such registration (but excluding the compensation of regular employees of the Company which shall be paid in any event by the Company).

(j) "***SEC***" or "***Commission***" means the Securities and Exchange Commission.

(k) "***Securities Act***" shall mean the Securities Act of 1933, as amended, or any similar successor federal statute and the rules and regulations thereunder, all as the same shall be in effect from time to time.

(l) "***Selling Expenses***" shall mean all underwriting discounts, selling commissions and stock transfer taxes applicable to the sale of Registrable Securities, and fees and disbursements of counsel for any Holder (other than as allowed as Registration Expenses).

(m) "***Shares***" shall mean shares of the Company's Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock and Series F Preferred Stock, (collectively, the "***Senior Preferred Stock***") held from time to time by the Investors listed on Exhibit A hereto and their permitted assigns.

(n) "***Special Registration Statement***" shall mean (i) a registration statement relating to any employee benefit plan or arrangement, or the resale of securities issued pursuant to such a plan or arrangement or (ii) a registration filed with respect to any corporate reorganization or transaction under Rule 145 of the Securities Act, including any registration statements related to the issuance or resale of securities issued in such a transaction or (iii) a registration related to stock issued upon conversion of debt securities and any warrants issued in connection with the issuance of debt securities.

SECTION 2. REGISTRATION; RESTRICTIONS ON TRANSFER

2.1 Restrictions on Transfer

(a) Each Holder agrees not to make any disposition of all or any portion of the Shares or Registrable Securities unless and until:

(i) there is then in effect a registration statement under the Securities Act covering such proposed disposition and such disposition is made in accordance with such registration statement; or

(ii)(A) The transferee has agreed in writing to be bound by the terms of this Agreement, (B) such Holder shall have notified the Company of the proposed disposition and shall have furnished the Company with a detailed statement of the circumstances surrounding the proposed disposition, and (C) if reasonably requested by the Company, such Holder shall have furnished the Company with an opinion of counsel, reasonably satisfactory to the Company, that such disposition will not require registration of such shares under the Securities Act. It is agreed that the Company will not require opinions of counsel for transactions made pursuant to Rule 144, except in unusual circumstances. After its Initial Offering, the Company will not require the transferee to be bound by the terms of this Agreement.

(b) Notwithstanding the provisions of Section 2.1(a) above, no such restriction shall apply to a transfer by a Holder that is (A) a partnership transferring to its partners or former partners in accordance with partnership interests, (B) a corporation transferring to a wholly-owned subsidiary or a parent corporation that owns all of the capital stock of the Holder, (C) a limited liability company transferring to its members or former members in accordance with their interest in the limited liability company, (D) an individual transferring to the Holder's family member or to a trust for the benefit of an individual Holder or the Holder's family member(s), (E) an entity transferring to funds or accounts affiliated by common control or under common management (or other related entity) with such Holder, or (F) a trustee of a trust to any successor trustee or additional trustee or trustees of the trust from time to time, or any company whose shares are all held directly or indirectly by the trust, or any nominee or custodian of any such person; *provided* that in each case the transferee will agree in writing with the Company to be subject to the terms of this Agreement to the same extent as if such transferee were an original Holder hereunder.

(c) Each certificate representing Shares or Registrable Securities shall be stamped or otherwise imprinted with legends substantially similar to the following (in addition to any legend required under applicable state securities laws):

> THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 (THE "***ACT***") AND MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, ASSIGNED, PLEDGED OR HYPOTHECATED UNLESS AND UNTIL REGISTERED UNDER THE ACT OR UNLESS THE COMPANY HAS RECEIVED AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY AND ITS COUNSEL THAT SUCH REGISTRATION IS NOT REQUIRED.
>
> THE SALE, PLEDGE, HYPOTHECATION OR TRANSFER OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE IS SUBJECT TO THE TERMS AND CONDITIONS OF A CERTAIN INVESTOR RIGHTS AGREEMENT BY AND BETWEEN THE STOCKHOLDER AND THE COMPANY. COPIES OF SUCH AGREEMENT MAY BE OBTAINED UPON WRITTEN REQUEST TO THE SECRETARY OF THE COMPANY.

(d) The Company shall be obligated to reissue promptly unlegended certificates at the request of any Holder thereof if the Company has completed its Initial Offering and the Holder shall have obtained an opinion of counsel (which counsel may be counsel to the Company) reasonably acceptable to the Company to the effect that the securities proposed to be disposed of may lawfully be so disposed of without registration, qualification and legend, *provided that* the second legend listed above shall be removed only at such time as the Holder of such certificate is no longer subject to any restrictions hereunder.

(e) Any legend endorsed on an instrument pursuant to applicable state securities laws and the stop-transfer instructions with respect to such securities shall be removed upon receipt by the Company of an order of the appropriate blue sky authority authorizing such removal.

2.2 Demand Registration

(a) Subject to the conditions of this Section 2.2, if the Company shall receive a written request from the Holders of at least a majority of the Registrable Securities then-outstanding (the "***Initiating Holders***") that the Company file a registration statement under the Securities Act covering the registration of at least thirty percent (30%) of the Registrable Securities then outstanding (or a lesser percent if the anticipated aggregate offering price, net of underwriting discounts and commissions, would exceed $10,000,000), then the Company shall, within thirty (30) days of the receipt thereof, give written notice of such request to all Holders, and subject to the limitations of this Section 2.2, effect, as expeditiously as reasonably possible, the registration under the Securities Act of all Registrable Securities that all Holders request to be registered.

(b) If the Initiating Holders intend to distribute the Registrable Securities covered by their request by means of an underwriting, they shall so advise the Company as a part of their request made pursuant to this Section 2.2 or any request pursuant to Section 2.4 and the Company shall include such information in the written notice referred to in Section 2.2(a) or Section 2.4(a), as applicable. In such event, the right of any Holder to include its Registrable Securities in such registration shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities in the underwriting to the extent provided herein. All Holders proposing to distribute their securities through such underwriting shall enter into an underwriting agreement in customary form with the underwriter or underwriters selected for such underwriting by a majority in interest of the Initiating Holders (which underwriter or underwriters shall be reasonably acceptable to the Company). Notwithstanding any other provision of this Section 2.2 or Section 2.4, if the underwriter advises the Company that marketing factors require a limitation of the number of securities to be underwritten (including Registrable Securities) then the Company shall so advise all Holders of Registrable Securities which would otherwise be underwritten pursuant hereto, and the number of shares that may be included in the underwriting shall be allocated to the Holders of such Registrable Securities on a *pro rata* basis based on the number of Registrable Securities held by all such Holders (including the Initiating Holders); *provided*, *however*, that the number of shares of Registrable Securities to be included in such

underwriting and registration shall not be reduced unless all other securities of the Company are first entirely excluded from the underwriting and registration. Any Registrable Securities excluded or withdrawn from such underwriting shall be withdrawn from the registration. For any Holder which is a partnership or corporation, the partners, retired partners and stockholders of such Holder, or the estates and family members of any such partners and retired partners and any trusts for the benefit of any of the foregoing persons, or affiliates thereof, shall be deemed to be a single "Holder," and any pro rata reduction with respect to such "Holder" shall be based upon the aggregate amount of shares carrying registration rights owned by all entities and individuals included in such "Holder," as defined in this sentence.

(c) The Company shall not be required to effect a registration pursuant to this Section 2.2:

(i) prior to the earlier of (A) the fifth anniversary of the date of the Prior Agreement or (B) one hundred eighty (180) days following the effective date of the registration statement pertaining to the Initial Offering;

(ii) after the Company has effected two (2) registrations pursuant to this Section 2.2, and such registrations have been declared or ordered effective;

(iii) during the period starting with the date of filing of, and ending on the date one hundred eighty (180) days following the effective date of, the registration statement pertaining to a public offering, other than pursuant to a Special Registration Statement; *provided* that the Company makes reasonable good faith efforts to cause such registration statement to become effective and *provided*, in the case of a public offering other than the Initial Offering, that the Initiating Holders were permitted to register such shares as requested to be registered pursuant to Section 2.3 hereof without reduction by the underwriter thereof;

(iv) if within thirty (30) days of receipt of a written request from Initiating Holders pursuant to Section 2.2(a), the Company gives notice to the Holders of the Company's good faith intention to file a registration statement for a public offering, other than pursuant to a Special Registration Statement, within ninety (90) days; *provided*, that the Company is actively employing in good faith commercially reasonable efforts to cause such registration statement to become effective;

(v) if the Company shall furnish to Holders requesting a registration statement pursuant to this Section 2.2, a certificate signed by the Chairman of the Board stating that in the good faith judgment of the Board of Directors of the Company, it would be seriously detrimental to the Company and its stockholders for such registration statement to be effected at such time, in which event the Company shall have the right to defer such filing for a period of not more than ninety (90) days after receipt of the request of the Initiating Holders; *provided* that such right to delay a request under this Section 2.2(c)(v) and Section 2.4(b)(iii) shall be exercised by the Company not more than once in any twelve (12) month period;

(vi) if the Initiating Holders propose to dispose of shares of Registrable Securities that may be immediately registered on Form S-3 pursuant to a request made pursuant to Section 2.4 below; or

(vii) in any particular jurisdiction in which the Company would be required to qualify to do business or to execute a general consent to service of process in effecting such registration, qualification or compliance.

2.3 Piggyback Registrations. The Company shall notify all Holders of Registrable Securities in writing at least fifteen (15) business days prior to the filing of any registration statement under the Securities Act for purposes of a public offering of securities of the Company (including, but not limited to, registration statements relating to secondary offerings of securities of the Company, but excluding Special Registration Statements and the Initial Offering) and will afford each such Holder an opportunity to include in such registration statement all or part of such Registrable Securities held by such Holder. Each Holder desiring to include in any such registration statement all or any part of the Registrable Securities held by it shall, within fifteen (15) business days after the above-described notice from the Company, so notify the Company in writing. Such notice shall state the intended method of disposition of the Registrable Securities by such Holder. If a Holder decides not to include all of its Registrable Securities in any registration statement thereafter filed by the Company, such Holder shall nevertheless continue to have the right to include any Registrable Securities in any subsequent registration statement or registration statements as may be filed by the Company with respect to offerings of its securities, all upon the terms and conditions set forth herein.

(a) Underwriting. If the registration statement under which the Company gives notice under this Section 2.3 is for an underwritten offering, the Company shall so advise the Holders of Registrable Securities. In such event, the right of any such Holder to be included in a registration pursuant to this Section 2.3 shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities in the underwriting to the extent provided herein. All Holders proposing to distribute their Registrable Securities through such underwriting shall enter into an underwriting agreement in customary form with the underwriter or underwriters selected for such underwriting by the Company. Notwithstanding any other provision of this Agreement, if the underwriter determines in good faith that marketing factors require a limitation of the number of shares to be underwritten, the number of shares that may be included in the underwriting shall be allocated, first, to the Company; second, to the Holders on a pro rata basis based on the total number of Registrable Securities held by the Holders, *provided*, that in no event shall the number of Registrable Securities included in the offering be reduced below 30% of the total number of securities included in such offering, unless such offering was initiated by selling stockholders other than Holders of Registrable Securities pursuant to a registration rights agreement with the Company, in which cases all Registrable Securities may be excluded, *provided further* that the number of Registrable Securities included in the offering may be reduced to 0% in the Company's Initial Offering at the underwriter's discretion; and third, to any stockholder of the Company (other than a Holder) on a *pro rata* basis. If any Holder disapproves of the terms of any such underwriting, such Holder may elect to withdraw therefrom by written notice to the Company

and the underwriter, delivered at least ten (10) business days prior to the effective date of the registration statement. Any Registrable Securities excluded or withdrawn from such underwriting shall be excluded and withdrawn from the registration. For any Holder which is a partnership or corporation, the partners, retired partners and stockholders of such Holder, or the estates and family members of any such partners and retired partners and any trusts for the benefit of any of the foregoing person shall be deemed to be a single "Holder," and any *pro rata* reduction with respect to such "Holder" shall be based upon the aggregate amount of shares carrying registration rights owned by all entities and individuals included in such "Holder," as defined in this sentence.

(b) Right to Terminate Registration. The Company shall have the right to terminate or withdraw any registration initiated by it under this Section 2.3 whether or not any Holder has elected to include securities in such registration, and shall promptly notify any Holder that has elected to include shares in such registration of such termination or withdrawal. The Registration Expenses of such withdrawn registration shall be borne by the Company in accordance with Section 2.5 hereof.

2.4 Form S-3 Registration. In case the Company shall receive from any Holder or Holders of Registrable Securities a written request or requests that the Company effect a registration on Form S-3 (or any successor to Form S-3) or any similar short-form registration statement and any related qualification or compliance with respect to all or a part of the Registrable Securities owned by such Holder or Holders, the Company will:

(a) promptly give written notice of the proposed registration, and any related qualification or compliance, to all other Holders of Registrable Securities; and

(b) as soon as practicable, effect such registration and all such qualifications and compliances as may be so requested and as would permit or facilitate the sale and distribution of all or such portion of such Holder's or Holders' Registrable Securities as are specified in such request, together with all or such portion of the Registrable Securities of any other Holder or Holders joining in such request as are specified in a written request given within fifteen (15) days after receipt of such written notice from the Company; *provided*, *however*, that the Company shall not be obligated to effect any such registration, qualification or compliance pursuant to this Section 2.4:

(i) if Form S-3 is not available for such offering by the Holders, or

(ii) if within thirty (30) days of receipt of a written request from any Holder or Holders pursuant to this Section 2.4, the Company gives notice to such Holder or Holders of the Company's good faith intention to make a public offering within ninety (90) days, other than pursuant to a Special Registration Statement, provided that such Holders are permitted to register such shares as requested to be registered pursuant to Section 2.3 hereof without reduction by the underwriter thereof, provided, further, that the Company is actively employing in good faith commercially reasonable efforts to cause such registration statement to become effective; or

(iii) if the Company shall furnish to the Holders a certificate signed by the Chairman of the Board of Directors of the Company stating that in the good faith judgment of the Board of Directors of the Company, it would be seriously detrimental to the Company and its stockholders for such Form S-3 registration to be effected at such time, in which event the Company shall have the right to defer the filing of the Form S-3 registration statement for a period of not more than ninety (90) days after receipt of the request of the Holder or Holders under this Section 2.4; *provided*, that such right to delay a request under this Section 2.4(b)(iii) and under Section 2.2(c)(v) shall be exercised by the Company not more than once in any twelve (12) month period, or

(iv) if the Company has, within the twelve (12) month period preceding the date of such request, already effected two registrations on Form S-3 for the Holders pursuant to this Section 2.4, or

(v) in any particular jurisdiction in which the Company would be required to qualify to do business or to execute a general consent to service of process in effecting such registration, qualification or compliance.

(c) Subject to the foregoing, the Company shall file a Form S-3 registration statement covering the Registrable Securities and other securities so requested to be registered as soon as practicable after receipt of the requests of the Holders. Registrations effected pursuant to this Section 2.4 shall not be counted as demands for registration or registrations effected pursuant to Section 2.2.

2.5 Expenses of Registration. Except as specifically provided herein, all Registration Expenses incurred in connection with any registration, qualification or compliance pursuant to Section 2.2 or any registration under Section 2.3 or Section 2.4 herein shall be borne by the Company. All Selling Expenses incurred in connection with any registrations hereunder, shall be borne by the holders of the securities so registered *pro rata* on the basis of the number of shares so registered. The Company shall not, however, be required to pay for expenses of any registration proceeding begun pursuant to Section 2.2, the request of which has been subsequently withdrawn by the Initiating Holders unless (a) the withdrawal is based upon material adverse information concerning the Company of which the Initiating Holders were not aware at the time of such request or a material change in the offering terms or (b) the Holders of a majority of Registrable Securities agree to forfeit their right to one requested registration pursuant to Section 2.2 in which event such right shall be forfeited by all Holders. If the Holders are required to pay the Registration Expenses, such expenses shall be borne by the holders of securities (including Registrable Securities) requesting such registration in proportion to the number of shares for which registration was requested. If the Company is required to pay the Registration Expenses of a withdrawn offering pursuant to clause (a) above, then the Holders shall not forfeit their rights pursuant to Section 2.2 to a demand registration.

2.6 Obligations of the Company. Whenever required to effect the registration of any Registrable Securities, the Company shall, as expeditiously as reasonably possible:

(a) prepare and file with the SEC a registration statement with respect to such Registrable Securities and use all reasonable efforts to cause such registration statement to become effective, and, upon the request of the Holders of a majority of the Registrable Securities registered

thereunder, keep such registration statement effective for up to ninety (90) days or, if earlier, until the Holder or Holders have completed the distribution related thereto; provided, however, that at any time within such 90-day period, upon written notice to the participating Holders (the "**Suspension Period**"), the Company may delay the filing or effectiveness of any registration statement or suspend the use or effectiveness of any registration statement (and the Initiating Holders hereby agree not to offer or sell any Registrable Securities pursuant to such registration statement during the Suspension Period) if the Company reasonably believes that there is or may be in existence material nonpublic information or events involving the Company, the failure of which to be disclosed in the prospectus included in the registration statement could result in a Violation (as defined below). In the event that the Company shall exercise its right to delay or suspend the filing or effectiveness of a registration hereunder, the applicable time period during which the registration statement is to remain effective shall be extended by a period of time equal to the duration of the Suspension Period. The Company may extend the Suspension Period for an additional consecutive sixty (60) days with the consent of the holders of a majority of the Registrable Securities registered under the applicable registration statement, which consent shall not be unreasonably withheld. If so directed by the Company, all Holders registering shares under such registration statement shall (i) not offer to sell any Registrable Securities pursuant to the registration statement during the period in which the delay or suspension is in effect after receiving notice of such delay or suspension; and (ii) use their best efforts to deliver to the Company (at the Company's expense) all copies, other than permanent file copies then in such Holders' possession, of the prospectus relating to such Registrable Securities current at the time of receipt of such notice. The Company shall not be required to file, cause to become effective or maintain the effectiveness of any registration statement that contemplates a distribution of securities on a delayed or continuous basis pursuant to Rule 415 under the Securities Act.

(b) Prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement for the period set forth in Section 2.6(a) above.

(c) Furnish to the Holders such number of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Securities Act, and such other documents as they may reasonably request in order to facilitate the disposition of Registrable Securities owned by them.

(d) Use its reasonable efforts to register and qualify the securities covered by such registration statement under such other securities or Blue Sky laws of such jurisdictions as shall be reasonably requested by the Holders; *provided* that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such states or jurisdictions.

(e) In the event of any underwritten public offering, enter into and perform its obligations under an underwriting agreement, in usual and customary form, with the managing underwriter(s) of such offering. Each Holder participating in such underwriting shall also enter into and perform its obligations under such an agreement.

(f) Notify each Holder of Registrable Securities covered by such registration statement at any time when a prospectus relating thereto is required to be delivered under the Securities Act of the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing. The Company will use reasonable efforts to amend or supplement such prospectus in order to cause such prospectus not to include any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing.

(g) Use its reasonable efforts to furnish, on the date that such Registrable Securities are delivered to the underwriters for sale, if such securities are being sold through underwriters, (i) an opinion, dated as of such date, of the counsel representing the Company for the purposes of such registration, in form and substance as is customarily given to underwriters in an underwritten public offering, addressed to the underwriters, if any, and (ii) a letter, dated as of such date, from the independent certified public accountants of the Company, in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering addressed to the underwriters.

(h) Provide a transfer agent and registrar for all Registrable Securities and a CUSIP number for all such Registrable Securities, in each case not later than the effective date of such registration.

(i) Cause all such Registrable Securities to be listed on each securities exchange or authorized for quotation on each automated quotation system on which similar securities issued by the Company are then listed or authorized for quotation.

2.7 Delay of Registration; Furnishing Information

(a) No Holder shall have any right to obtain or seek an injunction restraining or otherwise delaying any such registration as the result of any controversy that might arise with respect to the interpretation or implementation of this Section 2.

(b) It shall be a condition precedent to the obligations of the Company to take any action pursuant to Section 2.2, 2.3 or 2.4 that the selling Holders shall furnish to the Company such information regarding themselves, the Registrable Securities held by them and the intended method of disposition of such securities as shall be required to effect the registration of their Registrable Securities.

(c) The Company shall have no obligation with respect to any registration requested pursuant to Section 2.2 if, due to the operation of Section 2.2(b), the number of shares or the anticipated aggregate offering price of the Registrable Securities to be included in the registration does not equal or exceed the number of shares or the anticipated aggregate offering price required to originally trigger the Company’s obligation to initiate such registration as specified in Section 2.2.

2.8 Indemnification. In the event any Registrable Securities are included in a registration statement under Sections 2.2, 2.3 or 2.4:

(a) To the extent permitted by law, the Company will indemnify and hold harmless each Holder, the partners, members, stockholders, officers and directors of each Holder, legal counsel and accountants for such Holder, any underwriter (as defined in the Securities Act) for such Holder and each person, if any, who controls such Holder or underwriter within the meaning of the Securities Act or the Exchange Act, against any losses, claims, damages, or liabilities (joint or several) to which they may become subject under the Securities Act, the Exchange Act or other federal or state law, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any of the following statements, omissions or violations (collectively a "***Violation***") by the Company: (i) any untrue statement or alleged untrue statement of a material fact contained in such registration statement or incorporated by reference therein, including any preliminary prospectus or final prospectus contained therein, any issuer free writing prospectus relating thereto, or any amendments or supplements thereto, (ii) the omission or alleged omission to state therein a material fact required to be stated therein, or necessary to make the statements therein not misleading, or (iii) any violation or alleged violation by the Company of the Securities Act, the Exchange Act, any state securities law or any rule or regulation promulgated under the Securities Act, the Exchange Act or any state securities law in connection with the offering covered by such registration statement; and the Company will reimburse each such Holder, partner, member, stockholder, officer, director, legal counsel, accountant, underwriter or controlling person for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action; *provided however*, that the indemnity agreement contained in this Section 2.8(a) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Company, which consent shall not be unreasonably withheld, delayed or conditioned, nor shall the Company be liable in any such case for any such loss, claim, damage, liability or action to the extent that it arises out of or is based upon a Violation which occurs in reliance upon and in conformity with written information furnished expressly for use in connection with such registration by such Holder, partner, member, stockholder, officer, director, legal counsel, accountant, underwriter or controlling person of such Holder.

(b) To the extent permitted by law, each Holder will, severally and not jointly, if Registrable Securities held by such Holder are included in the securities as to which such registration qualifications or compliance is being effected, indemnify and hold harmless the Company, each of its directors, its officers and each person, if any, who controls the Company within the meaning of the Securities Act, any underwriter and any other Holder selling securities under such registration statement or any of such other Holder's partners, directors or officers or any person who controls such Holder, against any losses, claims, damages or liabilities (joint or several) to which the Company or any such director, officer, controlling person, underwriter or other such Holder, or partner, director, officer or controlling person of such other Holder may become subject under the

Securities Act, the Exchange Act or other federal or state law, insofar as such losses, claims, damages or liabilities (or actions in respect thereto) arise out of or are based upon any of the following statements: (i) any untrue statement or alleged untrue statement of a material fact contained in such registration statement or incorporated by reference therein, including any preliminary prospectus or final prospectus contained therein, any issuer free writing prospectus related thereto, or any amendments or supplements thereto, (ii) the omission or alleged omission to state therein a material fact required to be stated therein, or necessary to make the statements therein not misleading, or (iii) any violation or alleged violation by the Company of the Securities Act (collectively, a "***Holder Violation***"), in each case to the extent (and only to the extent) that such Holder Violation occurs in reliance upon and in conformity with written information furnished by such Holder under an instrument duly executed by such Holder and stated to be specifically for use in connection with such registration; and each such Holder will reimburse any legal or other expenses reasonably incurred by the Company or any such director, officer, controlling person, underwriter or other Holder, or partner, officer, director or controlling person of such other Holder in connection with investigating or defending any such loss, claim, damage, liability or action if it is judicially determined that there was such a Holder Violation; *provided, however*, that the indemnity agreement contained in this Section 2.8(b) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Holder, which consent shall not be unreasonably withheld, delayed or conditioned; *provided further*, that in no event shall any indemnity under this Section 2.8 exceed the net proceeds from the offering received by such Holder.

(c) Promptly after receipt by an indemnified party under this Section 2.8 of notice of the commencement of any action (including any governmental action), such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Section 2.8, deliver to the indemnifying party a written notice of the commencement thereof and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume the defense thereof with counsel mutually satisfactory to the parties; *provided, however*, that an indemnified party shall have the right to retain its own counsel, with the fees and expenses to be paid by the indemnifying party, if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential differing interests between such indemnified party and any other party represented by such counsel in such proceeding. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action, if materially prejudicial to its ability to defend such action, shall relieve such indemnifying party of any liability to the indemnified party under this Section 2.8, but the omission so to deliver written notice to the indemnifying party will not relieve it of any liability that it may have to any indemnified party otherwise than under this Section 2.8.

(d) If the indemnification provided for in this Section 2.8 is held by a court of competent jurisdiction to be unavailable to an indemnified party with respect to any losses, claims, damages or liabilities referred to herein, the indemnifying party, in lieu of indemnifying such indemnified party thereunder, shall, to the extent permitted by applicable law, contribute to the amount paid or payable by such indemnified party as a result of such loss, claim, damage or liability

in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and of the indemnified party on the other in connection with the Violation(s) or Holder Violation(s) that resulted in such loss, claim, damage or liability, as well as any other relevant equitable considerations. The relative fault of the indemnifying party and of the indemnified party shall be determined by a court of law by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission to state a material fact relates to information supplied by the indemnifying party or by the indemnified party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission; *provided, that* in no event shall any contribution by a Holder hereunder exceed the net proceeds from the offering received by such Holder.

(e) The obligations of the Company and Holders under this Section 2.8 shall survive completion of any offering of Registrable Securities in a registration statement and the termination of this Agreement. No indemnifying party, in the defense of any such claim or litigation, shall, except with the consent of each indemnified party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party of a release from all liability in respect to such claim or litigation.

2.9 Assignment of Registration Rights. The rights to cause the Company to register Registrable Securities pursuant to this Section 2 may be assigned by a Holder to a transferee or assignee of Registrable Securities (for so long as such shares remain Registrable Securities) that (a) is a subsidiary, parent, general partner, limited partner, retired partner, member or retired member, or stockholder of a Holder that is a corporation, partnership or limited liability company, (b) is a Holder's family member or a trust for the benefit of the Holder or the Holder's family member(s), or (c) acquires at least three hundred thousand (300,000) shares of Registrable Securities (as adjusted for stock splits and combinations); or (d) is an entity affiliated or under common control or management (or other related entity) with such Holder, including without limitation any sister company of the Holder, or (e) is a successor trustee of a trust whose existing trustee is a Holder, or additional trustee or trustees of such trust from time to time, or any company whose shares are all held directly or indirectly by such trust, or any nominee or custodian of any such person; *provided, however*, (i) the transferor shall, within ten (10) days after such transfer, furnish to the Company written notice of the name and address of such transferee or assignee and the securities with respect to which such registration rights are being assigned and (ii) such transferee shall agree with the Company to be subject to all restrictions set forth in this Agreement.

2.10 Limitation on Subsequent Registration Rights. Other than as provided in Section 5.10, after the date of this Agreement, the Company shall not, without the consent of the holders of a majority-in-interest of the Registrable Securities, enter into any agreement with any holder or prospective holder of any securities of the Company that would grant such holder (i) rights to demand the registration of their shares, or to include their shares in a registration statement that would reduce the number of shares includable by the Holders or (ii) any other registration rights on a parity with or senior to those granted to the Holders hereunder, other than the right to a Special Registration Statement.

2.11 "Market Stand-Off" Agreement. Each Holder hereby agrees that such Holder shall not sell, transfer, make any short sale of, grant any option for the purchase of, or enter into any hedging or similar transaction with the same economic effect as a sale, any Common Stock (or other securities) of the Company held by such Holder (other than shares of Common Stock included in the registration) for a period specified by the representative of the underwriters of Common Stock (or other securities) of the Company not to exceed (i) one hundred eighty (180) days (plus up to an additional sixteen (16) days if contemplated in the form of underwriting or market stand-off agreement supplied by the representative(s) of the underwriters) following the effective date of a registration statement of the Company filed under the Securities Act with respect to the Initial Offering or (ii) ninety (90) days (plus up to an additional sixteen (16) days if contemplated in the form of underwriting or market stand-off agreement supplied by the representative(s) of the underwriters) following the effective date of the first registration statement of the Company filed under the Securities Act with respect to an underwritten public offering of its Common Stock to the general public after the Initial Offering (together with the Initial Offering, a "***Company Public Offering***"), and shall enter into an agreement to such effect with the representative(s) of the underwriters and which shall, upon execution, supersede all the terms and conditions of this Section 2.11; *provided* that all officers and directors of the Company and each holder of at least one percent (1%) of the Company's outstanding voting securities enter into similar agreements, *provided further* that any Holder exercising their registration rights with respect to a Company Public Offering pursuant to Section 2 of this Agreement agrees to enter into a form of lock-up agreement as reasonably proposed by the underwriters of such offering with respect to any Common Stock (or other securities) of the Company held by such Holder not included in such registration. Notwithstanding the foregoing, if the Company or the managing underwriter shall waive or terminate, or exempt any Holder from having to agree to, any of the restrictions contained in any agreement with respect to the subject matter contained in this Section 2.11, such waiver or termination or exemption shall apply to all of the Investors on a pro rata basis (according to the total number of Registrable Securities owned by each Investor). The foregoing provisions of this Section 2.11 shall not apply with respect to any shares of the Company offered or traded in the public market (including any market which may develop pursuant to Rule 144A promulgated under the Act) or to a distribution to any Affiliate (as that term is defined in Rule 405 of the Securities Act) of any Holder provided that such Affiliate agrees in writing to be bound by the terms of this Section 2.11.

2.12 Agreement to Furnish Information. Each Holder agrees to execute and deliver such other agreements as may be reasonably requested by the Company or the underwriter that are consistent with the Holder's obligations under Section 2.11 or that are necessary to give further effect thereto. In addition, if requested by the Company or the representative of the underwriters of Common Stock (or other securities) of the Company, each Holder shall provide, within ten (10) days of such request, such information as may be required by the Company or such representative in connection with the completion of any public offering of the Company's securities pursuant to a registration statement filed under the Securities Act. The obligations described in Section 2.11 and this Section 2.12 shall not apply to a Special Registration Statement. The Company may impose stop-transfer instructions with respect to the shares of Common Stock (or other securities) subject to the foregoing restriction until the end of said one hundred eighty (180) day period. Each Holder agrees that any transferee of any shares of Registrable Securities shall be bound by Sections 2.11 and 2.12. The underwriters of the Company's stock are intended third party beneficiaries of Sections 2.11 and 2.12 and shall have the right, power and authority to enforce the provisions hereof as though they were a party hereto.

2.13 Rule 144 Reporting and Form S-3 Availability. With a view to making available to the Holders the benefits of certain rules and regulations of the SEC which may permit the sale of the Registrable Securities to the public without registration and/or with registration pursuant to Form S-3, the Company agrees, at all times after the effective date of the first registration filed by the Company for an offering of its securities to the general public, to use its best efforts to:

(a) Make and keep public information available, as those terms are understood and defined in SEC Rule 144 or any similar or analogous rule promulgated under the Securities Act;

(b) File with the SEC, in a timely manner, all reports and other documents required of the Company under the Exchange Act; and

(c) So long as a Holder owns any Registrable Securities, furnish to such Holder forthwith upon request: a written statement by the Company as to its compliance with the reporting requirements of said Rule 144 of the Securities Act, and of the Exchange Act; a copy of the most recent annual or quarterly report of the Company filed with the Commission; and such other reports and documents as a Holder may reasonably request in connection with availing itself of any rule or regulation of the SEC allowing it to sell any such securities without registration.

SECTION 3. COVENANTS OF THE COMPANY

3.1 Basic Financial Information and Reporting

(a) The Company will maintain true books and records of account in which full and correct entries will be made of all its business transactions pursuant to a system of accounting established and administered in accordance with generally accepted accounting principles consistently applied (except as noted therein or as disclosed to the recipients thereof), and will set aside on its books all such proper accruals and reserves as shall be required under generally accepted accounting principles consistently applied.

(b) To the extent requested by a Major Investor, as soon as practicable after the end of each fiscal year of the Company, and in any event within one hundred twenty (120) days thereafter, the Company will furnish such Major Investor a balance sheet of the Company, as at the end of such fiscal year, and a statement of income and a statement of cash flows of the Company, for such year, all prepared in accordance with generally accepted accounting principles consistently applied (except as noted therein or as disclosed to the recipients thereof) and setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail. Such financial statements shall be accompanied by a report and opinion thereon by independent public accountants of national standing selected by the Company’s Board of Directors.

(c) To the extent requested by a Major Investor, the Company will furnish such Major Investor, as soon as practicable after the end of the first, second and third quarterly accounting periods in each fiscal year of the Company, and in any event within forty-five (45) days thereafter, a balance sheet of the Company as of the end of each such quarterly period, and a statement of income and a statement of cash flows of the Company for such period and for the current fiscal year to date, prepared in accordance with generally accepted accounting principles consistently applied (except as noted therein or as disclosed to the recipients thereof), with the exception that no notes need be attached to such statements and year-end audit adjustments may not have been made.

(d) To the extent requested by a Major Investor, the Company will furnish such Major Investor: (i) at least thirty (30) days prior to the beginning of each fiscal year an annual budget and operating plans for such fiscal year (and as soon as available, any subsequent written revisions thereto); and (ii) as soon as practicable after the end of each month, and in any event within twenty (20) days thereafter, a balance sheet of the Company as of the end of each such month, and a statement of income and a statement of cash flows of the Company for such month and for the current fiscal year to date, including a comparison to plan figures for such period, prepared in accordance with generally accepted accounting principles consistently applied (except as noted thereon), with the exception that no notes need be attached to such statements and year-end audit adjustments may not have been made.

(e) The Company shall not be obligated under this Section 3.1 with respect to a competitor of the Company, as determined by the Board of Directors in good faith, or with respect to information which the Board of Directors determines in good faith is attorney-client privileged and should not, therefore, be disclosed. The Company acknowledges and agrees that none of the Major Investors shall be deemed competitors of the Company solely as a result of such Major Investor's investment in a competitor of the Company, so long as the investment does not exceed 20% of the outstanding voting stock of such competitor.

3.2 Inspection Rights. Each Major Investor shall have the right to visit and inspect any of the properties of the Company or any of its subsidiaries, and to discuss the affairs, finances and accounts of the Company or any of its subsidiaries with its officers, and to review such information as is reasonably requested all at such reasonable times and as often as may be reasonably requested; *provided*, *however*, that the Company shall not be obligated under this Section 3.2 with respect to a competitor of the Company, as determined by the Board of Directors in good faith, or with respect to information which the Board of Directors determines in good faith is confidential or attorney-client privileged and should not, therefore, be disclosed. The Company acknowledges and agrees that none of the Major Investors shall be deemed competitors of the Company solely as a result of such Major Investor's investment in a competitor of the Company, so long as the investment does not exceed 20% of the outstanding voting stock of such competitor.

3.3 Confidentiality of Records. Each Investor agrees to keep confidential any information furnished to such Investor pursuant to Sections 3.1 and 3.2 hereof that the Company identifies as being confidential or proprietary (so long as such information is not in the public domain), except that such Investor may disclose such proprietary or confidential information (i) to

its attorneys, accountants, consultants, and other professionals to the extent necessary to obtain their services in connection with monitoring its investment in the Company as long as such attorneys, accountants, consultants, and other professionals are advised of the confidentiality provisions of this Section 3.3 and agree to be bound by such provisions (or is otherwise obligated to keep such information confidential), (ii) to any existing or prospective affiliate, partner, member, stockholder, subsidiary or parent of such Investor for the purpose of evaluating its investment in the Company as long as such affiliate, partner, member, stockholder, subsidiary or parent is advised of the confidentiality provisions of this Section 3.3 and agrees to be bound by such provisions (or is otherwise obligated to keep such information confidential); (iii) at such time as it enters the public domain through no fault of such Investor; (iv) that is communicated to it free of any obligation of confidentiality; (v) that is developed by Investor or its agents independently of and without reference to any confidential information communicated by the Company; or (vi) as required by applicable law; and *provided, further*, that any Investor may provide financial information to its partners or members as required by any partnership agreement or limited liability operating agreement with such partners or members.

3.4 Reservation of Stock. The Company will at all times reserve and keep available, solely for issuance and delivery upon the conversion of the Senior Preferred Stock, sufficient shares of Junior Preferred Stock of the Company issuable from time to time upon such conversion and sufficient Common Stock issuable from time to time upon conversion of all Preferred Stock.

3.5 Stock Vesting. Unless otherwise approved by the Board of Directors, including the approval of a majority of the members of the Board of Directors designated by the holders of the Senior Preferred Stock, all stock options and other stock equivalents issued after the date of this Agreement to employees, directors, consultants and other service providers shall be subject to vesting as follows: (a) twenty-five percent (25%) of such stock shall vest at the end of the first year following the earlier of the date of issuance or such person's services commencement date with the company, and (b) seventy-five percent (75%) of such stock shall vest over the remaining three (3) years. With respect to any shares of stock purchased by any such person, the Company's repurchase option shall provide that upon such person's termination of employment or service with the Company, with or without cause, the Company or its assignee shall have the option to purchase at cost (and may provide for purchase at fair market value if less than cost) any unvested shares of stock held by such person.

3.6 Market Standoff. Unless otherwise approved by the Board of Directors, including the approval of a majority of the members of the Board of Directors designated by the holders of the Senior Preferred Stock, all stock, stock options and other stock equivalents issued after the date of this Agreement shall be subject to a market standoff or "lockup" agreement of not less than 180 days following the Initial Offering.

3.7 Proprietary Information and Inventions Agreement. The Company shall require all employees and consultants to execute and deliver a Proprietary Information and Inventions Agreement substantially in a form approved by the Company's counsel or Board of Directors.

3.8 Meetings of the Board of Directors. Unless otherwise determined by the vote of a majority of the directors then in office, the Board of Directors shall meet at least six (6) times annually in accordance with an agreed-upon schedule.

3.9 Board Expenses. The Company shall reimburse the director designated by Maverick Capital for all reasonable out-of-pocket expenses incurred (consistent with the Company's travel policy) in connection with travel to and attending meetings of the Board of Directors (consistent with the Company's travel policy) and performing their duties as a director.

3.10 Insurance. The Company will use commercially reasonable efforts to cause its Directors and Officers insurance policy to be maintained until such time as the Board of Directors determines that such insurance should be discontinued.

3.11 Tax Matters Relating to Former S Corporation Status. Unless otherwise approved by the Board of Directors, including the directors appointed by the Senior Preferred Stock, the Company shall not file or amend any tax return, resolve any tax proceeding or take any other action (or omit to take any action) with respect to any federal, state or local income taxes ("Taxes"), if as a result any Taxes are or would be imposed on the Company, including any increase in items of income or gain or any decrease in items of loss, deduction or credit of the Company, but only to the extent of (x) an increase in an item of the Company's income or gain in any tax year or portion thereof other than an S Year (as defined below) (a "C Year") and a corresponding decrease in an item of income or gain in any tax year or portion thereof during which the Company's S corporation election was in effect (an "S Year"), or (y) a decrease in an item of loss, deduction or credit in any C Year and a corresponding increase in an item of loss, deduction or credit in an S Year.

3.12 Board Committees. The approval of a majority of the members of the Board of Directors designated by the holders of the Senior Preferred Stock shall be required in connection with (a) establishing any committee of the Board of Directors of the Company, (b) appointing or replacing any member to any committee of the Board of Directors of the Company, or (c) establishing or altering the powers to be vested in any such committee.

3.13 Right to Conduct Business. The Investors shall not be liable for any claim arising out of, or based upon (i) the investment by the Investors in any entity competitive to the Company and (ii) actions taken by any partner, officer, affiliate or other representative of the Investors to assist any such competitive company, whether or not such action was taken as a board member of such competitive company, or otherwise, and whether or not such action has a detrimental effect on the Company. The foregoing shall not relieve the Investors from any liability or claim arising out of any breach of any confidentiality or fiduciary obligation described herein or as set forth in any other agreement between the Company and the Investors.

3.14 Open Source Policy. The Company shall use its good faith efforts to develop and implement an open-source policy as soon as commercially reasonably possible in order to protect the Company's products and any underlying software from having obligations to share or disclose any software to third parties.

3.15 Termination of Covenants. All covenants of the Company contained in Section 3 of this Agreement shall expire and terminate as to each Investor upon the earlier of (i) the effective date of the registration statement pertaining to an Initial Offering or (ii) upon an "***Asset Transfer***" or "***Acquisition***", (each, a "***Change of Control***") as each is defined in the Company's Amended and Restated Certificate of Incorporation as in effect as of the date hereof.

SECTION 4. RIGHTS OF FIRST REFUSAL

4.1 Subsequent Offerings. Subject to applicable securities laws, each Major Investor shall have a right of first refusal to purchase its *pro rata* share of all Equity Securities, as defined below, and debt instruments (other than those issued in the ordinary course of business, such as pursuant to equipment line or leasing arrangements, or real property leasing arrangements) that the Company may, from time to time, propose to sell and issue after the date of this Agreement, other than the Equity Securities excluded by Section 4.6 hereof. A Major Investor shall be entitled to apportion the right of first refusal hereby granted to it among itself and its affiliates in such proportions as it deems appropriate. Each Major Investor's *pro rata* share is equal to the ratio of (a) the number of shares of the Company's Common Stock (including all shares of Common Stock issuable or issued upon conversion of the Shares) which such Investor is deemed to be a holder of immediately prior to the issuance of such Equity Securities to (b) the total number of shares of the Company's outstanding Common Stock (including all shares of Common Stock issued or issuable upon conversion of the Shares or other securities or upon the exercise of any outstanding warrants or options) immediately prior to the issuance of the Equity Securities; *provided*, *however*, that the pro rata share of MDV VII, LP (together with its affiliates) shall be the greater of such ratio or three thousand seven hundred fifty-seven ten-thousandths (3,757/10,000); and provided further, that the pro rata share of KPCB Holdings, Inc. (together with its affiliates) shall be the greater of such ratio or two thousand one hundred twenty-seven ten-thousandths (2,127/10,000). The term "***Equity Securities***" shall mean (i) any Common Stock, Preferred Stock or other security of the Company, (ii) any security convertible into or exercisable or exchangeable for, with or without consideration, any Common Stock, Preferred Stock or other security (including any option to purchase such a convertible security), (iii) any security carrying any warrant or right to subscribe to or purchase any Common Stock, Preferred Stock or other security or (iv) any such warrant or right.

4.2 Exercise of Rights. If the Company proposes to issue any Equity Securities, it shall give each Major Investor written notice of its intention, describing the Equity Securities, the price, and the terms and conditions upon which the Company proposes to issue the same. Each Major Investor shall have fifteen (15) days from the giving of such notice to agree to purchase its *pro rata* share of the Equity Securities for the price and upon the terms and conditions specified in the notice by giving written notice to the Company and stating therein the quantity of Equity Securities to be purchased. Notwithstanding the foregoing, the Company shall not be required to offer or sell such Equity Securities to any Major Investor who would cause the Company to be in violation of applicable federal securities laws by virtue of such offer or sale. At the expiration of such fifteen (15) day period, the Company shall promptly notify each Major Investor that elects to purchase or acquire all the shares available to it (each, a "***Fully Exercising Investor***") of any other Major Investor's failure to do likewise. During the ten (10) day period commencing after the Company has

given such notice, each Fully Exercising Investor may, by giving notice to the Company, elect to purchase or acquire, in addition to the number of shares specified above, up to that portion of the Equity Securities for which Major Investors were entitled to but did not subscribe which is equal to the ratio of (a) the number of shares of the Company's Common Stock (including all shares of Common Stock issuable or issued upon conversion of the Shares) held by such Fully Exercising Investor to (b) the total number of shares of the Company's Common Stock (including all shares of Common Stock issued or issuable upon conversion of the Shares) held by all Fully Exercising Investors who wish to purchase such unsubscribed shares. The closing of any sale pursuant to this Section 4.2 shall occur within the later of one hundred twenty (120) days of the date that the Company provides notice of its intention to issue any Equity Securities and the date of the initial sale of Equity Securities pursuant to Section 4.3.

4.3 Issuance of Equity Securities to Other Persons. If the Major Investors fail to, or waive their right to, exercise in full the rights of first refusal, the Company shall have one hundred twenty (120) days thereafter to sell the Equity Securities in respect of which the Major Investor's rights were not exercised, at a price and upon general terms and conditions not materially more favorable to the purchasers thereof than specified in the Company's notice to the Major Investors pursuant to Section 4.2 hereof. If the Company has not sold such Equity Securities within ninety (90) days of the notice provided pursuant to Section 4.2, the Company shall not thereafter issue or sell any Equity Securities, without first offering such securities to the Major Investors in the manner provided above.

4.4 Termination and Waiver of Rights of First Refusal. The rights of first refusal established by this Section 4 shall not apply to, and shall terminate upon the earlier of (i) the effective date of the registration statement pertaining to the Company's Initial Offering or (ii) a Change in Control. Notwithstanding Section 5.5 hereof, the rights of first refusal established by this Section 4 may be amended, or any provision waived with the written consent of the Company and the Major Investors holding a majority of the Registrable Securities held by all Major Investors, or as permitted by Section 5.5.

4.5 Transfer of Rights of First Refusal. The rights of first refusal of each Major Investor under this Section 4 may be transferred to the same parties, subject to the same restrictions as any transfer of registration rights pursuant to Section 2.9.

4.6 Excluded Securities. The rights of first refusal established by this Section 4 shall have no application to any of the following Equity Securities:

(a) shares of Common Stock of the Company and/or options, warrants or other Common Stock purchase rights and the Common Stock of the Company issued pursuant to such options, warrants or other rights issued or to be issued to employees, officers or directors of, or consultants or advisors to the Company or any subsidiary, pursuant to stock purchase or stock option plans or other arrangements so long as such stock purchase or stock option plans or other arrangements were approved by the Board of Directors or a committee authorized by the Board of Directors, provided that no committee authorized by the Board may make any amendments to the Company's stock option plans;

(b) stock issued or issuable pursuant to any rights or agreements, options, warrants or convertible securities outstanding as of the date of this Agreement; and stock issued pursuant to any such rights or agreements granted after the date of this Agreement, so long as the rights of first refusal established by this Section 4 were complied with, waived, or were inapplicable pursuant to any provision of this Section 4.6 with respect to the initial sale or grant by the Company of such rights or agreements so long as such rights or agreements were approved by the Board of Directors including the representatives of the Senior Preferred Stock;

(c) any Equity Securities issued for consideration other than cash pursuant to a merger, consolidation, strategic alliance, acquisition or similar business combination approved by the Board of Directors including the representatives of the Senior Preferred Stock;

(d) any Equity Securities issued in connection with any stock split, stock dividend or recapitalization by the Company;

(e) any Equity Securities issued pursuant to any equipment loan or leasing arrangement, any real property leasing arrangement, or any debt financing from a bank or similar financial or lending institution approved by the Board of Directors including the representatives of the Senior Preferred Stock;

(f) any Equity Securities that are issued by the Company pursuant to a registration statement filed under the Securities Act;

(g) any Equity Securities issued in connection with strategic transactions involving the Company and other entities, including (i) joint ventures, manufacturing, marketing or distribution arrangements or (ii) technology transfer or development arrangements; *provided* that the issuance of shares therein has been approved by the Company's Board of Directors including the representatives of the Senior Preferred Stock, provided further that such transaction is not principally for equity financing purposes;

(h) any Equity Securities issued by the Company pursuant to the terms of Section 2.1 of the Purchase Agreement; and

(i) any Equity Securities issued to third-party service providers in exchange for or as partial consideration for services rendered to the Company approved by the Board including the representatives of the Senior Preferred Stock.

SECTION 5. MISCELLANEOUS

5.1 Governing Law. This Agreement shall be governed by and construed under the laws of the State of California in all respects as such laws are applied to agreements among California residents entered into and to be performed entirely within California, without reference to conflicts of laws or principles thereof.

5.2 Successors and Assigns. Except as otherwise expressly provided herein, the provisions hereof shall inure to the benefit of, and be binding upon, the parties hereto and their respective successors, assigns, heirs, executors, and administrators and shall inure to the benefit of and be enforceable by each person who shall be a holder of Registrable Securities from time to time; *provided*, *however*, that prior to the receipt by the Company of adequate written notice of the transfer of any Registrable Securities specifying the full name and address of the transferee, the Company may deem and treat the person listed as the holder of such shares in its records as the absolute owner and holder of such shares for all purposes.

5.3 Entire Agreement. This Agreement, the Exhibits and Schedules hereto, the Purchase Agreement and the other documents delivered pursuant thereto constitute the full and entire understanding and agreement between the parties with regard to the subjects hereof and no party shall be liable or bound to any other in any manner by any oral or written representations, warranties, covenants and agreements except as specifically set forth herein and therein. Each party expressly represents and warrants that it is not relying on any oral or written representations, warranties, covenants or agreements outside of this Agreement.

5.4 Severability. In the event one or more of the provisions of this Agreement should, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provisions of this Agreement, and this Agreement shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

5.5 Amendment and Waiver

(a) Except as otherwise expressly provided, this Agreement may be amended or modified only upon the written consent of the Company and the holders of a majority of the then-outstanding Registrable Securities.

(b) Except as otherwise expressly provided, the obligations of the Company and the rights of the Holders under this Agreement may be waived only with the written consent of the holders of a majority of the then-outstanding Registrable Securities.

(c) For the purposes of determining the number of Holders or Investors entitled to vote or exercise any rights hereunder, the Company shall be entitled to rely solely on the list of record holders of its stock as maintained by or on behalf of the Company.

5.6 Delays or Omissions. It is agreed that no delay or omission to exercise any right, power, or remedy accruing to any party, upon any breach, default or noncompliance by another party under this Agreement shall impair any such right, power, or remedy, nor shall it be construed to be a waiver of any such breach, default or noncompliance, or any acquiescence therein, or of any similar breach, default or noncompliance thereafter occurring. It is further agreed that any waiver, permit, consent, or approval of any kind or character on any party's part of any breach, default or noncompliance under the Agreement or any waiver on such party's part of any provisions or conditions of this Agreement must be in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under this Agreement, by law, or otherwise afforded to any party, shall be cumulative and not alternative.

5.7 Notices. All notices required or permitted hereunder shall be in writing and shall be deemed effectively given: (a) upon personal delivery to the party to be notified, (b) when sent by confirmed electronic mail or facsimile if sent during normal business hours of the recipient; if not, then on the next business day, (c) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (d) one (1) day after deposit with a nationally recognized overnight courier, specifying next day delivery, with written verification of receipt. All communications shall be sent to the party to be notified at the address as set forth on the signature pages hereof or Exhibit A hereto or at such other address or electronic mail address as such party may designate by ten (10) days advance written notice to the other parties hereto.

5.8 Attorneys' Fees. In the event that any suit or action is instituted under or in relation to this Agreement, including without limitation to enforce any provision in this Agreement, the prevailing party in such dispute shall be entitled to recover from the losing party all fees, costs and expenses of enforcing any right of such prevailing party under or with respect to this Agreement, including without limitation, such reasonable fees and expenses of attorneys and accountants, which shall include, without limitation, all fees, costs and expenses of appeals.

5.9 Titles and Subtitles. The titles of the sections and subsections of this Agreement are for convenience of reference only and are not to be considered in construing this Agreement.

5.10 Additional Investors. Notwithstanding anything to the contrary contained herein, if the Company shall issue additional shares of its Senior Preferred Stock pursuant to the Purchase Agreement, any purchaser of such shares of Senior Preferred Stock shall become a party to this Agreement by executing and delivering an additional counterpart signature page to this Agreement and shall be deemed an "***Investor***," a "***Holder***" and a party hereunder. Subject to the approval of shares representing a majority of the Senior Preferred Stock, if the Company shall issue Equity Securities in accordance with Section 4.6(c), (e), (g) or (h) of this Agreement, any purchaser of such Equity Securities may become a party to this Agreement by executing and delivering an additional counterpart signature page to this Agreement and shall be deemed an "***Investor***," a "***Holder***" and a party hereunder.

5.11 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

5.12 Aggregation of Stock. All shares of Registrable Securities held or acquired by affiliated entities or persons or persons or entities under common management or control shall be aggregated together for the purpose of determining the availability of any rights under this Agreement.

5.13 Pronouns. All pronouns contained herein, and any variations thereof, shall be deemed to refer to the masculine, feminine or neutral, singular or plural, as to the identity of the parties hereto may require.

5.14 Termination. This Agreement shall terminate and be of no further force or effect upon the date five (5) years following the closing of the Initial Offering; *provided, however*, that the Company shall not be obligated to register the Registrable Securities of any Holder if such Holder can sell all of its Registrable Securities in any three-month period pursuant to Rule 144 promulgated pursuant to the Securities Act.

5.15 No Third-Party Beneficiaries. This Agreement is intended for the benefit of the parties hereto and their respective permitted successors and assigns, and is not for the benefit of, nor may any provision hereof be enforced by, any other person except as specifically provided herein.

5.16 Prior Agreement. Upon the execution of this Agreement by the Company and the holders of a majority of the then-outstanding Registrable Securities, this Agreement shall supersede and replace the Prior Agreement, which shall be terminated and cease to have any further force or effect.

[THIS SPACE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have executed this **FIFTH AMENDED AND RESTATED INVESTOR RIGHTS AGREEMENT** as of the date set forth in the first paragraph hereof.

COMPANY:

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.

By: /s/ Hugh Martin
Name: Hugh Martin
Title: Chief Executive Officer

INVESTORS

HOLDER:

By: _____
Name:
Title:

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.

INDEMNIFICATION AGREEMENT

THIS AGREEMENT is entered into, effective as of _____, 20__ by and between Pacific Biosciences of California, Inc., a Delaware corporation (the "Company"), and _____ ("Indemnitee").

WHEREAS, it is essential to the Company to retain and attract as directors and officers the most capable persons available;

WHEREAS, Indemnitee is a director and/or officer of the Company;

WHEREAS, both the Company and Indemnitee recognize the increased risk of litigation and other claims currently being asserted against directors and officers of corporations;

WHEREAS, the Certificate of Incorporation permits and Bylaws of the Company require the Company to indemnify and advance expenses to its directors and officers to the fullest extent permitted under Delaware law, and the Indemnitee has been serving and continues to serve as a director and/or officer of the Company in part in reliance on the Company's Certificate of Incorporation and Bylaws;

WHEREAS, in recognition of Indemnitee's need for substantial protection against personal liability in order to enhance the Indemnitee's continued and effective service to the Company and, specific contractual assurance that the protection promised by the Certificate of Incorporation and Bylaws will be available to Indemnitee (regardless of, among other things, any amendment to or revocation of the Certificate of Incorporation and Bylaws or any change in the composition of the Company's Board of Directors or acquisition transaction relating to the Company), and in order to induce Indemnitee to provide effective services to the Company as a director and/or officer, the Company wishes to provide in this Agreement for the indemnification of and the advancing of expenses to Indemnitee to the fullest extent (whether partial or complete) permitted under Delaware law and as set forth in this Agreement, and, to the extent insurance is maintained which includes Indemnitee as a covered party, to provide for the continued coverage of Indemnitee under the Company's directors' and officers' liability insurance policies; and

WHEREAS, to the extent Indemnitee is serving as a director on the Company's Board of Directors at the request or direction of a venture capital fund or other entity and/or certain of its affiliates (collectively, the "Fund Indemnitors"), Indemnitee may have certain rights to indemnification, advancement of expenses and/or insurance provided by or with respect to the Fund Indemnitors, which Indemnitee, the Company and the Fund Indemnitors intend to be secondary to the primary obligation of the Company to indemnify Indemnitee as provided herein, with the Company's acknowledgement of and agreement to the foregoing being a material condition to Indemnitee's willingness to serve as a director of the Company.

NOW, THEREFORE, in consideration of the above premises and of Indemnitee continuing to serve the Company directly or, at its request, with another enterprise, and intending to be legally bound hereby, the parties agree as follows:

1. Certain Definitions.

(a) "Board" shall mean the Board of Directors of the Company.

(b) "Change in Control" shall be deemed to have occurred if (i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of the total voting power represented by the Company's then outstanding Voting Securities, or (ii) during any period of two consecutive years, individuals who at the beginning of such period constitute the Board and any new director whose election by the Board or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority of the Board, or (iii) the stockholders of the Company approve a merger or consolidation of the Company with any other entity, other than a merger or consolidation that would result in the Voting Securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into Voting Securities of the surviving entity) at least 80% of the total voting power represented by the Voting Securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, or (iv) the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company (in one transaction or a series of transactions) of all or substantially all of the Company's assets.

(c) "Expenses" shall mean any expense, liability, or loss, including attorneys' fees, judgments, fines, ERISA excise taxes and penalties, amounts paid or to be paid in settlement, any interest, assessments, or other charges imposed thereon, any federal, state, local, or foreign taxes imposed as a result of the actual or deemed receipt of any payments under this Agreement, and all other costs and obligations, paid or incurred in connection with investigating, defending, being a witness in, participating in (including on appeal), or preparing for any of the foregoing in, any Proceeding relating to any Indemnifiable Event.

(d) "Indemnifiable Event" shall mean any event or occurrence that takes place either prior to or after the execution of this Agreement, related to the fact that Indemnitee is or was a director or officer of the Company, or while a director or officer is or was serving at the request of the Company as a director, officer, employee, trustee, agent, or fiduciary of a subsidiary of the Company or of any other foreign or domestic corporation, partnership, joint venture, employee benefit plan, trust, or other enterprise, or was a director, officer, employee, or agent of a

foreign or domestic corporation that was a predecessor corporation of the Company or of another enterprise at the request of such predecessor corporation, or related to anything done or not done by Indemnitee in any such capacity, whether or not the basis of the Proceeding is alleged action in an official capacity as a director, officer, employee, or agent or in any other capacity while serving as a director, officer, employee, or agent of the Company, as described above.

(e) "Independent Counsel" shall mean counsel selected by Indemnitee and approved by the Company (which approval shall not be unreasonably withheld), and who has not otherwise performed services for the Company or the Indemnitee (other than in connection with indemnification matters) within the last three years.

(f) "Proceeding" shall mean any threatened, pending, or completed action, suit, or proceeding or any alternative dispute resolution mechanism (including an action by or in the right of the Company), or any inquiry, hearing, or investigation, whether conducted by the Company or any other party, that Indemnitee in good faith believes might lead to the institution of any such action, suit, or proceeding, whether civil, criminal, administrative, investigative, or other.

(g) "Voting Securities" shall mean any securities of the Company that vote generally in the election of directors.

2. Agreement to Indemnify.

(a) General Agreement. In the event Indemnitee was, is, or becomes a party to or witness or other participant in, or is threatened to be made a party to or witness or other participant in, a Proceeding by reason of (or arising in part out of) an Indemnifiable Event, the Company shall indemnify Indemnitee from and against any and all Expenses to the fullest extent permitted by law, as the same exists or may hereafter be amended or interpreted. The parties hereto intend that this Agreement shall provide for indemnification in excess of that expressly permitted by statute, including, without limitation, any indemnification provided by the Company's Certificate of Incorporation, its Bylaws, vote of its stockholders or disinterested directors, or applicable law. The only limitation that shall exist upon the Company's obligations pursuant to this Section 2 shall be that the Company shall not be obligated to make any payment to Indemnitee that is finally determined by a court of competent jurisdiction in a final judgment, not subject to appeal, to be unlawful.

(b) Initiation of Proceeding. Notwithstanding anything in this Agreement to the contrary, Indemnitee shall not be entitled to indemnification pursuant to this Agreement in connection with any Proceeding or part thereof initiated by Indemnitee against the Company or any director or officer of the Company unless (i) the Company has joined in or the Board has consented to the initiation of such Proceeding or part thereof; (ii) the Proceeding or part thereof is one to enforce indemnification rights under Section 4; or (iii) the Proceeding or part thereof is instituted after a Change in Control (other than a Change in Control approved by a majority of the directors on the Board who were directors immediately prior to such Change in Control) and Independent Counsel has approved its initiation.

(c) Expense Advances. If so requested by Indemnitee, the Company shall advance (within thirty business days of such request) any and all Expenses incurred by Indemnitee (an "Expense Advance"). The Indemnitee shall qualify for such Expense Advances upon the execution and delivery to the Company of this Agreement which shall constitute an undertaking providing that the Indemnitee undertakes to repay such Expense Advances if and to the extent that it is ultimately determined by a court of competent jurisdiction in a final judgment, not subject to appeal, that Indemnitee is not entitled to be indemnified by the Company. Until it is so finally determined by the court that Indemnitee is not entitled indemnification, Indemnitee shall not be required to repay such Expense Advances to the Company and Indemnitee shall continue to receive Expense Advances pursuant to this Section 2(c). Indemnitee's obligation to reimburse the Company for Expense Advances shall be unsecured and no interest shall be charged thereon. To the extent permissible under third party policies, the Company agrees that invoices for Expense Advances shall be billed in the name of and be payable directly by the Company.

(d) Mandatory Indemnification. Notwithstanding any other provision of this Agreement, to the extent that Indemnitee has been successful on the merits or otherwise in defense of any Proceeding relating in whole or in part to an Indemnifiable Event or in defense of any issue or matter therein, Indemnitee shall be indemnified against all Expenses incurred in connection therewith.

(e) Partial Indemnification. If Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of Expenses, but not, however, for the total amount thereof, the Company shall nevertheless indemnify Indemnitee for the portion thereof to which Indemnitee is entitled. Attorneys' fees and expenses shall not be prorated but shall be deemed to apply to the portion of indemnification to which Indemnitee is entitled.

(f) Prohibited Indemnification. No indemnification pursuant to this Agreement shall be paid by the Company on account of any Proceeding in which judgment is rendered against Indemnitee for an accounting of profits made from the purchase or sale by Indemnitee of securities of the Company pursuant to the provisions of Section 16(b) of the Exchange Act, or similar provisions of any federal, state, or local laws.

3. Indemnification Process and Appeal.

(a) Indemnification Payment. Indemnitee shall be entitled to indemnification of Expenses, and shall receive payment thereof, from the Company in accordance with this Agreement as soon as practicable after Indemnitee has made written demand on the Company for indemnification, unless indemnification of such Expenses is prohibited under Section 2(f) of this Agreement.

(b) Suit to Enforce Rights. If Indemnitee has not received full advancement within thirty (30) days or full indemnification within ninety (90) days after making a demand in accordance with Section 3(a), Indemnitee shall have the right to enforce its indemnification rights under this Agreement by commencing litigation in the Court of Chancery of the State of Delaware seeking an initial determination by the court or challenging any determination by the Company or any aspect thereof. The Company hereby consents to service of process and to appear in any such proceeding. The remedy provided for in this Section 3 shall be in addition to any other remedies

available to Indemnitee at law or in equity. The Company shall be precluded from asserting in any judicial proceeding commenced pursuant to this Section 3(b) that the procedures and presumptions of this Agreement are not valid, binding and enforceable and shall stipulate that the Company is bound by all the provisions of this Agreement.

(c) Defense to Indemnification, Burden of Proof, and Presumptions. It shall be a defense to any action brought by Indemnitee against the Company to enforce this Agreement (other than an action brought to enforce a claim for Expenses incurred in defending a Proceeding in advance of its final disposition) that it is not permissible under applicable law for the Company to indemnify Indemnitee for the amount claimed. In connection with any such action to whether Indemnitee is entitled to be indemnified hereunder, the burden of proving such a defense or determination shall be on the Company to establish by clear and convincing evidence that Indemnitee is not so entitled to indemnification. It is the parties' intention that if Indemnitee commences legal proceedings to secure a judicial determination that Indemnitee should be indemnified under this Agreement or applicable law, the question of Indemnitee's right to indemnification shall be for the court to decide, as a de novo trial on the merits.

(d) To the maximum extent permitted by applicable law in making a determination with respect to entitlement to indemnification (or advancement of expenses) hereunder, the Company shall presume that Indemnitee is entitled to indemnification (or advancement of expenses) under this Agreement if Indemnitee has submitted a request for advancement under Section 2(c) of this Agreement for indemnification in accordance with Section 3(a) of this Agreement, and the Company shall have the burden of proof to overcome that assumption by clear and convincing evidence in connection with the making of any determination contrary to that presumption.

(e) The Company acknowledges that a settlement or other disposition of a Proceeding short of final judgment may constitute success by Indemnitee if it permits a party to avoid expense, delay, distraction, disruption and uncertainty. In the event that any Proceeding to which Indemnitee is a party is resolved in any manner other than by adverse judgment against Indemnitee (including, without limitation, settlement of such Proceeding without payment of money or other consideration) it shall be presumed (unless there is clear and convincing evidence to the contrary) that Indemnitee has been successful on the merits or otherwise in such Proceeding. Anyone seeking to overcome this presumption shall have the burden of proof and the burden of persuasion, by clear and convincing evidence.

4. Indemnification for Expenses Incurred in Enforcing Rights. The Company shall indemnify Indemnitee against any and all Expenses that are incurred by Indemnitee in connection with any action brought by Indemnitee for

(a) indemnification or advance payment of Expenses by the Company under this Agreement or any other agreement or under applicable law or the Company's Certificate of Incorporation or Bylaws now or hereafter in effect relating to indemnification for Indemnifiable Events, and/or

(b) recovery under directors' and officers' liability insurance policies maintained by the Company, but only in the event that Indemnitee ultimately is determined to be entitled to such indemnification or insurance recovery, as the case may be.

In addition, the Company shall, if so requested by Indemnitee, advance the foregoing Expenses to Indemnitee, subject to and in accordance with Section 2(c).

5. Notification and Defense of Proceeding.

(a) Notice. Promptly after receipt by Indemnitee of notice of the commencement of any Proceeding, Indemnitee shall, if a claim in respect thereof is to be made against the Company under this Agreement, notify the Company of the commencement thereof; but the omission so to notify the Company will not relieve the Company from any liability that it may have to Indemnitee, except as provided in Section 5(c).

(b) Defense. With respect to any Proceeding as to which Indemnitee notifies the Company of the commencement thereof, the Company will be entitled to participate in the Proceeding at its own expense and except as otherwise provided below, to the extent the Company so wishes, it may assume the defense thereof with counsel reasonably satisfactory to Indemnitee. After notice from the Company to Indemnitee of its election to assume the defense of any Proceeding, the Company shall not be liable to Indemnitee under this Agreement or otherwise for any Expenses subsequently incurred by Indemnitee in connection with the defense of such Proceeding other than reasonable costs of investigation, transition costs associated with the Company's assumption of the defense, or as otherwise provided below. Indemnitee shall have the right to employ legal counsel in such Proceeding, but all Expenses related thereto incurred after notice from the Company of its assumption of the defense shall be at Indemnitee's expense unless: (i) the employment of legal counsel by Indemnitee has been authorized by the Company, (ii) Indemnitee has reasonably determined that there may be a conflict of interest between Indemnitee and the Company in the defense of the Proceeding, (iii) after a Change in Control (other than a Change in Control approved by a majority of the directors on the Board who were directors immediately prior to such Change in Control), the employment of counsel by Indemnitee that has been approved by Independent Counsel, or (iv) the Company shall not in fact have employed counsel to assume the defense of such Proceeding, in each of which cases all Expenses of the Proceeding shall be borne by the Company. The Company shall not be entitled to assume the defense of any Proceeding brought by or on behalf of the Company or as to which Indemnitee shall have made the determination provided for in (ii), (iii) and (iv) above.

(c) Settlement of Claims. The Company shall not be liable to indemnify Indemnitee under this Agreement or otherwise for any amounts paid in settlement of any Proceeding effected without the Company's written consent, such consent not to be unreasonably withheld; provided, however, that if a Change in Control has occurred (other than a Change in Control approved by a majority of the directors on the Board who were directors immediately prior to such Change in Control), the Company shall be liable for indemnification of Indemnitee for amounts paid in settlement if the Independent Counsel has approved the settlement. The Company shall not settle any Proceeding in any manner that would impose any penalty or limitation on Indemnitee without Indemnitee's prior written consent. The Company shall promptly notify Indemnitee once the Company has received an offer or intends to make an offer to settle any such Proceeding and the Company shall

provide Indemnitee as much time as reasonably practicable to consider such offer; provided, however Indemnitee shall have no less than three (3) business days to consider the offer. The Company shall not be liable to indemnify the Indemnitee under this Agreement with regard to any judicial award if the Company was not given a reasonable and timely opportunity, at its expense, to participate in the defense of such action; the Company's liability hereunder shall not be excused if participation in the Proceeding by the Company was barred by this Agreement.

6. Non-Exclusivity. Except with regard to the Company's primary obligations, as set forth in Section 10 hereof, the rights of Indemnitee hereunder shall be in addition to any other rights Indemnitee may have under the Company's Certificate of Incorporation, Bylaws, applicable law, or otherwise; provided, however, that this Agreement shall supersede any prior indemnification agreement between the Company and the Indemnitee. To the extent that a change in applicable law (whether by statute or judicial decision) permits greater indemnification than would be afforded currently under the Company's Certificate of Incorporation, Bylaws, applicable law, or this Agreement, it is the intent of the parties that Indemnitee enjoy by this Agreement the greater benefits so afforded by such change without any further action by the parties hereto.

7. Liability Insurance.

(a) The Company hereby covenants and agrees that, so long as the Indemnitee shall continue to serve as an agent of the Company and thereafter so long as the Indemnitee shall be subject to any possible proceeding by reason of the fact that the Indemnitee was an agent of the Company, the Company, subject to Section 7(b), shall use reasonable efforts to obtain and maintain in full force and effect directors' and officers' liability insurance ("D&O Insurance") in reasonable amounts from established and reputable insurers and Indemnitee shall be a covered party under such insurance to the maximum extent of the coverage available for any director or officer of the Company.

(b) Notwithstanding the foregoing, the Company shall have no obligation to obtain or maintain D&O Insurance if the Company determines in good faith that such insurance is not reasonably available, the premium costs for such insurance are disproportionate to the amount of coverage provided, or the coverage is reduced by exclusions so as to provide an insufficient benefit.

8. Amendment of this Agreement. No supplement, modification, or amendment of this Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be binding unless in the form of a writing signed by the party against whom enforcement of the waiver is sought, and no such waiver shall operate as a waiver of any other provisions hereof (whether or not similar), nor shall such waiver constitute a continuing waiver. Except as specifically provided herein, no failure to exercise or any delay in exercising any right or remedy hereunder shall constitute a waiver thereof.

9. Subrogation. Except with regard to the Company's primary obligations, as set forth in Section 10 hereof, in the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable the Company effectively to bring suit to enforce such rights.

10. No Duplication of Payments. The Company shall not be liable under this Agreement to make any payment in connection with any claim made against Indemnitee to the extent Indemnitee has otherwise received payment (under any insurance policy, Bylaw, or otherwise) of the amounts otherwise indemnifiable hereunder; provided, however, that (a) the Company hereby agrees that its obligations to Indemnitee under this Agreement or any other agreement or undertaking to provide advancement, indemnification or both to Indemnitee are primary, and any obligation of the Fund Indemnitors to provide advancement or indemnification for the any Expenses, judgments, fines and amounts paid in settlement (including all interest, assessments and other charges paid or payable in connection with or in respect of such Expenses, judgments, fines and amounts paid in settlement) incurred by Indemnitee are secondary, and (b) if the Fund Indemnitors pays or causes to be paid, for any reason, any amounts otherwise indemnifiable hereunder or under any other indemnification agreement with Indemnitee (whether pursuant to the Bylaws or Certificate or another contract), then (i) the Fund Indemnitors shall be fully subrogated to all rights of Indemnitee with respect to such payment and (ii) the Company shall fully indemnify, reimburse and hold harmless the Fund Indemnitors for all such payments actually made by the Fund Indemnitors. In addition, the Company hereby unconditionally and irrevocably waives, relinquishes, releases, and covenants and agrees not to exercise, any rights that the Company may now have or hereafter acquires against the Fund Indemnitors or Indemnitee that arise from or relate to contribution, subrogation or any other recovery of any kind under this Agreement or any other indemnification agreement (whether pursuant to the Bylaws or Certificate or another contract). The Company and Indemnitee hereby agree that this Section 10 shall be deemed exclusive and shall be deemed to modify, amend and clarify any right to indemnification or advancement provided to Indemnitee under any other contract, agreement or document with the Company.

11. Binding Effect. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior agreements and understandings, oral, written and implied, between the parties hereto with respect to the subject matter hereof. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors (including any direct or indirect successor by purchase, merger, consolidation, or otherwise to all or substantially all of the business and/or assets of the Company), assigns, spouses, heirs, and personal and legal representatives. The indemnification provided under this Agreement shall continue as to Indemnitee for any action taken or not taken while serving in an indemnified capacity pertaining to an Indemnifiable Event even though he may have ceased to serve in such capacity at the time of any Proceeding.

12. Severability. If any provision (or portion thereof) of this Agreement shall be held by a court of competent jurisdiction to be invalid, void, or otherwise unenforceable, the remaining provisions shall remain enforceable to the fullest extent permitted by law. Furthermore, to the fullest extent possible, the provisions of this Agreement (including, without limitation, each portion of this Agreement containing any provision held to be invalid, void, or otherwise unenforceable, that is not itself invalid, void, or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, void, or unenforceable.

13. Third-Party Beneficiary. The Fund Indemnitors and Independent Counsel are express third-party beneficiaries of this Agreement, and may specifically enforce the Company's obligations hereunder (including, but not limited to, the obligations specified in Section 10 hereof) as though a party hereunder.

14. Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Delaware applicable to contracts made and to be performed in such State without giving effect to its principles of conflicts of laws.

15. Consent to Jurisdiction. The Company and Indemnitee hereby irrevocably (i) agree that any action or proceeding arising out of or in connection with this Agreement shall be brought only in the Chancery Court of the State of Delaware (the "Chancery Court"), (ii) consent to submit to the exclusive jurisdiction of the Chancery Court for purposes of any action or proceeding arising out of or in connection with this Agreement, and (iii) waive any objection to the venue of any such action or proceeding in the Chancery Court.

16. Notices. All notices, demands and other communications required or permitted hereunder shall be made in writing and shall be deemed to have been duly given if delivered by hand, against receipt or mailed, postage prepaid, certified or registered mail, return receipt requested and addressed to the Company at:

Pacific Biosciences of California, Inc.
1505 Adams Drive
Menlo Park, California 94025
Attention: Chief Executive Officer

and to Indemnitee at the address set forth below Indemnitee's signature hereto. Notice of change of address shall be effective only when given in accordance with this Section. All notices complying with this Section shall be deemed to have been received on the date of hand delivery or on the third business day after mailing.

17. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

* * * * *

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Agreement as of the day specified above.

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
a Delaware corporation

By: _____
Name: _____
Title: _____

INDEMNITEE,
an individual

_____
Indemnitee

Address: _____
_____

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.

2004 EQUITY INCENTIVE PLAN

ADOPTED: MARCH 4, 2004
APPROVED BY STOCKHOLDERS: MARCH 4, 2004
AS AMENDED THROUGH AUGUST 12, 2010

1. PURPOSES.

(a) Eligible Stock Award Recipients. The persons eligible to receive Stock Awards are Employees, Directors and Consultants.

(b) Available Stock Awards. The purpose of the Plan is to provide a means by which eligible recipients of Stock Awards may be given an opportunity to benefit from increases in value of the Common Stock through the granting of the following Stock Awards: (i) Incentive Stock Options, (ii) Nonstatutory Stock Options, (iii) stock bonuses and (iv) rights to acquire restricted stock.

(c) General Purpose. The Company, by means of the Plan, seeks to retain the services of the group of persons eligible to receive Stock Awards, to secure and retain the services of new members of this group and to provide incentives for such persons to exert maximum efforts for the success of the Company and its Affiliates.

2. DEFINITIONS.

(a) "***Affiliate***" means any parent corporation or subsidiary corporation of the Company, whether now or hereafter existing, as those terms are defined in Sections 424(e) and (f), respectively, of the Code.

(b) "***Board***" means the Board of Directors of the Company.

(c) "***Capitalization Adjustment***" has the meaning ascribed to that term in Section 11(a).

(d) "***Change in Control***" means the occurrence, in a single transaction or in a series of related transactions, of any one or more of the following events:

(i) any Exchange Act Person becomes the Owner, directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the combined voting power of the Company's then outstanding securities other than by virtue of a merger, consolidation or similar transaction. Notwithstanding the foregoing, a Change in Control shall not be deemed to occur (A) on account of the acquisition of securities of the Company by any institutional investor,

any affiliate thereof or any other Exchange Act Person that acquires the Company's securities in a transaction or series of related transactions that are primarily a private financing transaction for the Company or (B) solely because the level of Ownership held by any Exchange Act Person (the "Subject Person") exceeds the designated percentage threshold of the outstanding voting securities as a result of a repurchase or other acquisition of voting securities by the Company reducing the number of shares outstanding, provided that if a Change in Control would occur (but for the operation of this sentence) as a result of the acquisition of voting securities by the Company, and after such share acquisition, the Subject Person becomes the Owner of any additional voting securities that, assuming the repurchase or other acquisition had not occurred, increases the percentage of the then outstanding voting securities Owned by the Subject Person over the designated percentage threshold, then a Change in Control shall be deemed to occur;

(ii) there is consummated a merger, consolidation or similar transaction involving (directly or indirectly) the Company if, immediately after the consummation of such merger, consolidation or similar transaction, the stockholders of the Company immediately prior thereto do not Own, directly or indirectly, either (A) outstanding voting securities representing more than fifty percent (50%) of the combined outstanding voting power of the surviving Entity in such merger, consolidation or similar transaction or (B) more than fifty percent (50%) of the combined outstanding voting power of the parent of the surviving Entity in such merger, consolidation or similar transaction; or

(iii) there is consummated a sale, lease, license or other disposition of all or substantially all of the consolidated assets of the Company and its Subsidiaries, other than a sale, lease, license or other disposition of all or substantially all of the consolidated assets of the Company and its Subsidiaries to an Entity, more than fifty percent (50%) of the combined voting power of the voting securities of which are Owned by stockholders of the Company in substantially the same proportion as their Ownership of the Company immediately prior to such sale, lease, license or other disposition.

The term Change in Control shall not include a sale of assets, merger or other transaction effected exclusively for the purpose of changing the domicile of the Company.

Notwithstanding the foregoing or any other provision of this Plan, the definition of Change in Control (or any analogous term) in an individual written agreement between the Company or any Affiliate and the Participant shall supersede the foregoing definition with respect to Stock Awards subject to such agreement (it being understood, however, that if no definition of Change in Control or any analogous term is set forth in such an individual written agreement, the foregoing definition shall apply).

(e) "***Code***" means the Internal Revenue Code of 1986, as amended.

(f) "***Committee***" means a committee of one or more members of the Board appointed by the Board in accordance with Section 3(c).

(g) "***Common Stock***" means the common stock of the Company.

(h) "***Company***" means Pacific Biosciences of California, Inc., a Delaware corporation.

(i) "***Consultant***" means any person, including an advisor, (i) engaged by the Company or an Affiliate to render consulting or advisory services and who is compensated for such services or (ii) serving as a member of the Board of Directors of an Affiliate and who is compensated for such services. However, the term "Consultant" shall not include Directors who are not compensated by the Company for their services as Directors, and the payment of a director's fee by the Company for services as a Director shall not cause a Director to be considered a "Consultant" for purposes of the Plan.

(j) "***Continuous Service***" means that the Participant's service with the Company or an Affiliate, whether as an Employee, Director or Consultant, is not interrupted or terminated. A change in the capacity in which the Participant renders service to the Company or an Affiliate as an Employee, Consultant or Director or a change in the entity for which the Participant renders such service, provided that there is no interruption or termination of the Participant's service with the Company or an Affiliate, shall not terminate a Participant's Continuous Service. For example, a change in status from an employee of the Company to a consultant to an Affiliate or to a Director shall not constitute an interruption of Continuous Service. The Board or the chief executive officer of the Company, in that party's sole discretion, may determine whether Continuous Service shall be considered interrupted in the case of any leave of absence approved by that party, including sick leave, military leave or any other personal leave. Notwithstanding the foregoing, a leave of absence shall be treated as Continuous Service for purposes of vesting in a Stock Award only to such extent as may be provided in the Company's leave of absence policy or in the written terms of the Participant's leave of absence.

(k) "***Corporate Transaction***" means the occurrence, in a single transaction or in a series of related transactions, of any one or more of the following events:

(i) a sale or other disposition of all or substantially all, as determined by the Board in its discretion, of the consolidated assets of the Company and its Subsidiaries;

(ii) a sale or other disposition of at least fifty percent (50%) of the outstanding securities of the Company;

(iii) a merger, consolidation or similar transaction following which the Company is not the surviving corporation; or

(iv) a merger, consolidation or similar transaction following which the Company is the surviving corporation but the shares of Common Stock outstanding immediately preceding the merger, consolidation or similar transaction are converted or exchanged by virtue of the merger, consolidation or similar transaction into other property, whether in the form of securities, cash or otherwise.

(l) "***Director***" means a member of the Board.

(m) "***Disability***" means the inability of a person, in the opinion of a qualified physician acceptable to the Company, to perform the major duties of that person's position with the Company or an Affiliate because of the sickness or injury of the person.

(n) "***Employee***" means any person employed by the Company or an Affiliate. Service as a Director or payment of a director's fee by the Company for such service or for service as a member of the Board of Directors of an Affiliate shall not be sufficient to constitute "employment" by the Company or an Affiliate.

(o) "***Entity***" means a corporation, partnership or other entity.

(p) "***Exchange Act***" means the Securities Exchange Act of 1934, as amended.

(q) "***Exchange Act Person***" means any natural person, Entity or "group" (within the meaning of Section 13(d) or 14(d) of the Exchange Act), except that "Exchange Act Person" shall not include (A) the Company or any Subsidiary of the Company, (B) any employee benefit plan of the Company or any Subsidiary of the Company or any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any Subsidiary of the Company, (C) an underwriter temporarily holding securities pursuant to an offering of such securities, or (D) an Entity Owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their Ownership of stock of the Company.

(r) "***Exchange Program***" means a program under which (i) outstanding Stock Awards are surrendered or cancelled in exchange for awards of the same type (which may have higher or lower exercise prices and different terms), awards of a different type, and/or cash, (ii) Participants would have the opportunity to transfer any outstanding Stock Awards to a financial institution or other person or entity selected by the Board (or Committee, as applicable), and/or (iii) the exercise price of an outstanding award is increased or reduced. The Board (or Committee, as applicable) will determine the terms and conditions of any Exchange Program in its sole discretion.

(s) "***Fair Market Value***" means, as of any date, the value of the Common Stock determined in good faith by the Board, and in a manner consistent with Section 260.140.50 of Title 10 of the California Code of Regulations.

(t) "***Incentive Stock Option***" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.

(u) "***Nonstatutory Stock Option***" means an Option not intended to qualify as an Incentive Stock Option.

(v) "***Officer***" means any person designated by the Company as an officer.

(w) "***Option***" means an Incentive Stock Option or a Nonstatutory Stock Option granted pursuant to the Plan.

(x) "***Option Agreement***" means a written agreement between the Company and an Optionholder evidencing the terms and conditions of an individual Option grant. Each Option Agreement shall be subject to the terms and conditions of the Plan.

(y) "***Optionholder***" means a person to whom an Option is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Option.

(z) "***Own***," "***Owned***," "***Owner***," "***Ownership***." A person or Entity shall be deemed to "Own," to have "Owned," to be the "Owner" of, or to have acquired "Ownership" of securities if such person or Entity, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has or shares voting power, which includes the power to vote or to direct the voting, with respect to such securities.

(aa) "***Participant***" means a person to whom a Stock Award is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Stock Award.

(bb) "***Plan***" means this Pacific Biosciences of California, Inc. 2004 Equity Incentive Plan.

(cc) "***Securities Act***" means the Securities Act of 1933, as amended.

(dd) "***Stock Award***" means any right granted under the Plan, including an Option, a stock bonus and a right to acquire restricted stock.

(ee) "***Stock Award Agreement***" means a written agreement between the Company and a holder of a Stock Award evidencing the terms and conditions of an individual Stock Award grant. Each Stock Award Agreement shall be subject to the terms and conditions of the Plan.

(ff) "***Subsidiary***" means, with respect to the Company, (i) any corporation of which more than fifty percent (50%) of the outstanding capital stock having ordinary voting power to elect a majority of the board of directors of such corporation (irrespective of whether, at the time, stock of any other class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time, directly or indirectly, Owned by the Company, and (ii) any partnership in which the Company has a direct or indirect interest (whether in the form of voting or participation in profits or capital contribution) of more than fifty percent (50%).

(gg) "***Ten Percent Stockholder***" means a person who Owns (or is deemed to Own pursuant to Section 424(4) of the Code) stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or of any of its Affiliates.

3. ADMINISTRATION.

(a) Administration by Board. The Board shall administer the Plan unless and until the Board delegates administration to a Committee, as provided in Section 3(c).

(b) Powers of Board. The Board shall have the power, subject to, and within the limitations of, the express provisions of the Plan:

(i) To determine from time to time which of the persons eligible under the Plan shall be granted Stock Awards; when and how each Stock Award shall be granted; what type or combination of types of Stock Award shall be granted; the provisions of each Stock Award granted (which need not be identical), including the time or times when a person shall be permitted to receive Common Stock pursuant to a Stock Award; and the number of shares of Common Stock with respect to which a Stock Award shall be granted to each such person.

(ii) To construe and interpret the Plan and Stock Awards granted under it, and to establish, amend and revoke rules and regulations for its administration. The Board, in the exercise of this power, may correct any defect, omission or inconsistency in the Plan or in any Stock Award Agreement, in a manner and to the extent it shall deem necessary or expedient to make the Plan fully effective.

(iii) To amend the Plan or a Stock Award as provided in Section 12.

(iv) To terminate or suspend the Plan as provided in Section 13.

(v) Generally, to exercise such powers and to perform such acts as the Board deems necessary or expedient to promote the best interests of the Company and that are not in conflict with the provisions of the Plan.

(vi) To determine the terms and conditions if any, and to institute any Exchange Program.

(c) Delegation to Committee. The Board may delegate administration of the Plan to a Committee or Committees of one (1) or more members of the Board, and the term "Committee" shall apply to any person or persons to whom such authority has been delegated. If administration is delegated to a Committee, the Committee shall have, in connection with the administration of the Plan, the powers theretofore possessed by the Board, including the power to delegate to a subcommittee any of the administrative powers the Committee is authorized to exercise (and references in this Plan to the Board shall thereafter be to the Committee or subcommittee), subject, however, to such resolutions, not inconsistent with the provisions of the Plan, as may be adopted from time to time by the Board. The Board may abolish the Committee at any time and revest in the Board the administration of the Plan.

(d) Effect of Board's Decision. All determinations, interpretations and constructions made by the Board in good faith shall not be subject to review by any person and shall be final, binding and conclusive on all persons.

4. SHARES SUBJECT TO THE PLAN.

(a) Share Reserve. Subject to the provisions of Section 11(a) relating to Capitalization Adjustments, the Common Stock that may be issued pursuant to Stock Awards shall not exceed in the aggregate two million five hundred thousand (2,500,000) shares of Common Stock.

(b) If any Stock Award shall for any reason expire or otherwise terminate, in whole or in part, without having been exercised in full, or if any shares of Common Stock issued to a Participant pursuant to a Stock Award are forfeited back to or repurchased by the Company because of or in connection with the failure to meet a contingency or condition required to vest such shares in the Participant, the shares of Common Stock not acquired, such Stock Award or the shares of Common Stock forfeited or repurchased under such Stock Award shall revert to and again become available for issuance under the Plan; *provided*, *however*, that subject to the provisions of Section 11(a) relating to Capitalization Adjustments, the aggregate maximum number of shares of Common Stock that may be issued as Incentive Stock Options shall be five million (5,000,000) shares of Common Stock.

(c) Source of Shares. The shares of Common Stock subject to the Plan may be unissued shares or reacquired shares, bought on the market or otherwise.

(d) Share Reserve Limitation. To the extent required by Section 260.140.45 of Title 10 of the California Code of Regulations, the total number of shares of Common Stock issuable upon exercise of all outstanding Options and the total number of shares of Common Stock provided for under any stock bonus or similar plan of the Company shall not exceed the applicable percentage as calculated in accordance with the conditions and exclusions of Section 260.140.45 of Title 10 of the California Code of Regulations, based on the shares of Common Stock of the Company that are outstanding at the time the calculation is made.

5. ELIGIBILITY.

(a) Eligibility for Specific Stock Awards. Incentive Stock Options may be granted only to Employees. Stock Awards other than Incentive Stock Options may be granted to Employees, Directors and Consultants.

(b) Ten Percent Stockholders.

(i) A Ten Percent Stockholder shall not be granted an Incentive Stock Option unless the exercise price of such Option is at least one hundred ten percent (110%) of the Fair Market Value of the Common Stock on the date of grant and the Option is not exercisable after the expiration of five (5) years from the date of grant.

(ii) A Ten Percent Stockholder shall not be granted a Nonstatutory Stock Option unless the exercise price of such Option is at least (i) one hundred ten percent (110%) of the Fair Market Value of the Common Stock on the date of grant or (ii) such lower percentage of the Fair Market Value of the Common Stock on the date of grant as is permitted by Section 260.140.41 of Title 10 of the California Code of Regulations at the time of the grant of the Option.

(iii) A Ten Percent Stockholder shall not be granted a restricted stock award unless the purchase price of the restricted stock is at least (i) one hundred percent (100%) of the Fair Market Value of the Common Stock on the date of grant or (ii) such lower percentage of the Fair Market Value of the Common Stock on the date of grant as is permitted by Section 260.140.42 of Title 10 of the California Code of Regulations at the time of the grant of the restricted stock award.

(c) Consultants. A Consultant shall not be eligible for the grant of a Stock Award if, at the time of grant, either the offer or the sale of the Company's securities to such Consultant is not exempt under Rule 701 of the Securities Act ("Rule 701") because of the nature of the services that the Consultant is providing to the Company, because the Consultant is not a natural person, or because of some other provision of Rule 701, unless the Company determines that such grant need not comply with the requirements of Rule 701 and will satisfy another exemption under the Securities Act as well as comply with the securities laws of all other relevant jurisdictions.

6. OPTION PROVISIONS.

Each Option shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. All Options shall be separately designated Incentive Stock Options or Nonstatutory Stock Options at the time of grant, and, if certificates are issued, a separate certificate or certificates shall be issued for shares of Common Stock purchased on exercise of each type of Option. The provisions of separate Options need not be identical, but each Option shall include (through incorporation of provisions hereof by reference in the Option or otherwise) the substance of each of the following provisions:

(a) Term. Subject to the provisions of Section 5(b) regarding Ten Percent Stockholders, no Option shall be exercisable after the expiration of ten (10) years from the date it was granted.

(b) Exercise Price of an Incentive Stock Option. Subject to the provisions of Section 5(b) regarding Ten Percent Stockholders, the exercise price of each Incentive Stock Option shall be not less than one hundred percent (100%) of the Fair Market Value of the Common Stock subject to the Option on the date the Option is granted. Notwithstanding the foregoing, an Incentive Stock Option may be granted with an exercise price lower than that set forth in the preceding sentence if such Option is granted pursuant to an assumption or substitution for another option in a manner satisfying the provisions of Section 424(a) of the Code.

(c) Exercise Price of a Nonstatutory Stock Option. Subject to the provisions of Section 5(b) regarding Ten Percent Stockholders, the exercise price of each Nonstatutory Stock Option shall be not less than eighty-five percent (85%) of the Fair Market Value of the Common Stock subject to the Option on the date the Option is granted. Notwithstanding the foregoing, a Nonstatutory Stock Option may be granted with an exercise price lower than that set forth in the preceding sentence if such Option is granted pursuant to an assumption or substitution for another option in a manner satisfying the provisions of Section 424(a) of the Code.

(d) Consideration. The purchase price of Common Stock acquired pursuant to an Option shall be paid, to the extent permitted by applicable statutes and regulations, either (i) in cash at the time the Option is exercised or (ii) at the discretion of the Board at the time of the grant of the Option (or subsequently in the case of a Nonstatutory Stock Option) (1) by delivery to the Company of other Common Stock, (2) according to a deferred payment or other similar arrangement with the Optionholder or (3) in any other form of legal consideration that may be acceptable to the Board. Unless otherwise specifically provided in the Option, the purchase price of Common Stock acquired pursuant to an Option that is paid by delivery to the Company of other Common Stock acquired, directly or indirectly from the Company, shall be paid only by shares of the Common Stock of the Company that have been held for more than six (6) months (or such longer or shorter period of time required to avoid a charge to earnings for financial accounting purposes). At any time that the Company is incorporated in Delaware, payment of the Common Stock's "par value," as defined in the Delaware General Corporation Law, shall not be made by deferred payment.

In the case of any deferred payment arrangement, interest shall be compounded at least annually and shall be charged at the minimum rate of interest necessary to avoid (1) the treatment as interest, under any applicable provisions of the Code, of any amounts other than amounts stated to be interest under the deferred payment arrangement and (2) the treatment of the Option as a variable award for financial accounting purposes.

(e) Transferability of an Incentive Stock Option. An Incentive Stock Option shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable during the lifetime of the Optionholder only by the Optionholder. Notwithstanding the foregoing, the Optionholder may, by delivering written notice to the Company, in a form satisfactory to the Company, designate a third party who, in the event of the death of the Optionholder, shall thereafter be entitled to exercise the Option.

(f) Transferability of a Nonstatutory Stock Option. A Nonstatutory Stock Option shall not be transferable except by will or by the laws of descent and distribution and, to the extent provided in the Option Agreement, to such further extent as permitted by Section 260.140.41(d) of Title 10 of the California Code of Regulations at the time of the grant of the Option, and shall be exercisable during the lifetime of the Optionholder only by the Optionholder. If the Nonstatutory Stock Option does not provide for transferability, then the Nonstatutory Stock Option shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable during the lifetime of the Optionholder only by the Optionholder. Notwithstanding the foregoing, the Optionholder may, by delivering written notice to the Company, in a form satisfactory to the Company, designate a third party who, in the event of the death of the Optionholder, shall thereafter be entitled to exercise the Option.

(g) Vesting Generally. The total number of shares of Common Stock subject to an Option may, but need not, vest and therefore become exercisable in periodic installments that may, but need not, be equal. The Option may be subject to such other terms and conditions on the time or times when it may be exercised (which may be based on performance or other criteria) as the Board may deem appropriate. The vesting provisions of individual Options may vary. The provisions of this Section 6(g) are subject to any Option provisions governing the minimum number of shares of Common Stock as to which an Option may be exercised.

(h) Minimum Vesting. Notwithstanding the foregoing Section 6(g), to the extent that the following restrictions on vesting are required by Section 260.140.41(f) of Title 10 of the California Code of Regulations at the time of the grant of the Option, then:

(i) Options granted to an Employee who is not an Officer, Director or Consultant shall provide for vesting of the total number of shares of Common Stock at a rate of at least twenty percent (20%) per year over five (5) years from the date the Option was granted, subject to reasonable conditions such as continued employment; and

(ii) Options granted to Officers, Directors or Consultants may be made fully exercisable, subject to reasonable conditions such as continued employment, at any time or during any period established by the Company.

(i) Termination of Continuous Service. In the event that an Optionholder’s Continuous Service terminates (other than upon the Optionholder’s death or Disability), the Optionholder may exercise his or her Option (to the extent that the Optionholder was entitled to exercise such Option as of the date of termination) but only within such period of time ending on the

earlier of (i) the date three (3) months following the termination of the Optionholder's Continuous Service (or such longer or shorter period specified in the Option Agreement, which period shall not be less than thirty (30) days unless such termination is for cause), or (ii) the expiration of the term of the Option as set forth in the Option Agreement. If, after termination, the Optionholder does not exercise his or her Option within the time specified in the Option Agreement, the Option shall terminate.

(j) Extension of Termination Date. An Optionholder's Option Agreement may also provide that if the exercise of the Option following the termination of the Optionholder's Continuous Service (other than upon the Optionholder's death or Disability) would be prohibited at any time solely because the issuance of shares of Common Stock would violate the registration requirements under the Securities Act, then the Option shall terminate on the earlier of (i) the expiration of the term of the Option set forth in Section 6(a) or (ii) the expiration of a period of three (3) months after the termination of the Optionholder's Continuous Service during which the exercise of the Option would not be in violation of such registration requirements.

(k) Disability of Optionholder. In the event that an Optionholder's Continuous Service terminates as a result of the Optionholder's Disability, the Optionholder may exercise his or her Option (to the extent that the Optionholder was entitled to exercise such Option as of the date of termination), but only within such period of time ending on the earlier of (i) the date twelve (12) months following such termination (or such longer or shorter period specified in the Option Agreement, which period shall not be less than six (6) months) or (ii) the expiration of the term of the Option as set forth in the Option Agreement. If, after termination, the Optionholder does not exercise his or her Option within the time specified herein, the Option shall terminate.

(l) Death of Optionholder. In the event that (i) an Optionholder's Continuous Service terminates as a result of the Optionholder's death or (ii) the Optionholder dies within the period (if any) specified in the Option Agreement after the termination of the Optionholder's Continuous Service for a reason other than death, then the Option may be exercised (to the extent the Optionholder was entitled to exercise such Option as of the date of death) by the Optionholder's estate, by a person who acquired the right to exercise the Option by bequest or inheritance or by a person designated to exercise the option upon the Optionholder's death pursuant to Section 6(e) or 6(f), but only within the period ending on the earlier of (1) the date eighteen (18) months following the date of death (or such longer or shorter period specified in the Option Agreement, which period shall not be less than six (6) months) or (2) the expiration of the term of such Option as set forth in the Option Agreement. If, after death, the Option is not exercised within the time specified herein, the Option shall terminate.

(m) Early Exercise. The Option may, but need not, include a provision whereby the Optionholder may elect at any time before the Optionholder's Continuous Service terminates to exercise the Option as to any part or all of the shares of Common Stock subject to the Option prior to the full vesting of the Option. Subject to the "Repurchase Limitation" in Section 10(h), any unvested shares of Common Stock so purchased may be subject to a repurchase option in favor of the Company or to any other restriction the Board determines to be appropriate. Provided that the "Repurchase Limitation" in Section 10(h) is not violated, the Company will not exercise its repurchase option until at least six (6) months (or such longer or shorter period of time required to avoid a charge to earnings for financial accounting purposes) have elapsed following exercise of the Option unless the Board otherwise specifically provides in the Option.

(n) Right of Repurchase. Subject to the "Repurchase Limitation" in Section 10(h), the Option may, but need not, include a provision whereby the Company may elect to repurchase all or any part of the vested shares of Common Stock acquired by the Optionholder pursuant to the exercise of the Option. Provided that the "Repurchase Limitation" in Section 10(h) is not violated, the Company will not exercise its repurchase option until at least six (6) months (or such longer or shorter period of time required to avoid a charge to earnings for financial accounting purposes) have elapsed following exercise of the Option unless otherwise specifically provided in the Option.

(o) Right of First Refusal. The Option may, but need not, include a provision whereby the Company may elect to exercise a right of first refusal following receipt of notice from the Optionholder of the intent to transfer all or any part of the shares of Common Stock received upon the exercise of the Option. Except as expressly provided in this Section 6(o) or in the Stock Award Agreement for the Option, such right of first refusal shall otherwise comply with any applicable provisions of the Bylaws of the Company. The Company will not exercise its right of first refusal until at least six (6) months (or such longer or shorter period of time required to avoid a charge to earnings for financial accounting purposes) have elapsed following the exercise of the Option unless otherwise specifically provided in the Option.

7. PROVISIONS OF STOCK AWARDS OTHER THAN OPTIONS.

(a) Stock Bonus Awards. Each stock bonus agreement shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. The terms and conditions of stock bonus agreements may change from time to time, and the terms and conditions of separate stock bonus agreements need not be identical, but each stock bonus agreement shall include (through incorporation of provisions hereof by reference in the agreement or otherwise) the substance of each of the following provisions:

(i) Consideration. A stock bonus may be awarded in consideration for past services actually rendered to the Company or an Affiliate for its benefit.

(ii) Vesting. Subject to the "Repurchase Limitation" in Section 10(h), shares of Common Stock awarded under the stock bonus agreement may, but need not, be subject to a share repurchase option in favor of the Company in accordance with a vesting schedule to be determined by the Board.

(iii) Termination of Participant's Continuous Service. Subject to the "Repurchase Limitation" in Section 10(h), in the event that a Participant's Continuous Service terminates, the Company may reacquire any or all of the shares of Common Stock held by the Participant that have not vested as of the date of termination under the terms of the stock bonus agreement. Provided that the "Repurchase Limitation" in Section 10(h) is not violated, the Company will not exercise its repurchase option until at least six (6) months (or such longer or shorter period of time required to avoid a charge to earnings for financial accounting purposes) have elapsed following receipt of the stock bonus unless otherwise specifically provided in the stock bonus agreement.

(iv) Transferability. Rights to acquire shares of Common Stock under the stock bonus agreement shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable during the lifetime of the Participant only by the Participant.

(b) Restricted Stock Awards. Each restricted stock purchase agreement shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. The terms and conditions of the restricted stock purchase agreements may change from time to time, and the terms and conditions of separate restricted stock purchase agreements need not be identical, but each restricted stock purchase agreement shall include (through incorporation of provisions hereof by reference in the agreement or otherwise) the substance of each of the following provisions:

(i) Purchase Price. Subject to the provisions of Section 5(b) regarding Ten Percent Stockholders, the purchase price of restricted stock awards shall not be less than eighty-five percent (85%) of the Common Stock's Fair Market Value on the date such award is made or at the time the purchase is consummated.

(ii) Consideration. The purchase price of Common Stock acquired pursuant to the restricted stock purchase agreement shall be paid either: (i) in cash at the time of purchase; (ii) at the discretion of the Board, according to a deferred payment or other similar arrangement with the Participant; or (iii) in any other form of legal consideration that may be acceptable to the Board in its discretion; *provided*, *however*, that at any time that the Company is incorporated in Delaware, then payment of the Common Stock's "par value," as defined in the Delaware General Corporation Law, shall not be made by deferred payment.

(iii) Vesting. Subject to the "Repurchase Limitation" in Section 10(h), shares of Common Stock acquired under the restricted stock purchase agreement may, but need not, be subject to a share repurchase option in favor of the Company in accordance with a vesting schedule to be determined by the Board.

(iv) Termination of Participant's Continuous Service. Subject to the "Repurchase Limitation" in Section 10(h), in the event that a Participant's Continuous Service terminates, the Company may repurchase or otherwise reacquire any or all of the shares of Common Stock held by the Participant that have not vested as of the date of termination under the terms of the restricted stock purchase agreement. Provided that the "Repurchase Limitation" in Section 10(h) is not violated, the Company will not exercise its repurchase option until at least six (6) months (or such longer or shorter period of time required to avoid a charge to earnings for financial accounting purposes) have elapsed following the purchase of the restricted stock unless otherwise specifically provided in the restricted stock purchase agreement.

(v) Transferability. Rights to acquire shares of Common Stock under the restricted stock purchase agreement shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable during the lifetime of the Participant only by the Participant.

8. COVENANTS OF THE COMPANY.

(a) Availability of Shares. During the terms of the Stock Awards, the Company shall keep available at all times the number of shares of Common Stock required to satisfy such Stock Awards.

(b) Securities Law Compliance. The Company shall seek to obtain from each regulatory commission or agency having jurisdiction over the Plan such authority as may be required to grant Stock Awards and to issue and sell shares of Common Stock upon exercise of the Stock Awards; *provided*, *however*, that this undertaking shall not require the Company to register under the Securities Act the Plan, any Stock Award or any Common Stock issued or issuable pursuant to any such Stock Award. If, after reasonable efforts, the Company is unable to obtain from any such regulatory commission or agency the authority which counsel for the Company deems necessary for the lawful issuance and sale of Common Stock under the Plan, the Company shall be relieved from any liability for failure to issue and sell Common Stock upon exercise of such Stock Awards unless and until such authority is obtained.

9. USE OF PROCEEDS FROM STOCK.

Proceeds from the sale of Common Stock pursuant to Stock Awards shall constitute general funds of the Company.

10. MISCELLANEOUS.

(a) Acceleration of Exercisability and Vesting. The Board shall have the power to accelerate the time at which a Stock Award may first be exercised or the time during which a Stock Award or any part thereof will vest in accordance with the Plan, notwithstanding the provisions in the Stock Award stating the time at which it may first be exercised or the time during which it will vest.

(b) Stockholder Rights. No Participant shall be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares of Common Stock subject to such Stock Award unless and until such Participant has satisfied all requirements for exercise of the Stock Award pursuant to its terms.

(c) No Employment or other Service Rights. Nothing in the Plan or any instrument executed or Stock Award granted pursuant thereto shall confer upon any Participant any right to continue to serve the Company or an Affiliate in the capacity in effect at the time the Stock Award was granted or shall affect the right of the Company or an Affiliate to terminate (i) the employment of an Employee with or without notice and with or without cause, (ii) the service of a Consultant pursuant to the terms of such Consultant's agreement with the Company or an Affiliate or (iii) the service of a Director pursuant to the Bylaws of the Company or an Affiliate, and any applicable provisions of the corporate law of the state in which the Company or the Affiliate is incorporated, as the case may be.

(d) Incentive Stock Option $100,000 Limitation. To the extent that the aggregate Fair Market Value (determined at the time of grant) of Common Stock with respect to

which Incentive Stock Options are exercisable for the first time by any Optionholder during any calendar year (under all plans of the Company and its Affiliates) exceeds one hundred thousand dollars ($100,000), the Options or portions thereof that exceed such limit (according to the order in which they were granted) shall be treated as Nonstatutory Stock Options, notwithstanding any contrary provision of a Stock Award Agreement.

(e) Investment Assurances. The Company may require a Participant, as a condition of exercising or acquiring Common Stock under any Stock Award, (i) to give written assurances satisfactory to the Company as to the Participant's knowledge and experience in financial and business matters and/or to employ a purchaser representative reasonably satisfactory to the Company who is knowledgeable and experienced in financial and business matters and that he or she is capable of evaluating, alone or together with the purchaser representative, the merits and risks of exercising the Stock Award; and (ii) to give written assurances satisfactory to the Company stating that the Participant is acquiring Common Stock subject to the Stock Award for the Participant's own account and not with any present intention of selling or otherwise distributing the Common Stock. The foregoing requirements, and any assurances given pursuant to such requirements, shall be inoperative if (1) the issuance of the shares of Common Stock upon the exercise or acquisition of Common Stock under the Stock Award has been registered under a then currently effective registration statement under the Securities Act or (2) as to any particular requirement, a determination is made by counsel for the Company that such requirement need not be met in the circumstances under the then applicable securities laws. The Company may, upon advice of counsel to the Company, place legends on stock certificates issued under the Plan as such counsel deems necessary or appropriate in order to comply with applicable securities laws, including, but not limited to, legends restricting the transfer of the Common Stock.

(f) Withholding Obligations. To the extent provided by the terms of a Stock Award Agreement, the Participant may satisfy any federal, state or local tax withholding obligation relating to the exercise or acquisition of Common Stock under a Stock Award by any of the following means (in addition to the Company's right to withhold from any compensation paid to the Participant by the Company) or by a combination of such means: (i) tendering a cash payment; (ii) authorizing the Company to withhold shares of Common Stock from the shares of Common Stock otherwise issuable to the Participant as a result of the exercise or acquisition of Common Stock under the Stock Award; *provided*, *however*, that no shares of Common Stock are withheld with a value exceeding the minimum amount of tax required to be withheld by law (or such lower amount as may be necessary to avoid variable award accounting); or (iii) delivering to the Company owned and unencumbered shares of Common Stock.

(g) Information Obligation. To the extent required by Section 260.140.46 of Title 10 of the California Code of Regulations, the Company shall deliver financial statements to Participants at least annually. This Section 10(g) shall not apply to key Employees whose duties in connection with the Company assure them access to equivalent information.

(h) Repurchase Limitation. The terms of any repurchase option shall be specified in the Stock Award, and the repurchase price may be either the Fair Market Value of the shares of Common Stock on the date of termination of Continuous Service or the lower of (i) the Fair Market Value of the shares of Common Stock on the date of repurchase or (ii) their original purchase price. To the extent required by Section 260.140.41 and Section 260.140.42 of Title 10 of

the California Code of Regulations at the time a Stock Award is made, any repurchase option contained in a Stock Award granted to a person who is not an Officer, Director or Consultant shall be upon the terms described below:

(i) Fair Market Value. If the repurchase option gives the Company the right to repurchase the shares of Common Stock upon termination of Continuous Service at not less than the Fair Market Value of the shares of Common Stock to be purchased on the date of termination of Continuous Service, then (i) the right to repurchase shall be exercised for cash or cancellation of purchase money indebtedness for the shares of Common Stock within ninety (90) days of termination of Continuous Service (or in the case of shares of Common Stock issued upon exercise of Stock Awards after such date of termination, within ninety (90) days after the date of the exercise) or such longer period as may be agreed to by the Company and the Participant (for example, for purposes of satisfying the requirements of Section 1202(c)(3) of the Code regarding "qualified small business stock") and (ii) the right terminates when the shares of Common Stock become publicly traded.

(ii) Original Purchase Price. If the repurchase option gives the Company the right to repurchase the shares of Common Stock upon termination of Continuous Service at the lower of (i) the Fair Market Value of the shares of Common Stock on the date of repurchase or (ii) their original purchase price, then (x) the right to repurchase at the original purchase price shall lapse at the rate of at least twenty percent (20%) of the shares of Common Stock per year over five (5) years from the date the Stock Award is granted (without respect to the date the Stock Award was exercised or became exercisable) and (y) the right to repurchase shall be exercised for cash or cancellation of purchase money indebtedness for the shares of Common Stock within ninety (90) days of termination of Continuous Service (or in the case of shares of Common Stock issued upon exercise of Options after such date of termination, within ninety (90) days after the date of the exercise) or such longer period as may be agreed to by the Company and the Participant (for example, for purposes of satisfying the requirements of Section 1202(c)(3) of the Code regarding "qualified small business stock").

11. ADJUSTMENTS UPON CHANGES IN STOCK.

(a) Capitalization Adjustments. If any change is made in, or other event occurs with respect to, the Common Stock subject to the Plan or subject to any Stock Award without the receipt of consideration by the Company (through merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or other transaction not involving the receipt of consideration by the Company (each a "Capitalization Adjustment"), the Plan will be appropriately adjusted in the class(es) and maximum number of securities subject to the Plan pursuant to Sections 4(a) and 4(b) and the outstanding Stock Awards will be appropriately adjusted in the class(es) and number of securities and price per share of Common Stock subject to such outstanding Stock Awards. The Board shall make such adjustments, and its determination shall be final, binding and conclusive. (The conversion of any convertible securities of the Company shall not be treated as a transaction "without receipt of consideration" by the Company.)

(b) Dissolution or Liquidation. In the event of a dissolution or liquidation of the Company, then all outstanding Options shall terminate immediately prior to the completion of such dissolution or liquidation, and shares of Common Stock subject to the Company's repurchase option may be repurchased by the Company notwithstanding the fact that the holder of such stock is still in Continuous Service.

(c) Corporate Transaction. In the event of a Corporate Transaction, any surviving corporation or acquiring corporation may assume or continue any or all Stock Awards outstanding under the Plan or may substitute similar stock awards for Stock Awards outstanding under the Plan (it being understood that similar stock awards include, but are not limited to, awards to acquire the same consideration paid to the stockholders or the Company, as the case may be, pursuant to the Corporate Transaction), and any reacquisition or repurchase rights held by the Company in respect of Common Stock issued pursuant to Stock Awards may be assigned by the Company to the successor of the Company (or such successor's parent company), if any, in connection with such Corporate Transaction. In the event that any surviving corporation or acquiring corporation does not assume or continue any or all such outstanding Stock Awards or substitute similar stock awards for such outstanding Stock Awards, then with respect to Stock Awards that have not been assumed, continued or substituted and that are held by Participants whose Continuous Service has not terminated prior to the effective time of the Corporate Transaction, the vesting of such Stock Awards (and, if applicable, the time at which such Stock Awards may be exercised) shall (contingent upon the effectiveness of the Corporate Transaction) be accelerated in full to a date prior to the effective time of such Corporate Transaction as the Board shall determine (or, if the Board shall not determine such a date, to the date that is five (5) days prior to the effective time of the Corporate Transaction), the Stock Awards shall terminate if not exercised (if applicable) at or prior to such effective time, and any reacquisition or repurchase rights held by the Company with respect to such Stock Awards held by Participants whose Continuous Service has not terminated shall (contingent upon the effectiveness of the Corporate Transaction) lapse. With respect to any other Stock Awards outstanding under the Plan that have not been assumed, continued or substituted, the vesting of such Stock Awards (and, if applicable, the time at which such Stock Award may be exercised) shall not be accelerated, unless otherwise provided in a written agreement between the Company or any Affiliate and the holder of such Stock Award, and such Stock Awards shall terminate if not exercised (if applicable) prior to the effective time of the Corporate Transaction.

(d) Change in Control. A Stock Award held by any Participant whose Continuous Service has not terminated prior to the effective time of a Change in Control may be subject to additional acceleration of vesting and exercisability upon or after such event as may be provided in the Stock Award Agreement for such Stock Award or as may be provided in any other written agreement between the Company or any Affiliate and the Participant, but in the absence of such provision, no such acceleration shall occur.

12. AMENDMENT OF THE PLAN AND STOCK AWARDS.

(a) Amendment of Plan. The Board at any time, and from time to time, may amend the Plan. However, except as provided in Section 11(a) relating to Capitalization Adjustments, no amendment shall be effective unless approved by the stockholders of the Company to the extent stockholder approval is necessary to satisfy the requirements of Section 422 of the Code.

(b) Stockholder Approval. The Board, in its sole discretion, may submit any other amendment to the Plan for stockholder approval.

(c) Contemplated Amendments. It is expressly contemplated that the Board may amend the Plan in any respect the Board deems necessary or advisable to provide eligible Employees with the maximum benefits provided or to be provided under the provisions of the Code and the regulations promulgated thereunder relating to Incentive Stock Options and/or to bring the Plan and/or Incentive Stock Options granted under it into compliance therewith.

(d) No Impairment of Rights. Rights under any Stock Award granted before amendment of the Plan shall not be impaired by any amendment of the Plan unless (i) the Company requests the consent of the Participant and (ii) the Participant consents in writing.

(e) Amendment of Stock Awards. The Board at any time, and from time to time, may amend the terms of any one or more Stock Awards; *provided*, *however*, that the rights under any Stock Award shall not be impaired by any such amendment unless (i) the Company requests the consent of the Participant and (ii) the Participant consents in writing.

13. TERMINATION OR SUSPENSION OF THE PLAN.

(a) Plan Term. The Board may suspend or terminate the Plan at any time. Unless sooner terminated, the Plan shall terminate on the day before the tenth (10th) anniversary of the date the Plan is adopted by the Board or approved by the stockholders of the Company, whichever is earlier. No Stock Awards may be granted under the Plan while the Plan is suspended or after it is terminated.

(b) No Impairment of Rights. Suspension or termination of the Plan shall not impair rights and obligations under any Stock Award granted while the Plan is in effect except with the written consent of the Participant.

14. EFFECTIVE DATE OF PLAN.

The Plan shall become effective as determined by the Board, but no Stock Award shall be exercised (or, in the case of a stock bonus, shall be granted) unless and until the Plan has been approved by the stockholders of the Company, which approval shall be within twelve (12) months before or after the date the Plan is adopted by the Board.

15. CHOICE OF LAW.

The law of the State of California shall govern all questions concerning the construction, validity and interpretation of this Plan, without regard to such state's conflict of laws rules.

NOTICE OF EXERCISE

Pacific Biosciences of California, Inc.

Date of Exercise: _____
Pacific Biosciences of California
1380 Willow Road
Menlo Park, CA 94025

Ladies and Gentlemen:

This constitutes notice under my stock option that I elect to purchase the number of shares for the price set forth below.

Type of option (check one):	Incentive ☐	Nonstatutory ☐
Stock option dated:	_____	
Number of shares as to which option is exercised:	_____	
Certificates to be issued in name of:	_____	
Total exercise price:	$ _____	
Cash payment delivered herewith:	$ _____	

By this exercise, I agree (i) to provide such additional documents as you may require pursuant to the terms of the 2004 Equity Incentive Plan, (ii) to provide for the payment by me to you (in the manner designated by you) of your withholding obligation, if any, relating to the exercise of this option, and (iii) if this exercise relates to an incentive stock option, to notify you in writing within fifteen (15) days after the date of any disposition of any of the shares of Common Stock issued upon exercise of this option that occurs within two (2) years after the date of grant of this option or within one (1) year after such shares of Common Stock are issued upon exercise of this option.

I hereby make the following certifications and representations with respect to the number of shares of Common Stock of the Company listed above (the "Shares"), which are being acquired by me for my own account upon exercise of the Option as set forth above:

I acknowledge that the Shares have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), and are deemed to constitute "restricted securities" under Rule 701 and "control securities" under Rule 144 promulgated under the Securities Act. I warrant and represent to the Company that I have no present intention of distributing or selling said Shares, except as permitted under the Securities Act and any applicable state securities laws.

I further acknowledge that I will not be able to resell the Shares for at least ninety days (90) after the stock of the Company becomes publicly traded (*i.e.*, subject to the reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934) under Rule 701 and that more restrictive conditions apply to affiliates of the Company under Rule 144.

I further acknowledge that all certificates representing any of the Shares subject to the provisions of the Option shall have endorsed thereon appropriate legends reflecting the foregoing limitations, as well as any legends reflecting restrictions pursuant to the Company's Articles of Incorporation, Bylaws and/or applicable securities laws.

Very truly yours,

_____

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.

2004 EQUITY INCENTIVE PLAN

EARLY EXERCISE STOCK PURCHASE AGREEMENT

This Early Exercise Stock Purchase Agreement (the "**Agreement**") is made as of _____, ____ by and between Pacific Biosciences of California, Inc., a Delaware corporation (the "**Company**"), and _____, the ("**Purchaser**").

Unless otherwise defined herein, the terms defined in the 2004 Equity Incentive Plan (the "**Plan**") shall have the same defined meanings in this Agreement.

RECITALS

A. Pursuant to the exercise of the option (grant number ____) (the "**Option**") granted to Purchaser under the Plan and pursuant to the notice of grant and stock option agreement dated _____, ____ (together, the "**Option Agreement**") by and between the Company and Purchaser with respect to such grant, which Plan and Option Agreement are hereby incorporated by reference, Purchaser has elected to purchase _____ of those shares of Common Stock which have not become vested under the vesting schedule set forth in the Option Agreement ("**Unvested Shares**"). The Unvested Shares and the shares subject to the Option Agreement which have become vested are sometimes collectively referred to herein as the "**Shares**."

B. As required by the Option Agreement, as a condition to Purchaser's election to exercise the option, Purchaser must execute this Agreement, which sets forth the rights and obligations of the parties with respect to Shares acquired upon exercise of the Option.

1. *Repurchase Option*.

(a) If Purchaser's Continuous Service is terminated for any reason, including for death and Disability, the Company shall have the right and option to purchase from Purchaser, or Purchaser's personal representative, as the case may be, all of the Purchaser's Unvested Shares as of the date of such termination at the original price paid by the Purchaser for such Shares (the "**Repurchase Option**").

(b) Upon the occurrence of such termination, the Company may exercise its Repurchase Option by delivering personally or by registered mail, to Purchaser (or his transferee or legal representative, as the case may be), within ninety (90) days of the termination of Continuous Service, a notice in writing indicating the Company's intention to exercise the Repurchase Option and setting forth a date for closing not later than thirty (30) days from the mailing of such notice. The closing shall take place at the Company's office. At the closing, the holder of the certificates for the Unvested Shares being transferred shall deliver the stock certificate or certificates evidencing the Unvested Shares, and the Company shall deliver the purchase price therefor. The Company may designate and assign one or more employees, officers, directors or stockholders of the Company or other persons or organizations to exercise all or a part of the Company's Repurchase Option.

(c) At its option, the Company may elect to make payment for the Unvested Shares to a bank selected by the Company. The Company shall avail itself of this option by a notice in writing to Purchaser stating the name and address of the bank, date of closing, and waiving the closing at the Company's office.

(d) If the Company does not elect to exercise the Repurchase Option conferred above by giving the requisite notice within ninety (90) days following the termination, the Repurchase Option shall terminate.

(e) The Repurchase Option shall terminate in accordance with the vesting schedule contained in the Option Agreement relating to the Option.

2. *Transferability of the Shares; Escrow*.

(a) Purchaser hereby authorizes and directs the Secretary of the Company, or such other person designated by the Company, to transfer the Unvested Shares as to which the Repurchase Option has been exercised from Purchaser to the Company.

(b) To insure the availability for delivery of Purchaser's Unvested Shares upon repurchase by the Company pursuant to the Repurchase Option under Section 1, Purchaser hereby appoints the Secretary, or any other person designated by the Company as escrow agent, as its attorney-in-fact to sell, assign and transfer unto the Company, such Unvested Shares, if any, repurchased by the Company pursuant to the Repurchase Option and shall, upon execution of this Agreement, deliver and deposit with the Secretary of the Company, or such other person designated by the Company, the share certificates representing the Unvested Shares, together with the stock assignment duly endorsed in blank, attached hereto as **Exhibit A**. The Unvested Shares and stock assignment shall be held by the secretary in escrow, pursuant to the Joint Escrow Instructions of the Company and Purchaser attached as **Exhibit B** hereto, until the Company exercises its Repurchase Option, until such Unvested Shares are vested, or until such time as this Agreement no longer is in effect. Upon vesting of the Unvested Shares, the escrow agent shall promptly deliver to the Purchaser the certificate or certificates representing such Shares in the escrow agent's possession belonging to the Purchaser, and the escrow agent shall be discharged of all further obligations hereunder; provided, however, that the escrow agent shall nevertheless retain such certificate or certificates as escrow agent if so required pursuant to other restrictions imposed pursuant to this Agreement.

(c) The Company, or its designee, shall not be liable for any act it may do or omit to do with respect to holding the Shares in escrow and while acting in good faith and in the exercise of its judgment.

(d) Transfer or sale of the Shares is subject to restrictions on transfer imposed by any applicable state and federal securities laws. Any transferee shall hold such Shares subject to all the provisions hereof and the Exercise Notice executed by the Purchaser with respect to any Unvested Shares purchased by Purchaser and shall acknowledge the same by signing a copy of this Agreement.

(e) *Unvested Shares*. No Unvested Shares subject to the Repurchase Option contained in Section 1 of this Agreement, nor any beneficial interest in such Shares, shall be sold, gifted, transferred, encumbered or otherwise disposed of in any way (whether by operation of law or otherwise) by the Purchaser, except as provided in this Agreement.

(f) *Vested Shares*. No Shares purchased pursuant to this Agreement, nor any beneficial interest in such Shares, shall be sold, transferred, encumbered or otherwise disposed of in any way (whether by operation of law or otherwise) by the Purchaser or any subsequent transferee, other than in compliance with the Company's right of first refusal provisions contained in the Option Agreement related to the Option or in this Agreement or except as provided in this Agreement.

3. *Company's Right of First Refusal*. Before any Shares held by Purchaser or any transferee (either being sometimes referred to herein as the "**Holder**") may be sold or otherwise transferred (including transfer by gift or operation of law), the Company or its assignee(s) shall have a right of first refusal to purchase the Shares on the terms and conditions set forth in this Section (the "**Right of First Refusal**").

(a) *Notice of Proposed Transfer*. The Holder of the Shares shall deliver to the Company a written notice (the "**Notice**") stating: (i) the Holder's bona fide intention to sell or otherwise transfer such Shares; (ii) the name of each proposed purchaser or other transferee ("**Proposed Transferee**"); (iii) the number of Shares to be transferred to each Proposed Transferee; and (iv) the bona fide cash price or other consideration for which the Holder proposes to transfer the Shares (the "**Offered Price**"), and the Holder shall offer the Shares at the Offered Price to the Company or its assignee(s).

(b) *Exercise of Right of First Refusal*. At any time within thirty (30) days after receipt of the Notice, the Company and/or its assignee(s) may, by giving written notice to the Holder, elect to purchase all, but not less than all, of the Shares proposed to be transferred to any one or more of the Proposed Transferees, at the purchase price determined in accordance with subsection (c) below.

(c) *Purchase Price*. The purchase price ("**Purchase Price**") for the Shares purchased by the Company or its assignee(s) under this Section shall be the Offered Price. If the Offered Price includes consideration other than cash, the cash equivalent value of the non-cash consideration shall be determined by the Board of Directors of the Company in good faith.

(d) *Payment*. Payment of the Purchase Price shall be made, at the option of the Company or its assignee(s), in cash (by check), by cancellation of all or a portion of any outstanding indebtedness of the Holder to the Company (or, in the case of repurchase by an assignee, to the assignee), or by any combination thereof within 30 days after receipt of the Notice or in the manner and at the times set forth in the Notice.

(e) *Holder's Right to Transfer*. If all of the Shares proposed in the Notice to be transferred to a given Proposed Transferee are not purchased by the Company and/or its assignee(s)

as provided in this Section, then the Holder may sell or otherwise transfer such Shares to that Proposed Transferee at the Offered Price or at a higher price, provided that such sale or other transfer is consummated within 120 days after the date of the Notice, that any such sale or other transfer is effected in accordance with any applicable securities laws and that the Proposed Transferee agrees in writing that the provisions of this Section shall continue to apply to the Shares in the hands of such Proposed Transferee. If the Shares described in the Notice are not transferred to the Proposed Transferee within such period, a new Notice shall be given to the Company, and the Company and/or its assignees shall again be offered the Right of First Refusal before any Shares held by the Holder may be sold or otherwise transferred.

(f) *Exception for Certain Family Transfers*. Anything to the contrary contained in this Section notwithstanding, the transfer of any or all of the Shares during the Purchaser's lifetime or on the Purchaser's death by will or intestacy to the Purchaser's immediate family or a trust for the benefit of the Purchaser's immediate family shall be exempt from the provisions of this Section. “Immediate Family” as used herein shall mean spouse, lineal descendant or antecedent, father, mother, brother or sister. In such case, the transferee or other recipient shall receive and hold the Shares so transferred subject to the provisions of this Section, and there shall be no further transfer of such Shares except in accordance with the terms of this Section.

(g) *Termination of Right of First Refusal*. The Right of First Refusal shall terminate as to any Shares upon the earlier of (i) first sale of Common Stock of the Company to the general public, or (ii) a Change in Control in which the successor corporation has equity securities that are publicly traded.

4. *Ownership, Voting Rights, Duties*. This Agreement shall not affect in any way the ownership, voting rights or other rights or duties of Purchaser, except as specifically provided herein. Until the issuance of the Shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Shares, notwithstanding the exercise of the Option. No adjustment shall be made for a dividend or other right for which the record date is prior to the date of issuance except as provided in of the Plan.

5. *Restrictive Legends and Stop-Transfer Orders.*

(a) *Legends*. The Purchaser hereby makes the investment representations listed on Exhibit C to the Company as of the date of this Agreement and as of the date of the Closing, and agrees that such representations are incorporated into this Agreement by this reference, such that the Company may rely on them in issuing the Shares. Purchaser understands and agrees that the Company shall cause the legends set forth below, or substantially equivalent legends, to be placed upon any certificate(s) evidencing ownership of the Shares, together with any other legends that may be required by the Company or by applicable state or federal securities laws:

> THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 (THE “*ACT*”) AND MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, PLEDGED OR HYPOTHECATED UNLESS AND UNTIL REGISTERED UNDER THE ACT OR, IN THE OPINION OF

COUNSEL SATISFACTORY TO THE ISSUER OF THESE SECURITIES, SUCH OFFER, SALE OR TRANSFER, PLEDGE OR HYPOTHECATION OTHERWISE COMPLIES WITH THE ACT.

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN RESTRICTIONS ON TRANSFER AND RIGHTS OF FIRST REFUSAL, AS SET FORTH IN, AND SUBJECT TO THE TERMS AND CONDITIONS OF, AN AGREEMENT BETWEEN THE COMPANY AND THE STOCKHOLDER, A COPY OF WHICH IS ON FILE WITH THE SECRETARY OF THE COMPANY. SUCH TRANSFER RESTRICTIONS, RIGHT OF FIRST REFUSAL AND REPURCHASE OPTION ARE BINDING ON TRANSFEREES OF THESE SHARES.

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO RESTRICTIONS ON TRANSFER FOR A PERIOD NOT TO EXCEED 180 DAYS FOLLOWING THE EFFECTIVE DATE OF THE UNDERWRITTEN PUBLIC OFFERING OF THE COMPANY'S SECURITIES AND MAY NOT BE SOLD OR OTHERWISE DISPOSED OF BY THE HOLDER WITHOUT THE CONSENT OF THE COMPANY OR THE MANAGING UNDERWRITER.

(b) *Stop-Transfer Notices*. Purchaser agrees that to ensure compliance with the restrictions referred to herein, the Company may issue appropriate "stop transfer" instructions to its transfer agent, if any, and that, if the Company transfers its own securities, it may make appropriate notations to the same effect in its own records.

(c) *Refusal to Transfer*. The Company shall not be required (i) to transfer on its books any Shares that have been sold or otherwise transferred in violation of any of the provisions of this Agreement or (ii) to treat as owner of such Shares or to accord the right to vote or pay dividends to any purchaser or other transferee to whom such Shares shall have been so transferred.

6. *Tax Consequences*. The Purchaser has reviewed with the Purchaser's own tax advisors the federal, state, local and foreign tax consequences of this investment and the transactions contemplated by this Agreement. The Purchaser is relying solely on such advisors and not on any statements or representations of the Company or any of its agents. The Purchaser understands that the Purchaser (and not the Company) shall be responsible for any tax liability that may arise as a result of the transactions contemplated by this Agreement.

7. *Section 83(b) Election.* The Purchaser understands that Section 83 of the Code, taxes as ordinary income the difference between the purchase price for the Shares and the Fair Market Value of the Shares as of the date any restrictions on the Shares lapse. In this context, "restriction" includes the right of the Company to buy back the Shares pursuant to the Repurchase Option. The Purchaser understands that the Purchaser may elect to be taxed at the time the Shares are purchased rather than when and as the Repurchase Option expires by filing an election under Section 83(b) of the Code with the IRS within 30 days from the date of purchase. In the case of a Nonstatutory Stock Option, this will result in a recognition of taxable income to the Purchaser on the date of exercise,

measured by the excess, if any, of the Fair Market Value of the exercised Shares, at the time the Option is exercised over the purchase price for the exercised Shares. Absent such an Election, taxable income will be measured and recognized by Purchaser at the time or times on which the Company's Repurchase Option lapses. Purchaser is strongly encouraged to seek the advice of his or her own tax consultants in connection with the purchase of the Shares and the advisability of filing of the Election under Section 83(b) of the Code. **THE FORM FOR MAKING THIS SECTION 83(B) ELECTION IS ATTACHED TO THIS AGREEMENT AS *EXHIBIT D* AND THE PURCHASER (AND NOT THE COMPANY OR ANY OF ITS AGENTS) SHALL BE SOLELY RESPONSIBLE FOR APPROPRIATELY FILING SUCH FORM, EVEN IF THE PURCHASER REQUESTS THE COMPANY OR ITS AGENTS TO MAKE THIS FILING ON PURCHASER'S BEHALF.**

8. General Provisions.

(a) *Choice of Law*. This Agreement shall be governed by the internal substantive laws, but not the choice of law rules, of California.

(b) *Integration*. The Plan, the Option Agreement related to the Option and the Notice of Exercise related to the Option are incorporated herein by reference. The Exercise Notice, the Plan, this Agreement and the Investment Representation Statement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior written or oral undertakings and agreements of the Company and Purchaser with respect to the subject matter hereof, including, but not limited to, any representations made during any interviews, relocation discussions or negotiations whether written or oral, and may not be modified adversely to the Purchaser's interest except by means of a writing signed by the Company and Purchaser.

(c) *Notices*. Any notice, demand, offer, request or other communication required or permitted to be given by either the Company or the Purchaser pursuant to the terms of this Agreement shall be in writing and shall be deemed effectively given the earlier of (i) when received, (ii) when delivered personally, (iii) 1 business day after being delivered by facsimile (with receipt of appropriate confirmation), (iv) 1 business day after being deposited with an overnight courier service or (v) 4 days after being deposited in the U.S. mail, First Class with postage prepaid, and addressed to the Purchaser at the addresses provided to the Company (which the Company agrees to disclose to the other parties upon request) or such other address as a party may request by notifying the other in writing, and to the Company at their respective principal executive offices.

(d) *Successors*. Any successor to the Company (whether direct or indirect and whether by purchase, merger, consolidation, liquidation or otherwise) to all or substantially all of the Company's business and/or assets shall assume the obligations under this Agreement and agree expressly to perform the obligations under this Agreement in the same manner and to the same extent as the Company would be required to perform such obligations in the absence of a succession. For all purposes under this Agreement, the term "Company" shall include any successor to the Company's business and/or assets which executes and delivers the assumption agreement described in this Section or which becomes bound by the terms of this Agreement by operation of law. Subject to the restrictions on transfer set forth in this Agreement, this Agreement shall be binding upon Purchaser and his heirs, executors, administrators, successors and assigns.

(e) *Assignment*. The rights granted to the Purchaser under this Agreement are not assignable by the Purchaser under any circumstances.

(f) *Waiver*. Either party's failure to enforce any provision of this Agreement shall not in any way be construed as a waiver of any such provision, nor prevent that party from thereafter enforcing any other provision of this Agreement. The rights granted both parties hereunder are cumulative and shall not constitute a waiver of either party's right to assert any other legal remedy available to it.

(g) *Purchaser Investment Representations and Further Documents*. In the event the Shares have not been registered under the Securities Act of 1933, as amended, at the time of the purchase of the Shares, the Purchaser shall, if required by the Company, concurrently with the purchase of all or any portion of the Shares subject to the Option, deliver to the Company his or her Investment Representation Statement in the form attached hereto as **Exhibit C**. The Purchaser agrees upon request to execute any further documents or instruments necessary or reasonably desirable in the view of the Company to carry out the purposes or intent of this Agreement, including (but not limited to) **Exhibits A, B, C and D** of this Agreement.

(h) *Severability*. Should any provision of this Agreement be found to be illegal or unenforceable, the other provisions shall nevertheless remain effective and shall remain enforceable to the greatest extent permitted by law.

(i) *Rights as Stockholder*. Subject to the terms and conditions of this Agreement, Purchaser shall have all of the rights of a stockholder of the Company with respect to the Shares from and after the date that Purchaser delivers a fully executed copy of this Agreement (including all exhibits and attachments thereto) and full payment for the Shares to the Company, and until such time as Purchaser disposes of the Shares in accordance with this Agreement. Upon such transfer, Purchaser shall have no further rights as a holder of the Shares so purchased except (in the case of a transfer to the Company) the right to receive payment for the Shares so purchased in accordance with the provisions of this Agreement, and Purchaser shall forthwith cause the certificate(s) evidencing the Shares so purchased to be surrendered to the Company for transfer or cancellation.

(j) *Adjustment for Stock Split.* All references to the number of Shares and the purchase price of the Shares in this Agreement shall be adjusted in accordance with the terms of the Plan to reflect any stock split, stock dividend or other similar event affecting the Shares which may be made after the date of this Agreement.

(k) *Employment at Will*. PURCHASER ACKNOWLEDGES AND AGREES THAT THE VESTING OF SHARES PURSUANT TO THIS AGREEMENT IS EARNED ONLY BY PURCHASER'S CONTINUOUS SERVICE AT WILL (AND NOT THROUGH THE ACT OF BEING HIRED OR PURCHASING SHARES HEREUNDER). PURCHASER FURTHER ACKNOWLEDGES AND AGREES THAT THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, OR FOR ANY PERIOD AT ALL, AND SHALL NOT INTERFERE WITH PURCHASER'S RIGHT OR THE COMPANY'S RIGHT TO TERMINATE PURCHASER'S RELATIONSHIP WITH THE COMPANY AT ANY TIME, WITH OR WITHOUT CAUSE OR NOTICE.

(l) *Arbitration.* Any and all controversies, claims, or disputes arising out of, relating to, or resulting from this Agreement shall be subject to binding arbitration under the Arbitration Rules set forth in California Code of Civil Procedure Section 1280 through 1294.2, including section 1283.05 (the "**Rules**") and pursuant to California law. Any arbitration will be administered by the American Arbitration Association ("**AAA**") in accordance with its Rules for the Resolution of Commercial Disputes. Purchaser agrees that the arbitrator shall have the power to decide any motions brought by any party to the arbitration, including motions for summary judgment and/or adjudication and motions to dismiss and demurrers, prior to any arbitration hearing. Purchaser also agrees that the arbitrator shall have the power to award any remedies, including attorneys' fees and costs, available under applicable law. Purchaser understands that each party shall bear its own costs and expenses, including attorney's fees, incurred in connection with any Arbitration. The decision of the arbitrator shall be in writing. Except as provided by the Rules, arbitration shall be the sole, exclusive and final remedy for any dispute under this Agreement. Accordingly, except as provided for by the Rules, neither the Purchaser nor the Company will be permitted to pursue court action regarding this Agreement. In addition to the right under the Rules to petition the court for provisional relief, the Purchaser agrees that any party may also petition the court for injunctive relief where either party alleges or claims a violation of any confidential information or invention assignment agreement between the Purchaser and the Company or any other agreement regarding trade secrets, confidential information, nonsolicitation or Labor Code §2870. In the event either party seeks injunctive relief, the prevailing party shall be entitled to recover reasonable costs and attorneys fees.

(m) *Representations of Purchaser*. Purchaser acknowledges that Purchaser has received, read and understood the Plan, the Option Agreement and the Notice of Exercise and agrees to abide by and be bound by their terms and conditions.

(n) *Counterparts.* This Agreement may be executed in one or more counterparts, each of which will be deemed an original, but all of which together will constitute one and the same agreement. Facsimile copies of signed signature pages shall be binding originals.

The parties represent that they have read this Agreement in its entirety, have had an opportunity to obtain the advice of counsel prior to executing this Agreement and fully understand this Agreement. The Purchaser agrees to notify the Company of any change in his address below.

PURCHASER

_____

Address:

_____

_____

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.

_____

Signature

_____

Print Name

_____

Print Title

EXHIBIT A

STOCK POWER AND ASSIGNMENT
SEPARATE FROM CERTIFICATE

FOR VALUE RECEIVED and pursuant to that certain Early Exercise Stock Purchase Agreement dated as of _____, the undersigned hereby sells, assigns and transfers unto _____, _____ (_____) shares of Common Stock of Pacific Biosciences of California, Inc., a Delaware corporation, standing in the undersigned's name on the books of said corporation represented by certificate number _____ delivered herewith, and does hereby irrevocably constitute and appoint _____ as attorney-in-fact, with full power of substitution, to transfer said stock on the books of said corporation.

Dated:

_____
(Signature)

_____
(Please Print Name)

This Assignment Separate From Certificate was executed in conjunction with the terms of a Early Exercise Stock Purchase Agreement between the above assignor and the above corporation, dated as of _____ ____, 20__.

Instruction: Please do not fill in any blanks other than the signature and name lines.

EXHIBIT B

JOINT ESCROW INSTRUCTIONS

Pacific Biosciences of California, Inc.
1380 Willow Road
Menlo Park, CA 94025
Attn: Corporate Secretary

Dear Secretary:

Dear _____:

As Escrow Agent for both Pacific Biosciences of California, Inc. (the "Company"), and the undersigned purchaser of stock of the Company (the "Purchaser"), you are hereby authorized and directed to hold the documents delivered to you pursuant to the terms of that certain Early Exercise Stock Purchase Agreement (the "Agreement") between the Company and the undersigned, in accordance with the following instructions:

1. In the event the Company and/or any assignee of the Company (referred to collectively for convenience herein as the "Company") exercises the Company's repurchase option set forth in the Agreement, the Company shall give to Purchaser and you a written notice specifying the number of shares of stock to be purchased, the purchase price, and the time for a closing hereunder at the principal office of the Company. Purchaser and the Company hereby irrevocably authorize and direct you to close the transaction contemplated by such notice in accordance with the terms of said notice.

2. At the closing, you are directed (a) to date the stock assignments necessary for the transfer in question, (b) to fill in the number of shares being transferred, and (c) to deliver the stock assignments, together with the certificate evidencing the shares of stock to be transferred, to the Company or its assignee, against the simultaneous delivery to you of the purchase price (by cash, a check, or some combination thereof) for the number of shares of stock being purchased pursuant to the exercise of the Company's repurchase option.

3. Purchaser irrevocably authorizes the Company to deposit with you any certificates evidencing shares of stock to be held by you hereunder and any additions and substitutions to said shares as defined in the Agreement. Purchaser does hereby irrevocably constitute and appoint you as Purchaser's attorney-in-fact and agent for the term of this escrow to execute with respect to such securities all documents necessary or appropriate to make such securities negotiable and to complete any transaction herein contemplated, including but not limited to the filing with any applicable state blue sky authority of any required applications for consent to, or notice of transfer of, the securities. Subject to the provisions of this paragraph 3, Purchaser shall exercise all rights and privileges of a stockholder of the Company while the stock is held by you.

4. Upon written request of the Purchaser, but no more than once per calendar year, unless the Company's repurchase option has been exercised, you will deliver to Purchaser a certificate or certificates representing so many shares of stock as are not then subject to the Company's repurchase option. Within 120 days after cessation of Purchaser's continuous employment by or services to the Company, or any parent or subsidiary of the Company, you will deliver to Purchaser a certificate or certificates representing the aggregate number of shares held or issued pursuant to the Agreement and not purchased by the Company or its assignees pursuant to exercise of the Company's repurchase option.

5. If at the time of termination of this escrow you should have in your possession any documents, securities, or other property belonging to Purchaser, you shall deliver all of the same to Purchaser and shall be discharged of all further obligations hereunder.

6. Your duties hereunder may be altered, amended, modified or revoked only by a writing signed by all of the parties hereto.

7. You shall be obligated only for the performance of such duties as are specifically set forth herein and may rely and shall be protected in relying or refraining from acting on any instrument reasonably believed by you to be genuine and to have been signed or presented by the proper party or parties. You shall not be personally liable for any act you may do or omit to do hereunder as Escrow Agent or as attorney-in-fact for Purchaser while acting in good faith, and any act done or omitted by you pursuant to the advice of your own attorneys shall be conclusive evidence of such good faith.

8. You are hereby expressly authorized to disregard any and all warnings given by any of the parties hereto or by any other person or corporation, excepting only orders or process of courts of law and are hereby expressly authorized to comply with and obey orders, judgments or decrees of any court. In case you obey or comply with any such order, judgment or decree, you shall not be liable to any of the parties hereto or to any other person, firm or corporation by reason of such compliance, notwithstanding any such order, judgment or decree being subsequently reversed, modified, annulled, set aside, vacated or found to have been entered without jurisdiction.

9. You shall not be liable in any respect on account of the identity, authorities or rights of the parties executing or delivering or purporting to execute or deliver the Agreement or any documents or papers deposited or called for hereunder.

10. You shall not be liable for the outlawing of any rights under the Statute of Limitations with respect to these Joint Escrow Instructions or any documents deposited with you.

11. You shall be entitled to employ such legal counsel and other experts as you may deem necessary properly to advise you in connection with your obligations hereunder, may rely upon the advice of such counsel, and may pay such counsel reasonable compensation therefor.

12. Your responsibilities as Escrow Agent hereunder shall terminate if you shall cease to be an officer or agent of the Company or if you shall resign by written notice to each party. In the event of any such termination, the Company shall appoint a successor Escrow Agent.

13. If you reasonably require other or further instruments in connection with these Joint Escrow Instructions or obligations in respect hereto, the necessary parties hereto shall join in furnishing such instruments.

14. It is understood and agreed that should any dispute arise with respect to the delivery and/or ownership or right of possession of the securities held by you hereunder, you are authorized and directed to retain in your possession without liability to anyone all or any part of said securities until such disputes shall have been settled either by mutual written agreement of the parties concerned or by a final order, decree or judgment of a court of competent jurisdiction after the time for appeal has expired and no appeal has been perfected, but you shall be under no duty whatsoever to institute or defend any such proceedings.

15. Any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given upon personal delivery or upon deposit in the United States Post Office, by registered or certified mail with postage and fees prepaid, addressed to each of the other parties thereunto entitled at the following addresses or at such other addresses as a party may designate by ten days' advance written notice to each of the other parties hereto.

16. By signing these Joint Escrow Instructions, you become a party hereto only for the purpose of said Joint Escrow Instructions; you do not become a party to the Agreement.

17. This instrument shall be binding upon and inure to the benefit of the parties hereto, and their respective successors and permitted assigns.

18. These Joint Escrow Instructions shall be governed by the internal substantive laws, but not the choice of law rules, of California.

PURCHASER INC.

Signature

Print Name

Residence Address

ESCROW AGENT

Corporate Secretary

Dated: _____, ____

PACIFIC BIOSCIENCES OF CALIFORNIA,

By

Title

[SIGNATURE PAGE TO JOINT ESCROW INSTRUCTIONS]

EXHIBIT C

INVESTMENT REPRESENTATION STATEMENT

PURCHASER :

COMPANY : Pacific Biosciences of California, Inc.

SECURITY : Common Stock

AMOUNT :

DATE :

In connection with the purchase of the above-listed shares, I, the undersigned purchaser, represent to the Company as follows:

1. *The Company May Rely on These Representations*. I understand that the Company's sale of the shares to me has not been registered under the Securities Act of 1933, as amended, because the Company believes, relying in part on my representations in this document, that an exemption from such registration requirement is available for such sale. I understand that the availability of this exemption depends upon the representations I am making to the Company in this document being true and correct.

2. *I am Purchasing for Investment*. I am purchasing the shares solely for investment purposes, and not for further distribution. My entire legal and beneficial ownership interest in the shares is being purchased and shall be held solely for my account, except to the extent I intend to hold the shares jointly with my spouse. I am not a party to, and do not presently intend to enter into, any contract or other arrangement with any other person or entity involving the resale, transfer, grant of participation with respect to or other distribution of any of the shares. My investment intent is not limited to my present intention to hold the shares for the minimum capital gains period specified under any applicable tax law, for a deferred sale, for a specified increase or decrease in the market price of the shares, or for any other fixed period in the future.

3. *I Can Protect My Own Interests*. I can properly evaluate the merits and risks of an investment in the shares and can protect my own interests in this regard, whether by reason of my own business and financial expertise, the business and financial expertise of certain professional advisors unaffiliated with the Company with whom I have consulted, or my preexisting business or personal relationship with the Company or any of its officers, directors or controlling persons.

4. *I am Informed About the Company*. I am sufficiently aware of the Company's business affairs and financial condition to reach an informed and knowledgeable decision to acquire the shares. I have had opportunity to discuss the plans, operations and financial condition of the Company with its officers, directors or controlling persons, and have received all information I deem appropriate for assessing the risk of an investment in the shares.

5. *I Recognize My Economic Risk*. I realize that the purchase of the shares involves a high degree of risk, and that the Company's future prospects are uncertain. I am able to hold the shares indefinitely if required, and am able to bear the loss of my entire investment in the shares.

6. *I Know the Shares are Restricted Securities*. I understand that the shares are "restricted securities" in that the Company's sale of the shares to me has not been registered under the Securities Act in reliance upon an exemption for non-public offerings. In this regard, I also understand and agree that:

(a) I must hold the shares indefinitely, unless any subsequent proposed resale by me is registered under the Securities Act, or unless an exemption from registration is otherwise available (such as Rule 144);

(b) the Company is under no obligation to register any subsequent proposed resale of the shares by me; and

(c) the certificate evidencing the shares will be imprinted with a legend which prohibits the transfer of the shares unless such transfer is registered or such registration is not required in the opinion of counsel for the Company.

7. *I am Familiar With Rule 144*. I am familiar with Rule 144 adopted under the Securities Act, which in some circumstances permits limited public resales of "restricted securities" like the shares acquired from an issuer in a non-public offering. I understand that my ability to sell the shares under Rule 144 in the future is uncertain, and will depend upon, among other things: (i) the availability of certain current public information about the Company; (ii) the resale occurring more than one year after my purchase and full payment (within the meaning of Rule 144) for the shares; and (iii) if I am an affiliate of the Company, or a non-affiliate who has held the shares less than two years after my purchase and full payment: (A) the sale being made through a broker in an unsolicited "broker's transaction" or in transactions directly with a market maker, as said term is defined under the Securities Exchange Act of 1934, as amended, (B) the amount of shares being sold during any three month period not exceeding the specified limitations stated in Rule 144, and (C) timely filing of a notice of proposed sale on Form 144, if applicable.

8. *I Know Rule 144 May Never be Available*. I understand that the requirements of Rule 144 may never be met, and that the shares may never be saleable. I further understand that at the time I wish to sell the shares, there may be no public market for the Company's stock upon which to make such a sale, or the current public information requirements of Rule 144 may not be satisfied, either of which would preclude me from selling the shares under Rule 144 even if the one-year minimum holding period had been satisfied.

9. *I Know I am Subject to Further Restrictions on Resale*. I understand that in the event Rule 144 is not available to me, any future proposed sale of any of the shares by me will not be possible without prior registration under the Securities Act, compliance with some other registration exemption (which may or may not be available), or each of the following: (i) my written notice to

the Company containing detailed information regarding the proposed sale, (ii) my providing an opinion of my counsel to the effect that such sale will not require registration, and (iii) the Company notifying me in writing that its counsel concurs in such opinion. I understand that neither the Company nor its counsel is obligated to provide me with any such opinion. I understand that although Rule 144 is not exclusive, the Staff of the SEC has stated that persons proposing to sell private placement securities other than in a registered offering or pursuant to Rule 144 will have a substantial burden of proof in establishing that an exemption from registration is available for such offers or sales, and that such persons and their respective brokers who participate in such transactions do so at their own risk.

10. *I Know I May Have Tax Liability Due to the Uncertain Value of the Shares*. I understand that the Board of Directors believes its valuation of the shares represents a fair appraisal of their worth, but that it remains possible that, with the benefit of hindsight, the Internal Revenue Service may successfully assert that the value of the shares on the date of my purchase is substantially greater than the Board's appraisal. I understand that any additional value ascribed to the shares by such an IRS determination will constitute ordinary income to me as of the purchase date, and that any additional taxes and interest due as a result will be my sole responsibility payable only by me, and that the Company need not and will not reimburse me for that tax liability. I understand that if such additional value represents more than 25% of my gross income for the year in which the value of the shares is taxable, the IRS will have 6 years from the due date for filing the return (or the actual filing date of the return if filed thereafter) within which to assess me the additional tax and interest due.

11. *Residence*. The address of my principal residence is set forth on the signature page below.

By signing below, I acknowledge my agreement with each of the statements contained in this Investment Representation Statement as of the date first set forth above, and my intent for the Company to rely on such statements in issuing the shares to me.

_____

Name:

Address of Purchaser's Principal Residence:

_____

_____

IF YOU WISH TO MAKE A SECTION 83(B) ELECTION, THE FILING OF SUCH ELECTION IS YOUR RESPONSIBILITY.

THE FORM FOR MAKING THIS SECTION 83(B) ELECTION IS ATTACHED TO THIS AGREEMENT AS EXHIBIT D.

YOU MUST FILE THIS FORM WITHIN 30 DAYS OF PURCHASING THE SHARES.

YOU (AND NOT THE COMPANY OR ANY OF ITS AGENTS) SHALL BE SOLELY RESPONSIBLE FOR FILING SUCH FORM WITH THE IRS, EVEN IF YOU REQUEST THE COMPANY OR ITS AGENTS TO MAKE THIS FILING ON YOUR BEHALF AND EVEN IF THE COMPANY OR ITS AGENTS HAVE PREVIOUSLY MADE THIS FILING ON YOUR BEHALF.

The election should be filed by mailing a signed election form by certified mail, return receipt requested to the IRS Service Center where you file your tax returns. See www.irs.gov.

EXHIBIT D

ELECTION UNDER SECTION 83(b) OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED

The undersigned taxpayer hereby elects, pursuant to Section 83(b) of the Internal Revenue Code of 1986, as amended, to include in his or her gross income for the current taxable year, the amount of any compensation taxable to him or her in connection with his or her receipt of the property described below:

1. The name, address, taxpayer identification number and taxable year of the undersigned are as follows:

NAME OF TAXPAYER: SPOUSE: _____

TAXPAYER'S ADDRESS: _____

_____

TAXPAYER ID #: _____ SPOUSE'S ID #: _____

2. The property with respect to which the election is made is described as follows: shares (the "Shares") of the Common Stock of Pacific Biosciences of California, Inc. (the "Company").

3. The date on which the property was transferred is: _____ ____, 20____.

4. The property is subject to the following restrictions: The Shares may be repurchased by the Company, or its assignee, upon the occurrence of certain events. This right lapses with regard to a portion of the Shares over time.

5. The fair market value at the time of transfer, determined without regard to any restriction other than a restriction which by its terms will never lapse, of such property is: $_____.

6. The amount, if any, paid for such property: $_____.

The undersigned has submitted a copy of this statement to the person for whom the services were performed in connection with the undersigned's receipt of the above-described property. The transferee of such property is the person performing the services in connection with the transfer of said property.

The undersigned understand(s) that the foregoing election may not be revoked except with the consent of the Commissioner.

Dated: _____.

_____

Print Name: _____ , Taxpayer

The undersigned spouse of taxpayer joins in this election.

Dated: _____.

_____

Spouse of Taxpayer

Exhibit 10.3

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.

2005 STOCK PLAN

As amended through August 12, 2010

1. Purposes of the Plan. The purposes of this Plan are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to Employees, Directors and Consultants and to promote the success of the Company's business. Options granted under the Plan may be Incentive Stock Options or Nonstatutory Stock Options, as determined by the Administrator at the time of grant. Stock Purchase Rights may also be granted under the Plan.

2. Definitions. As used herein, the following definitions shall apply:

(a) "Administrator" means the Board or any of its Committees as shall be administering the Plan in accordance with Section 4 hereof.

(b) "Applicable Laws" means the requirements relating to the administration of stock option plans under U.S. state corporate laws, U.S. federal and state securities laws, the Code, any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any other country or jurisdiction where Options or Stock Purchase Rights are granted under the Plan.

(c) "Board" means the Board of Directors of the Company.

(d) "Change in Control" means the occurrence of any of the following events:

(i) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becomes the "beneficial owner" (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company's then outstanding voting securities, except that any change in the beneficial ownership of the securities of the Company as a result of a private financing of the Company that is approved by the Board, shall not be deemed to be a Change in Control; or

(ii) The consummation of the sale or disposition by the Company of all or substantially all of the Company's assets; or

(iii) The consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation.

(e) "Code" means the Internal Revenue Code of 1986, as amended. Any reference to a section of the Code herein will be a reference to any successor or amended section of the Code.

(f) "Committee" means a committee of Directors or of other individuals satisfying Applicable Laws appointed by the Board in accordance with Section 4 hereof.

(g) "Common Stock" means the newly created Common Stock of the Company pursuant to the Company's Amended and Restated Certificate of Incorporation filed August 11, 2005.

(h) "Company" means Pacific Biosciences of California, Inc., a Delaware corporation.

(i) "Consultant" means any person who is engaged by the Company or any Parent or Subsidiary to render consulting or advisory services to such entity.

(j) "Director" means a member of the Board.

(k) "Disability" means total and permanent disability as defined in Section 22(e)(3) of the Code.

(l) "Employee" means any person, including officers and Directors, employed by the Company or any Parent or Subsidiary of the Company. Neither service as a Director nor payment of a director's fee by the Company shall be sufficient to constitute "employment" by the Company.

(m) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(n) "Exchange Program" means a program under which (i) outstanding Options and/or Stock Purchase Rights are surrendered or cancelled in exchange for awards of the same type (which may have higher or lower exercise prices and different terms), awards of a different type, and/or cash, (ii) Optionees would have the opportunity to transfer any outstanding Options and Stock Purchase Rights to a financial institution or other person or entity selected by the Administrator, and/or (iii) the exercise price of an outstanding award is increased or reduced. The Administrator will determine the terms and conditions of any Option Exchange Program in its sole discretion.

(o) "Fair Market Value" means, as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the Nasdaq National Market or The Nasdaq SmallCap Market of The Nasdaq Stock Market, its Fair Market Value shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system on the day of determination, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable;

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, its Fair Market Value shall be the mean between the high bid and low asked prices for the Common Stock on the day of determination; or

(iii) In the absence of an established market for the Common Stock, the Fair Market Value thereof shall be determined in good faith by the Administrator.

(p) "Incentive Stock Option" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code.

(q) "Nonstatutory Stock Option" means an Option not intended to qualify as an Incentive Stock Option.

(r) "Option" means a stock option granted pursuant to the Plan.

(s) "Option Agreement" means a written or electronic agreement between the Company and an Optionee evidencing the terms and conditions of an individual Option grant. The Option Agreement is subject to the terms and conditions of the Plan.

(t) "Optioned Stock" means the Common Stock subject to an Option or a Stock Purchase Right.

(u) "Optionee" means the holder of an outstanding Option or Stock Purchase Right granted under the Plan.

(v) "Parent" means a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.

(w) "Plan" means this 2005 Stock Plan.

(x) "Restricted Stock" means Shares issued pursuant to a Stock Purchase Right or Shares of restricted stock issued pursuant to an Option.

(y) "Restricted Stock Purchase Agreement" means a written or electronic agreement between the Company and the Optionee evidencing the terms and restrictions applying to Shares purchased under a Stock Purchase Right. The Restricted Stock Purchase Agreement is subject to the terms and conditions of the Plan and the notice of grant.

(z) "Securities Act" means the Securities Act of 1933, as amended.

(aa) "Service Provider" means an Employee, Director or Consultant.

(bb) "Share" means a share of the Common Stock, as adjusted in accordance with Section 13 below.

(cc) "Stock Purchase Right" means a right to purchase Common Stock pursuant to Section 11 below.

(dd) "Subsidiary" means a "subsidiary corporation," whether now or hereafter existing, as defined in Section 424(f) of the Code.

3. Stock Subject to the Plan. Subject to the provisions of Section 13 of the Plan, the maximum aggregate number of Shares that may be subject to Options or Stock Purchase Rights and sold under the Plan is 1,533,496 Shares. The Shares may be authorized but unissued, or reacquired Common Stock.

If an Option or Stock Purchase Right expires or becomes unexercisable without having been exercised in full, or is surrendered pursuant to an Exchange Program, the unpurchased Shares that were subject thereto shall become available for future grant or sale under the Plan (unless the Plan has terminated). However, Shares that have actually been issued under the Plan, upon exercise of either an Option or Stock Purchase Right, shall not be returned to the Plan and shall not become available for future distribution under the Plan, except that if unvested Shares of Restricted Stock are repurchased by the Company at their original purchase price, such Shares shall become available for future grant under the Plan.

4. Administration of the Plan.

(a) Administrator. The Plan shall be administered by the Board or a Committee appointed by the Board, which Committee shall be constituted to comply with Applicable Laws.

(b) Powers of the Administrator. Subject to the provisions of the Plan and, in the case of a Committee, the specific duties delegated by the Board to such Committee, and subject to the approval of any relevant authorities, the Administrator shall have the authority in its discretion:

(i) to determine the Fair Market Value;

(ii) to select the Service Providers to whom Options and Stock Purchase Rights may from time to time be granted hereunder;

(iii) to determine the number of Shares to be covered by each such award granted hereunder;

(iv) to approve forms of agreement for use under the Plan;

(v) to determine the terms and conditions of any Option or Stock Purchase Right granted hereunder. Such terms and conditions include, but are not limited to, the exercise price, the time or times when Options or Stock Purchase Rights may be exercised (which may be based on performance criteria), any vesting acceleration or waiver of forfeiture restrictions, and any restriction or limitation regarding any Option or Stock Purchase Right or the Common Stock relating thereto, based in each case on such factors as the Administrator, in its sole discretion, shall determine;

(vi) to institute an Exchange Program;

(vii) to prescribe, amend and rescind rules and regulations relating to the Plan, including rules and regulations relating to sub-plans established for the purpose of satisfying applicable foreign laws;

(viii) to allow Optionees to satisfy withholding tax obligations by electing to have the Company withhold from the Shares to be issued upon exercise of an Option or Stock Purchase Right that number of Shares having a Fair Market Value equal to the minimum amount

required to be withheld. The Fair Market Value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined. All elections by Optionees to have Shares withheld for this purpose shall be made in such form and under such conditions as the Administrator may deem necessary or advisable; and

(ix) to construe and interpret the terms of the Plan and Options granted pursuant to the Plan.

(c) Effect of Administrator's Decision. All decisions, determinations and interpretations of the Administrator shall be final and binding on all Optionees.

5. Eligibility. Nonstatutory Stock Options and Stock Purchase Rights may be granted to Service Providers. Incentive Stock Options may be granted only to Employees.

6. Limitations.

(a) Incentive Stock Option Limit. Each Option shall be designated in the Option Agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designation, to the extent that the aggregate Fair Market Value of the Shares with respect to which Incentive Stock Options are exercisable for the first time by the Optionee during any calendar year (under all plans of the Company and any Parent or Subsidiary) exceeds $100,000, such Options shall be treated as Nonstatutory Stock Options. For purposes of this Section 6(a), Incentive Stock Options shall be taken into account in the order in which they were granted. The Fair Market Value of the Shares shall be determined as of the time the Option with respect to such Shares is granted.

(b) At-Will Employment. Neither the Plan nor any Option or Stock Purchase Right shall confer upon any Optionee any right with respect to continuing the Optionee's relationship as a Service Provider with the Company, nor shall it interfere in any way with his or her right or the Company's right to terminate such relationship at any time, with or without cause, and with or without notice.

7. Term of Plan. Subject to stockholder approval in accordance with Section 19, the Plan shall become effective upon its adoption by the Board. Unless sooner terminated under Section 15, it shall continue in effect for a term of ten (10) years from the later of (i) the effective date of the Plan, or (ii) the earlier of the most recent Board or stockholder approval of an increase in the number of Shares reserved for issuance under the Plan.

8. Term of Option. The term of each Option shall be stated in the Option Agreement; provided, however, that the term shall be no more than ten (10) years from the date of grant thereof. In the case of an Incentive Stock Option granted to an Optionee who, at the time the Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Option shall be five (5) years from the date of grant or such shorter term as may be provided in the Option Agreement.

9. Option Exercise Price and Consideration.

(a) Exercise Price. The per share exercise price for the Shares to be issued upon exercise of an Option shall be such price as is determined by the Administrator, but shall be subject to the following:

(i) In the case of an Incentive Stock Option

(A) granted to an Employee who, at the time of grant of such Option, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the exercise price shall be no less than 110% of the Fair Market Value per Share on the date of grant.

(B) granted to any other Employee, the per Share exercise price shall be no less than 100% of the Fair Market Value per Share on the date of grant.

(ii) In the case of a Nonstatutory Stock Option

(A) granted to a Service Provider who, at the time of grant of such Option, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the exercise price shall be no less than 110% of the Fair Market Value per Share on the date of grant.

(B) granted to any other Service Provider, the per Share exercise price shall be no less than 85% of the Fair Market Value per Share on the date of grant.

(iii) Notwithstanding the foregoing, Options may be granted with a per Share exercise price other than as required above in accordance with and pursuant to a transaction described in Section 424 of the Code.

(b) Forms of Consideration. The consideration to be paid for the Shares to be issued upon exercise of an Option, including the method of payment, shall be determined by the Administrator (and, in the case of an Incentive Stock Option, shall be determined at the time of grant). Such consideration may consist of, without limitation, (1) cash, (2) check, (3) promissory note, (4) other Shares (x) which meet the conditions established by the Administrator to avoid adverse accounting consequences (as determined by the Administrator), and (y) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which such Option shall be exercised, (5) consideration received by the Company under a cashless exercise program implemented by the Company in connection with the Plan, or (6) any combination of the foregoing methods of payment. In making its determination as to the type of consideration to accept, the Administrator shall consider if acceptance of such consideration may be reasonably expected to benefit the Company.

10. Exercise of Option.

(a) Procedure for Exercise; Rights as a Stockholder. Any Option granted hereunder shall be exercisable according to the terms hereof at such times and under such conditions as determined by the Administrator and set forth in the Option Agreement. An Option may not be exercised for a fraction of a Share. Except in the case of Options granted to officers, Directors and Consultants, Options shall become exercisable at a rate of no less than 20% per year over five (5) years from the date the Options are granted.

An Option shall be deemed exercised when the Company receives (i) written or electronic notice of exercise (in accordance with the Option Agreement) from the person entitled to exercise the Option, and (ii) full payment for the Shares with respect to which the Option is exercised. Full payment may consist of any consideration and method of payment authorized by the Administrator and permitted by the Option Agreement and the Plan. Shares issued upon exercise of an Option shall be issued in the name of the Optionee or, if requested by the Optionee, in the name of the Optionee and his or her spouse. Until the Shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to the Shares, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such Shares promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 13 of the Plan.

Exercise of an Option in any manner shall result in a decrease in the number of Shares thereafter available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(b) Termination of Relationship as a Service Provider. If an Optionee ceases to be a Service Provider, such Optionee may exercise his or her Option within thirty (30) days of termination, or such longer period of time as specified in the Option Agreement, to the extent that the Option is vested on the date of termination (but in no event later than the expiration of the term of the Option as set forth in the Option Agreement). Unless the Administrator provides otherwise, if on the date of termination the Optionee is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option shall revert to the Plan. If, after termination, the Optionee does not exercise his or her Option within the time specified by the Administrator, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(c) Disability of Optionee. If an Optionee ceases to be a Service Provider as a result of the Optionee's Disability, the Optionee may exercise his or her Option within six (6) months of termination, or such longer period of time as specified in the Option Agreement, to the extent the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Option Agreement). Unless the Administrator provides otherwise, if on the date of termination the Optionee is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option shall revert to the Plan. If, after termination, the Optionee does not exercise his or her Option within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(d) Death of Optionee. If an Optionee dies while a Service Provider, the Option may be exercised within six (6) months following Optionee's death, or such longer period of time as specified in the Option Agreement, to the extent that the Option is vested on the date of death (but in no event later than the expiration of the term of such Option as set forth in the Option Agreement) by the Optionee's designated beneficiary, provided such beneficiary has been designated prior to Optionee's death in a form acceptable to the Administrator. If no such beneficiary has been designated by the Optionee, then such Option may be exercised by the personal representative of the Optionee's estate or by the person(s) to whom the Option is transferred pursuant to the Optionee's will or in accordance with the laws of descent and distribution. If, at the time of death, the Optionee is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option shall immediately revert to the Plan. If the Option is not so exercised within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(e) Leaves of Absence.

(i) Unless the Administrator provides otherwise, vesting of Options granted hereunder to officers and Directors shall be suspended during any unpaid leave of absence.

(ii) A Service Provider shall not cease to be an Employee in the case of (A) any leave of absence approved by the Company or (B) transfers between locations of the Company or between the Company, its Parent, any Subsidiary, or any successor.

(iii) For purposes of Incentive Stock Options, no such leave may exceed ninety (90) days, unless reemployment upon expiration of such leave is guaranteed by statute or contract. If reemployment upon expiration of a leave of absence approved by the Company is not so guaranteed, then three (3) months following the 91st day of such leave, any Incentive Stock Option held by the Optionee shall cease to be treated as an Incentive Stock Option and shall be treated for tax purposes as a Nonstatutory Stock Option.

11. Stock Purchase Rights.

(a) Rights to Purchase. Stock Purchase Rights may be issued either alone, in addition to, or in tandem with other awards granted under the Plan and/or cash awards made outside of the Plan. After the Administrator determines that it will offer Stock Purchase Rights under the Plan, it shall advise the offeree in writing or electronically of the terms, conditions and restrictions related to the offer, including the number of Shares that such person shall be entitled to purchase, the price to be paid, and the time within which such person must accept such offer. The terms of the offer shall comply in all respects with Section 260.140.42 of Title 10 of the California Code of Regulations. The offer shall be accepted by execution of a Restricted Stock Purchase Agreement in the form determined by the Administrator.

(b) Repurchase Option. Unless the Administrator determines otherwise, the Restricted Stock Purchase Agreement shall grant the Company a repurchase option exercisable within 90 days of the voluntary or involuntary termination of the purchaser's service with the Company for any reason (including death or disability). Unless the Administrator provides otherwise, the purchase price for Shares repurchased pursuant to the Restricted Stock Purchase Agreement shall be the original price paid by the purchaser and may be paid by cancellation of any

indebtedness of the purchaser to the Company. The repurchase option shall lapse at such rate as the Administrator may determine. Except with respect to Shares purchased by officers, Directors and Consultants, the repurchase option shall in no case lapse at a rate of less than 20% per year over five (5) years from the date of purchase.

(c) Other Provisions. The Restricted Stock Purchase Agreement shall contain such other terms, provisions and conditions not inconsistent with the Plan as may be determined by the Administrator in its sole discretion.

(d) Rights as a Stockholder. Once the Stock Purchase Right is exercised, the purchaser shall have rights equivalent to those of a stockholder and shall be a stockholder when his or her purchase is entered upon the records of the duly authorized transfer agent of the Company. No adjustment shall be made for a dividend or other right for which the record date is prior to the date the Stock Purchase Right is exercised, except as provided in Section 13 of the Plan.

12. Limited Transferability of Options and Stock Purchase Rights. Unless determined otherwise by the Administrator, Options and Stock Purchase Rights may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or the laws of descent and distribution, and may be exercised during the lifetime of the Optionee, only by the Optionee. If the Administrator in its sole discretion makes an Option or Stock Purchase Right transferable, such Option or Stock Purchase Right may only be transferred (i) by will, (ii) by the laws of descent and distribution, or (iii) to family members (within the meaning of Rule 701 of the Securities Act) through gifts or domestic relations orders, as permitted by Rule 701 of the Securities Act.

13. Adjustments; Dissolution or Liquidation; Merger or Change in Control.

(a) Adjustments. In the event that any dividend or other distribution (whether in the form of cash, Shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Shares or other securities of the Company, or other change in the corporate structure of the Company affecting the Shares occurs, the Administrator, in order to prevent diminution or enlargement of the benefits or potential benefits intended to be made available under the Plan, shall adjust the number and class of Shares that may be delivered under the Plan and/or the number, class, and price of Shares covered by each outstanding Option or Stock Purchase Right.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Administrator shall notify each Optionee as soon as practicable prior to the effective date of such proposed transaction. To the extent it has not been previously exercised, an Option or Stock Purchase Right will terminate immediately prior to the consummation of such proposed action.

(c) Merger or Change in Control. In the event of a merger of the Company with or into another corporation, or a Change in Control, each outstanding Option and Stock Purchase Right shall be assumed or an equivalent option substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. In the event that the successor corporation in a merger or Change in Control refuses to assume or substitute for the Option or Stock Purchase Right, then the

Optionee shall fully vest in and have the right to exercise the Option or Stock Purchase Right as to all of the Optioned Stock, including Shares as to which it would not otherwise be vested or exercisable. If an Option or Stock Purchase Right becomes fully vested and exercisable in lieu of assumption or substitution in the event of a merger or Change in Control, the Administrator shall notify the Optionee in writing or electronically that the Option or Stock Purchase Right shall be fully exercisable for a period of time as determined by the Administrator, and all Option or Stock Purchase Right not assumed or substituted for shall terminate upon expiration of such period. For the purposes of this paragraph, the Option or Stock Purchase Right shall be considered assumed if, following the merger or Change in Control, the option or right confers the right to purchase or receive, for each Share subject to the Option or Stock Purchase Right immediately prior to the merger or Change in Control, the consideration (whether stock, cash, or other securities or property) received in the merger or Change in Control by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the merger or Change in Control is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of the Option or Stock Purchase Right, for each Share subject to the Option or Stock Purchase Right, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of common stock in the merger or Change in Control.

14. Time of Granting Options and Stock Purchase Rights. The date of grant of an Option or Stock Purchase Right shall, for all purposes, be the date on which the Administrator makes the determination granting such Option or Stock Purchase Right, or such later date as is determined by the Administrator. Notice of the determination shall be given to each Service Provider to whom an Option or Stock Purchase Right is so granted within a reasonable time after the date of such grant.

15. Amendment and Termination of the Plan.

(a) Amendment and Termination. The Board may at any time amend, alter, suspend or terminate the Plan.

(b) Stockholder Approval. The Board shall obtain stockholder approval of any Plan amendment to the extent necessary and desirable to comply with Applicable Laws.

(c) Effect of Amendment or Termination. No amendment, alteration, suspension or termination of the Plan shall impair the rights of any Optionee, unless mutually agreed otherwise between the Optionee and the Administrator, which agreement must be in writing and signed by the Optionee and the Company. Termination of the Plan shall not affect the Administrator's ability to exercise the powers granted to it hereunder with respect to Options granted under the Plan prior to the date of such termination.

16. Conditions Upon Issuance of Shares.

(a) Legal Compliance. Shares shall not be issued pursuant to the exercise of an Option or Stock Purchase Right unless the exercise of such Option or Stock Purchase Right and the issuance and delivery of such Shares shall comply with Applicable Laws and shall be further subject to the approval of counsel for the Company with respect to such compliance.

(b) Investment Representations. As a condition to the exercise of an Option or Stock Purchase Right, the Administrator may require the person exercising such Option or Stock Purchase Right to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required.

17. Inability to Obtain Authority. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

18. Reservation of Shares. The Company, during the term of this Plan, shall at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

19. Stockholder Approval. The Plan shall be subject to approval by the stockholders of the Company within twelve (12) months after the date the Plan is adopted. Such stockholder approval shall be obtained in the degree and manner required under Applicable Laws.

20. Information to Optionees. The Company shall provide to each Optionee and to each individual who acquires Shares pursuant to the Plan, not less frequently than annually during the period such Optionee has one or more Options or Stock Purchase Rights outstanding, and, in the case of an individual who acquires Shares pursuant to the Plan, during the period such individual owns such Shares, copies of annual financial statements. The Company shall not be required to provide such statements to key employees whose duties in connection with the Company assure their access to equivalent information.

NOTICE OF EXERCISE

Pacific Biosciences of California, Inc.

Date of Exercise: _____

Pacific Biosciences of California, Inc.
1380 Willow Road
Menlo Park, CA 94025

Ladies and Gentlemen:

This constitutes notice under my stock option that I elect to purchase the number of shares for the price set forth below.

Type of option (check one):	Incentive ☐	Nonstatutory ☐
Stock option dated:	_____	
Number of shares as to which option is exercised:	_____	
Certificates to be issued in name of:	_____	
Total exercise price:	$ _____	
Tax withholdings on the difference with the exercise price and the Fair Market Value on the date of exercise	$ _____	
Cash payment delivered herewith:	$ _____	

By this exercise, I agree (i) to provide such additional documents as you may require pursuant to the terms of the 2005 Stock Plan, (ii) to provide for the payment by me to you (in the manner designated by you) of your withholding obligation, if any, relating to the exercise of this option, and (iii) if this exercise relates to an incentive stock option, to notify you in writing within fifteen (15) days after the date of any disposition of any of the shares of Common Stock issued upon exercise of this option that occurs within two (2) years after the date of grant of this option or within one (1) year after such shares of Common Stock are issued upon exercise of this option.

I hereby make the following certifications and representations with respect to the number of shares of Common Stock of the Company listed above (the "Shares"), which are being acquired by me for my own account upon exercise of the Option as set forth above:

I acknowledge that the Shares have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), and are deemed to constitute "restricted securities" under Rule 701 and "control securities" under Rule 144 promulgated under the Securities Act. I warrant and represent to the Company that I have no present intention of distributing or selling said Shares, except as permitted under the Securities Act and any applicable state securities laws.

I further acknowledge that I will not be able to resell the Shares for at least ninety days (90) after the stock of the Company becomes publicly traded (*i.e.*, subject to the reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934) under Rule 701 and that more restrictive conditions apply to affiliates of the Company under Rule 144.

I further acknowledge that all certificates representing any of the Shares subject to the provisions of the Option shall have endorsed thereon appropriate legends reflecting the foregoing limitations, as well as any legends reflecting restrictions pursuant to the Company's Articles of Incorporation, Bylaws and/or applicable securities laws.

Very truly yours,

_____

2005 STOCK PLAN

EXERCISE NOTICE

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
1380 Willow Road
Menlo Park, CA 94025

Attention: _____

1. Exercise of Option. Effective as of today, _____, _____, the undersigned ("Optionee") hereby elects to exercise Optionee's option (the "Option") to purchase _____ shares of the Common Stock (the "Shares") of Pacific Biosciences of California, Inc. (the "Company") under and pursuant to the 2005 Stock Plan (the "Plan") and the Stock Option Agreement dated _____, _____ (the "Option Agreement").

2. Delivery of Payment. Optionee herewith delivers to the Company the full purchase price of the Shares, as set forth in the Option Agreement, and any and all withholding taxes due in connection with the exercise of the Option.

3. Representations of Optionee. Optionee acknowledges that Optionee has received, read and understood the Plan and the Option Agreement and agrees to abide by and be bound by their terms and conditions.

4. Rights as Shareholder. Until the issuance of the Shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. The Shares shall be issued to the Optionee as soon as practicable after the Option is exercised in accordance with the Option Agreement. No adjustment shall be made for a dividend or other right for which the record date is prior to the date of issuance except as provided in Section 13 of the Plan.

5. Company's Right of First Refusal. Before any Shares held by Optionee or any transferee (either being sometimes referred to herein as the "Holder") may be sold or otherwise transferred (including transfer by gift or operation of law), the Company or its assignee(s) shall have a right of first refusal to purchase the Shares on the terms and conditions set forth in this Section (the "Right of First Refusal").

(a) Notice of Proposed Transfer. The Holder of the Shares shall deliver to the Company a written notice (the "Notice") stating: (i) the Holder's bona fide intention to sell or otherwise transfer such Shares; (ii) the name of each proposed purchaser or other transferee ("Proposed Transferee"); (iii) the number of Shares to be transferred to each Proposed Transferee; and (iv) the bona fide cash price or other consideration for which the Holder proposes to transfer the Shares (the "Offered Price"), and the Holder shall offer the Shares at the Offered Price to the Company or its assignee(s).

(b) Exercise of Right of First Refusal. At any time within thirty (30) days after receipt of the Notice, the Company and/or its assignee(s) may, by giving written notice to the Holder, elect to purchase all, but not less than all, of the Shares proposed to be transferred to any one or more of the Proposed Transferees, at the purchase price determined in accordance with subsection (c) below.

(c) Purchase Price. The purchase price ("Purchase Price") for the Shares purchased by the Company or its assignee(s) under this Section shall be the Offered Price. If the Offered Price includes consideration other than cash, the cash equivalent value of the non-cash consideration shall be determined by the Board of Directors of the Company in good faith.

(d) Payment. Payment of the Purchase Price shall be made, at the option of the Company or its assignee(s), in cash (by check), by cancellation of all or a portion of any outstanding indebtedness of the Holder to the Company (or, in the case of repurchase by an assignee, to the assignee), or by any combination thereof within 30 days after receipt of the Notice or in the manner and at the times set forth in the Notice.

(e) Holder's Right to Transfer. If all of the Shares proposed in the Notice to be transferred to a given Proposed Transferee are not purchased by the Company and/or its assignee(s) as provided in this Section, then the Holder may sell or otherwise transfer such Shares to that Proposed Transferee at the Offered Price or at a higher price, provided that such sale or other transfer is consummated within 120 days after the date of the Notice, that any such sale or other transfer is effected in accordance with any applicable securities laws and that the Proposed Transferee agrees in writing that the provisions of this Section shall continue to apply to the Shares in the hands of such Proposed Transferee. If the Shares described in the Notice are not transferred to the Proposed Transferee within such period, a new Notice shall be given to the Company, and the Company and/or its assignees shall again be offered the Right of First Refusal before any Shares held by the Holder may be sold or otherwise transferred.

(f) Exception for Certain Family Transfers. Anything to the contrary contained in this Section notwithstanding, the transfer of any or all of the Shares during the Optionee's lifetime or on the Optionee's death by will or intestacy to the Optionee's immediate family or a trust for the benefit of the Optionee's immediate family shall be exempt from the provisions of this Section. "Immediate Family" as used herein shall mean spouse, lineal descendant or antecedent, father, mother, brother or sister. In such case, the transferee or other recipient shall receive and hold the Shares so transferred subject to the provisions of this Section, and there shall be no further transfer of such Shares except in accordance with the terms of this Section.

(g) Termination of Right of First Refusal. The Right of First Refusal shall terminate as to any Shares upon the earlier of (i) first sale of Common Stock of the Company to the general public, or (ii) a Change in Control in which the successor corporation has equity securities that are publicly traded.

6. Tax Consultation. Optionee understands that Optionee may suffer adverse tax consequences as a result of Optionee's purchase or disposition of the Shares. Optionee represents that Optionee has consulted with any tax consultants Optionee deems advisable in connection with the purchase or disposition of the Shares and that Optionee is not relying on the Company for any tax advice.

7. Restrictive Legends and Stop-Transfer Orders.

(a) Legends. Optionee understands and agrees that the Company shall cause the legends set forth below or legends substantially equivalent thereto, to be placed upon any certificate(s) evidencing ownership of the Shares together with any other legends that may be required by the Company or by state or federal securities laws:

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 (THE "ACT") AND MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, PLEDGED OR HYPOTHECATED UNLESS AND UNTIL REGISTERED UNDER THE ACT OR, IN THE OPINION OF COUNSEL SATISFACTORY TO THE ISSUER OF THESE SECURITIES, SUCH OFFER, SALE OR TRANSFER, PLEDGE OR HYPOTHECATION IS IN COMPLIANCE THEREWITH.

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN RESTRICTIONS ON TRANSFER AND A RIGHT OF FIRST REFUSAL HELD BY THE ISSUER OR ITS ASSIGNEE(S) AS SET FORTH IN THE EXERCISE NOTICE BETWEEN THE ISSUER AND THE ORIGINAL HOLDER OF THESE SHARES, A COPY OF WHICH MAY BE OBTAINED AT THE PRINCIPAL OFFICE OF THE ISSUER. SUCH TRANSFER RESTRICTIONS AND RIGHT OF FIRST REFUSAL ARE BINDING ON TRANSFEREES OF THESE SHARES.

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO RESTRICTIONS ON TRANSFER FOR A PERIOD NOT TO EXCEED 180 DAYS FOLLOWING THE EFFECTIVE DATE OF THE UNDERWRITTEN PUBLIC OFFERING OF THE COMPANY'S SECURITIES AND MAY NOT BE SOLD OR OTHERWISE DISPOSED OF BY THE HOLDER WITHOUT THE CONSENT OF THE COMPANY

(b) Stop-Transfer Notices. Optionee agrees that, in order to ensure compliance with the restrictions referred to herein, the Company may issue appropriate "stop transfer" instructions to its transfer agent, if any, and that, if the Company transfers its own securities, it may make appropriate notations to the same effect in its own records.

(c) Refusal to Transfer. The Company shall not be required (i) to transfer on its books any Shares that have been sold or otherwise transferred in violation of any of the provisions of this Exercise Notice or (ii) to treat as owner of such Shares or to accord the right to vote or pay dividends to any purchaser or other transferee to whom such Shares shall have been so transferred.

8. Successors and Assigns. The Company may assign any of its rights under this Exercise Notice to single or multiple assignees, and this Exercise Notice shall inure to the benefit of

the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth, this Exercise Notice shall be binding upon Optionee and his or her heirs, executors, administrators, successors and assigns.

9. Interpretation. Any dispute regarding the interpretation of this Exercise Notice shall be submitted by Optionee or by the Company forthwith to the Administrator, which shall review such dispute at its next regular meeting. The resolution of such a dispute by the Administrator shall be final and binding on all parties.

10. Governing Law; Severability. This Exercise Notice is governed by the internal substantive laws, but not the choice of law rules, of California. In the event that any provision hereof becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable or void, this Exercise Notice will continue in full force and effect.

11. Entire Agreement. The Plan and Option Agreement are incorporated herein by reference. This Exercise Notice, the Plan, the Restricted Stock Purchase Agreement, the Option Agreement and the Investment Representation Statement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Optionee with respect to the subject matter hereof, and may not be modified adversely to the Optionee's interest except by means of a writing signed by the Company and Optionee.

Submitted by: OPTIONEE	Accepted by: PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
_____ Signature	_____ By
_____ Print Name	CEO _____ Its
Address: _____ _____ _____	Address: 1380 Willow Road Menlo Park, CA 94025
	_____ Date Received

INVESTMENT REPRESENTATION STATEMENT

OPTIONEE :

COMPANY : PACIFIC BIOSCIENCES OF CALIFORNIA, INC.

SECURITY : COMMON STOCK

AMOUNT :

DATE :

In connection with the purchase of the above-listed Securities, the undersigned Optionee represents to the Company the following:

(a) Optionee is aware of the Company's business affairs and financial condition and has acquired sufficient information about the Company to reach an informed and knowledgeable decision to acquire the Securities. Optionee is acquiring these Securities for investment for Optionee's own account only and not with a view to, or for resale in connection with, any "distribution" thereof within the meaning of the Securities Act of 1933, as amended (the "Securities Act").

(b) Optionee acknowledges and understands that the Securities constitute "restricted securities" under the Securities Act and have not been registered under the Securities Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of Optionee's investment intent as expressed herein. In this connection, Optionee understands that, in the view of the Securities and Exchange Commission, the statutory basis for such exemption may be unavailable if Optionee's representation was predicated solely upon a present intention to hold these Securities for the minimum capital gains period specified under tax statutes, for a deferred sale, for or until an increase or decrease in the market price of the Securities, or for a period of one year or any other fixed period in the future. Optionee further understands that the Securities must be held indefinitely unless they are subsequently registered under the Securities Act or an exemption from such registration is available. Optionee further acknowledges and understands that the Company is under no obligation to register the Securities. Optionee understands that the certificate evidencing the Securities will be imprinted with any legend required under applicable state securities laws.

(c) Optionee is familiar with the provisions of Rule 701 and Rule 144, each promulgated under the Securities Act, which, in substance, permit limited public resale of "restricted securities" acquired, directly or indirectly from the issuer thereof, in a non-public offering subject to the satisfaction of certain conditions. Rule 701 provides that if the issuer qualifies under Rule 701 at the time of the grant of the Option to the Optionee, the exercise will be exempt from registration under the Securities Act. In the event the Company becomes subject to the reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, ninety (90) days thereafter (or such longer period as any market stand-off agreement may require) the Securities exempt under Rule 701 may be resold, subject to the satisfaction of certain of the conditions specified by Rule 144,

including: (1) the resale being made through a broker in an unsolicited "broker's transaction" or in transactions directly with a market maker (as said term is defined under the Securities Exchange Act of 1934); and, in the case of an affiliate, (2) the availability of certain public information about the Company, (3) the amount of Securities being sold during any three month period not exceeding the limitations specified in Rule 144(e), and (4) the timely filing of a Form 144, if applicable.

In the event that the Company does not qualify under Rule 701 at the time of grant of the Option, then the Securities may be resold in certain limited circumstances subject to the provisions of Rule 144, which requires the resale to occur not less than one year after the later of the date the Securities were sold by the Company or the date the Securities were sold by an affiliate of the Company, within the meaning of Rule 144; and, in the case of acquisition of the Securities by an affiliate, or by a non-affiliate who subsequently holds the Securities less than two years, the satisfaction of the conditions set forth in sections (1), (2), (3) and (4) of the paragraph immediately above.

(d) Optionee further understands that in the event all of the applicable requirements of Rule 701 or 144 are not satisfied, registration under the Securities Act, compliance with Regulation A, or some other registration exemption will be required; and that, notwithstanding the fact that Rules 144 and 701 are not exclusive, the Staff of the Securities and Exchange Commission has expressed its opinion that persons proposing to sell private placement securities other than in a registered offering and otherwise than pursuant to Rules 144 or 701 will have a substantial burden of proof in establishing that an exemption from registration is available for such offers or sales, and that such persons and their respective brokers who participate in such transactions do so at their own risk. Optionee understands that no assurances can be given that any such other registration exemption will be available in such event.

Signature of Optionee:

_____

Date: _____

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.

2005 STOCK PLAN

RESTRICTED STOCK PURCHASE AGREEMENT

THIS AGREEMENT is made between _____ (the "Purchaser") and Pacific Biosciences of California, Inc. (the "Company") or its assignees of rights hereunder as of _____, _____.

Unless otherwise defined herein, the terms defined in the 2005 Stock Plan shall have the same defined meanings in this Agreement.

RECITALS

A. Pursuant to the exercise of the option (grant number _____) granted to Purchaser under the Plan and pursuant to the Option Agreement dated _____, _____ by and between the Company and Purchaser with respect to such grant (the "Option"), which Plan and Option Agreement are hereby incorporated by reference, Purchaser has elected to purchase _____ of those shares of Common Stock which have not become vested under the vesting schedule set forth in the Option Agreement ("Unvested Shares"). The Unvested Shares and the shares subject to the Option Agreement, which have become vested are sometimes collectively referred to herein as the "Shares."

B. As required by the Option Agreement, as a condition to Purchaser's election to exercise the option, Purchaser must execute this Agreement, which sets forth the rights and obligations of the parties with respect to Shares acquired upon exercise of the Option.

1. Repurchase Option.

(a) If Purchaser's status as a Service Provider is terminated for any reason, including for death and Disability, the Company shall have the right and option for ninety (90) days from such date to purchase from Purchaser, or Purchaser's personal representative, as the case may be, all of the Purchaser's Unvested Shares as of the date of such termination at the price paid by the Purchaser for such Shares (the "Repurchase Option").

(b) Upon the occurrence of such termination, the Company may exercise its Repurchase Option by delivering personally or by registered mail, to Purchaser (or his transferee or legal representative, as the case may be) with a copy to the escrow agent described in Section 2 below, a notice in writing indicating the Company's intention to exercise the Repurchase Option AND, at the Company's option, (i) by delivering to the Purchaser (or the Purchaser's transferee or legal representative) a check in the amount of the aggregate repurchase price, or (ii) by the Company canceling an amount of the Purchaser's indebtedness to the Company equal to the aggregate repurchase price, or (iii) by a combination of (i) and (ii) so that the combined payment and cancellation of indebtedness equals such aggregate repurchase price. Upon delivery of such notice and payment of the aggregate repurchase price in any of the ways described above, the Company

shall become the legal and beneficial owner of the Unvested Shares being repurchased and the rights and interests therein or relating thereto, and the Company shall have the right to retain and transfer to its own name the number of Unvested Shares being repurchased by the Company.

(c) Whenever the Company shall have the right to repurchase Unvested Shares hereunder, the Company may designate and assign one or more employees, officers, directors or shareholders of the Company or other persons or organizations to exercise all or a part of the Company's Repurchase Option under this Agreement and purchase all or a part of such Unvested Shares.

(d) If the Company does not elect to exercise the Repurchase Option conferred above by giving the requisite notice within ninety (90) days following the termination, the Repurchase Option shall terminate.

(e) The Repurchase Option shall terminate in accordance with the vesting schedule contained in Purchaser's Option Agreement.

2. Transferability of the Shares; Escrow.

(a) Purchaser hereby authorizes and directs the Secretary of the Company, or such other person designated by the Company, to transfer the Unvested Shares as to which the Repurchase Option has been exercised from Purchaser to the Company.

(b) To insure the availability for delivery of Purchaser's Unvested Shares upon repurchase by the Company pursuant to the Repurchase Option under Section 1, Purchaser hereby appoints the Secretary, or any other person designated by the Company as escrow agent (the "Escrow Agent"), as its attorney-in-fact to sell, assign and transfer unto the Company, such Unvested Shares, if any, repurchased by the Company pursuant to the Repurchase Option and shall, upon execution of this Agreement, deliver and deposit with the Escrow Agent, the share certificates representing the Unvested Shares, together with the stock assignment duly endorsed in blank, attached hereto as Exhibit C-2. The Unvested Shares and stock assignment shall be held by the Escrow Agent in escrow, pursuant to the Joint Escrow Instructions of the Company and Purchaser attached as Exhibit C-3 hereto, until the Company exercises its Repurchase Option, until such Unvested Shares are vested, or until such time as this Agreement no longer is in effect. Upon vesting of the Unvested Shares, the Escrow Agent shall promptly deliver to the Purchaser the certificate or certificates representing such Shares in the Escrow Agent's possession belonging to the Purchaser, and the Escrow Agent shall be discharged of all further obligations hereunder; provided, however, that the Escrow Agent shall nevertheless retain such certificate or certificates as Escrow Agent if so required pursuant to other restrictions imposed pursuant to this Agreement.

(c) The Company nor the Escrow Agent shall be liable for any act it may do or omit to do with respect to holding the Shares in escrow and while acting in good faith and in the exercise of its judgment.

(d) Transfer or sale of the Shares is subject to restrictions on transfer imposed by any applicable state and federal securities laws. Any transferee shall hold such Shares subject to all the provisions hereof and the Exercise Notice executed by the Purchaser with respect to any Unvested Shares purchased by Purchaser and shall acknowledge the same by signing a copy of this Agreement.

3. Ownership, Voting Rights, Duties. This Agreement shall not affect in any way the ownership, voting rights or other rights or duties of Purchaser, except as specifically provided herein.

4. Legends. The share certificate evidencing the Shares issued hereunder shall be endorsed with the following legend (in addition to any legend required under applicable federal and state securities laws):

> THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN RESTRICTIONS UPON TRANSFER AND RIGHTS OF REPURCHASE AS SET FORTH IN AN AGREEMENT BETWEEN THE COMPANY AND THE STOCKHOLDER, A COPY OF WHICH IS ON FILE WITH THE SECRETARY OF THE COMPANY.

5. Adjustment for Stock Split. All references to the number of Shares and the purchase price of the Shares in this Agreement shall be appropriately adjusted to reflect any stock split, stock dividend or other change in the Shares, which may be made by the Company pursuant to Section 13 of the Plan after the date of this Agreement.

6. Notices. Notices required hereunder shall be given in person or by registered mail to the address of Purchaser shown on the records of the Company, and to the Company at their respective principal executive offices.

7. Survival of Terms. This Agreement shall apply to and bind Purchaser and the Company and their respective permitted assignees and transferees, heirs, legatees, executors, administrators and legal successors.

8. Section 83(b) Election. Purchaser hereby acknowledges that he or she has been informed that, with respect to the exercise of an Option for Unvested Shares, an election (the "Election") may be filed by the Purchaser with the Internal Revenue Service, within thirty (30) days of the purchase of the exercised Shares, electing pursuant to Section 83(b) of the Code to be taxed currently on any difference between the purchase price of the exercised Shares and their Fair Market Value on the date of purchase. In the case of a Nonstatutory Stock Option, this will result in a recognition of taxable income to the Purchaser on the date of exercise, measured by the excess, if any, of the Fair Market Value of the exercised Shares, at the time the Option is exercised over the purchase price for the exercised Shares. Absent such an Election, taxable income will be measured and recognized by Purchaser at the time or times on which the Company's Repurchase Option lapses. In the case of an Incentive Stock Option, such an Election will result in a recognition of income to the Purchaser for alternative minimum tax purposes on the date of exercise, measured by the excess, if any, of the Fair Market Value of the exercised Shares, at the time the option is exercised, over the purchase price for the exercised Shares. Absent such an Election, alternative minimum taxable income will be measured and recognized by Purchaser at the time or times on which the Company's Repurchase Option lapses. Purchaser is strongly encouraged to seek the advice of his or her own tax consultants in connection with the purchase of the Shares and the advisability of filing of the Election under Section 83(b) of the Code. A form of Election under Section 83(b) is attached hereto as Exhibit C-4 for reference.

PURCHASER ACKNOWLEDGES THAT IT IS PURCHASER'S SOLE RESPONSIBILITY AND NOT THE COMPANY'S TO FILE TIMELY THE ELECTION UNDER SECTION 83(b) OF THE CODE, EVEN IF PURCHASER REQUESTS THE COMPANY OR ITS REPRESENTATIVE TO MAKE THIS FILING ON PURCHASER'S BEHALF.

9. Representations. Purchaser has reviewed with his own tax advisors the federal, state, local and foreign tax consequences of this investment and the transactions contemplated by this Agreement. Purchaser is relying solely on such advisors and not on any statements or representations of the Company or any of its agents. Purchaser understands that he (and not the Company) shall be responsible for his own tax liability that may arise as a result of this investment or the transactions contemplated by this Agreement.

10. Governing Law. This Agreement shall be governed by the internal substantive laws, but not the choice of law rules, of California.

Purchaser represents that he has read this Agreement and is familiar with its terms and provisions. Purchaser hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Board upon any questions arising under this Agreement.

IN WITNESS WHEREOF, this Agreement is deemed made as of the date first set forth above.

OPTIONEE	PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
_____	_____
Signature	By
_____	CEO
Print Name	Title
_____	
_____	
Residence Address	

Dated: _____, _____

ASSIGNMENT SEPARATE FROM CERTIFICATE

FOR VALUE RECEIVED I, _____, hereby sell, assign and transfer unto Pacific Biosciences of California, Inc. _____ (_____) shares of the Common Stock of Pacific Biosciences of California, Inc. standing in my name of the books of said corporation represented by Certificate No. _____ herewith and do hereby irrevocably constitute and appoint _____ to transfer the said stock on the books of the within named corporation with full power of substitution in the premises.

This Stock Assignment may be used only in accordance with the Restricted Stock Purchase Agreement between Pacific Biosciences of California, Inc. and the undersigned dated _____, _____ (the "Agreement").

Dated: _____, _____ Signature: _____

INSTRUCTIONS: Please do not fill in any blanks other than the signature line. The purpose of this assignment is to enable the Company to exercise its "repurchase option," as set forth in the Agreement, without requiring additional signatures on the part of the Purchaser.

JOINT ESCROW INSTRUCTIONS

_____, ____

Corporate Secretary
Pacific Biosciences of California, Inc.
1380 Willow Road
Menlo Park, CA 94025

Dear _____:

As Escrow Agent for both Pacific Biosciences of California, Inc. (the "Company"), and the undersigned purchaser of stock of the Company (the "Purchaser"), you are hereby authorized and directed to hold the documents delivered to you pursuant to the terms of that certain Restricted Stock Purchase Agreement (the "Agreement") between the Company and the undersigned, in accordance with the following instructions:

1. In the event the Company and/or any assignee of the Company (referred to collectively for convenience herein as the "Company") exercises the Company's repurchase option set forth in the Agreement, the Company shall give to Purchaser and you a written notice specifying the number of shares of stock to be purchased, the purchase price, and the time for a closing hereunder at the principal office of the Company. Purchaser and the Company hereby irrevocably authorize and direct you to close the transaction contemplated by such notice in accordance with the terms of said notice.

2. At the closing, you are directed (a) to date the stock assignments necessary for the transfer in question, (b) to fill in the number of shares being transferred, and (c) to deliver the stock assignments, together with the certificate evidencing the shares of stock to be transferred, to the Company or its assignee, against the simultaneous delivery to you of the purchase price (by cash, a check, or some combination thereof) for the number of shares of stock being purchased pursuant to the exercise of the Company's repurchase option.

3. Purchaser irrevocably authorizes the Company to deposit with you any certificates evidencing shares of stock to be held by you hereunder and any additions and substitutions to said shares as defined in the Agreement. Purchaser does hereby irrevocably constitute and appoint you as Purchaser's attorney-in-fact and agent for the term of this escrow to execute with respect to such securities all documents necessary or appropriate to make such securities negotiable and to complete any transaction herein contemplated, including but not limited to the filing with any applicable state blue sky authority of any required applications for consent to, or notice of transfer of, the securities. Subject to the provisions of this paragraph 3, Purchaser shall exercise all rights and privileges of a stockholder of the Company while the stock is held by you.

4. Upon written request of the Purchaser, but no more than once per calendar year, unless the Company's repurchase option has been exercised, you will deliver to Purchaser a certificate or certificates representing so many shares of stock as are not then subject to the Company's repurchase option. Within 120 days after cessation of Purchaser's continuous employment by or services to the Company, or any parent or subsidiary of the Company, you will

deliver to Purchaser a certificate or certificates representing the aggregate number of shares held or issued pursuant to the Agreement and not purchased by the Company or its assignees pursuant to exercise of the Company's repurchase option.

5. If at the time of termination of this escrow you should have in your possession any documents, securities, or other property belonging to Purchaser, you shall deliver all of the same to Purchaser and shall be discharged of all further obligations hereunder.

6. Your duties hereunder may be altered, amended, modified or revoked only by a writing signed by all of the parties hereto.

7. You shall be obligated only for the performance of such duties as are specifically set forth herein and may rely and shall be protected in relying or refraining from acting on any instrument reasonably believed by you to be genuine and to have been signed or presented by the proper party or parties. You shall not be personally liable for any act you may do or omit to do hereunder as Escrow Agent or as attorney-in-fact for Purchaser while acting in good faith, and any act done or omitted by you pursuant to the advice of your own attorneys shall be conclusive evidence of such good faith.

8. You are hereby expressly authorized to disregard any and all warnings given by any of the parties hereto or by any other person or corporation, excepting only orders or process of courts of law and are hereby expressly authorized to comply with and obey orders, judgments or decrees of any court. In case you obey or comply with any such order, judgment or decree, you shall not be liable to any of the parties hereto or to any other person, firm or corporation by reason of such compliance, notwithstanding any such order, judgment or decree being subsequently reversed, modified, annulled, set aside, vacated or found to have been entered without jurisdiction.

9. You shall not be liable in any respect on account of the identity, authorities or rights of the parties executing or delivering or purporting to execute or deliver the Agreement or any documents or papers deposited or called for hereunder.

10. You shall not be liable for the outlawing of any rights under the Statute of Limitations with respect to these Joint Escrow Instructions or any documents deposited with you.

11. You shall be entitled to employ such legal counsel and other experts as you may deem necessary properly to advise you in connection with your obligations hereunder, may rely upon the advice of such counsel, and may pay such counsel reasonable compensation therefor.

12. Your responsibilities as Escrow Agent hereunder shall terminate if you shall cease to be an officer or agent of the Company or if you shall resign by written notice to each party. In the event of any such termination, the Company shall appoint a successor Escrow Agent.

13. If you reasonably require other or further instruments in connection with these Joint Escrow Instructions or obligations in respect hereto, the necessary parties hereto shall join in furnishing such instruments.

14. It is understood and agreed that should any dispute arise with respect to the delivery and/or ownership or right of possession of the securities held by you hereunder, you are authorized

and directed to retain in your possession without liability to anyone all or any part of said securities until such disputes shall have been settled either by mutual written agreement of the parties concerned or by a final order, decree or judgment of a court of competent jurisdiction after the time for appeal has expired and no appeal has been perfected, but you shall be under no duty whatsoever to institute or defend any such proceedings.

15. Any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given upon personal delivery or upon deposit in the United States Post Office, by registered or certified mail with postage and fees prepaid, addressed to each of the other parties thereunto entitled at the following addresses or at such other addresses as a party may designate by ten days' advance written notice to each of the other parties hereto.

16. By signing these Joint Escrow Instructions, you become a party hereto only for the purpose of said Joint Escrow Instructions; you do not become a party to the Agreement.

17. This instrument shall be binding upon and inure to the benefit of the parties hereto, and their respective successors and permitted assigns.

18. These Joint Escrow Instructions shall be governed by the internal substantive laws, but not the choice of law rules, of California.

PURCHASER

Signature

Print Name

Residence Address

ESCROW AGENT

Corporate Secretary

Dated: _____, ____

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.

By

CEO

Title

ELECTION UNDER SECTION 83(b)
OF THE INTERNAL REVENUE CODE OF 1986

The undersigned taxpayer hereby elects, pursuant to Sections 55 and 83(b) of the Internal Revenue Code of 1986, as amended, to include in taxpayer's gross income or alternative minimum taxable income, as the case may be, for the current taxable year the amount of any compensation taxable to taxpayer in connection with taxpayer's receipt of the property described below

1. The name, address, taxpayer identification number and taxable year of the undersigned are as follows:

NAME:	TAXPAYER:	SPOUSE:
ADDRESS:		
IDENTIFICATION NO.:	TAXPAYER:	SPOUSE:
TAXABLE YEAR:		

2. The property with respect to which the election is made is described as follows: _____ shares (the "Shares") of the Common Stock of Pacific Biosciences of California, Inc. (the "Company").

3. The date on which the property was transferred is: _____, _____.

4. The property is subject to the following restrictions:

   The Shares may not be transferred and are subject to forfeiture under the terms of an agreement between the taxpayer and the Company. These restrictions lapse upon the satisfaction of certain conditions contained in such agreement.

5. The fair market value at the time of transfer, determined without regard to any restriction other than a restriction which by its terms will never lapse, of such property is: $_____.

6. The amount (if any) paid for such property is: $_____.

The undersigned has submitted a copy of this statement to the person for whom the services were performed in connection with the undersigned's receipt of the above-described property. The transferee of such property is the person performing the services in connection with the transfer of said property.

The undersigned understands that the foregoing election may not be revoked except with the consent of the Commissioner.

Dated: _____, _____

_____
Taxpayer

The undersigned spouse of taxpayer joins in this election.

Dated: _____, _____

_____
Spouse of Taxpayer

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.

2010 EQUITY INCENTIVE PLAN

1. Purposes of the Plan. The purposes of this Plan are:

- to attract and retain the best available personnel for positions of substantial responsibility,
- to provide additional incentive to Employees, Directors and Consultants, and
- to promote the success of the Company's business.

The Plan permits the grant of Incentive Stock Options, Nonstatutory Stock Options, Restricted Stock, Restricted Stock Units, Stock Appreciation Rights, Performance Units and Performance Shares.

2. Definitions. As used herein, the following definitions will apply:

(a) "Administrator" means the Board or any of its Committees as will be administering the Plan, in accordance with Section 4 of the Plan.

(b) "Applicable Laws" means the requirements relating to the administration of equity-based awards under U.S. state corporate laws, U.S. federal and state securities laws, the Code, any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any foreign country or jurisdiction where Awards are, or will be, granted under the Plan.

(c) "Award" means, individually or collectively, a grant under the Plan of Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Units or Performance Shares.

(d) "Award Agreement" means the written or electronic agreement setting forth the terms and provisions applicable to each Award granted under the Plan. The Award Agreement is subject to the terms and conditions of the Plan.

(e) "Board" means the Board of Directors of the Company.

(f) "Change in Control" means the occurrence of any of the following events:

(i) A change in the ownership of the Company which occurs on the date that any one person, or more than one person acting as a group ("Person"), acquires ownership of the stock of the Company that, together with the stock held by such Person, constitutes more than fifty percent (50%) of the total voting power of the stock of the Company; provided, however, that for purposes of this subsection, the acquisition of additional stock by any one Person, who is considered to own more than fifty percent (50%) of the total voting power of the stock of the Company will not be considered a Change in Control; or

(ii) A change in the effective control of the Company which occurs on the date that a majority of members of the Board is replaced during any twelve (12) month period by Directors whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of the appointment or election. For purposes of this clause (ii), if any Person is considered to be in effective control of the Company, the acquisition of additional control of the Company by the same Person will not be considered a Change in Control; or

(iii) A change in the ownership of a substantial portion of the Company's assets which occurs on the date that any Person acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by such person or persons) assets from the Company that have a total gross fair market value equal to or more than fifty percent (50%) of the total gross fair market value of all of the assets of the Company immediately prior to such acquisition or acquisitions; provided, however, that for purposes of this subsection (iii), the following will not constitute a change in the ownership of a substantial portion of the Company's assets: (A) a transfer to an entity that is controlled by the Company's stockholders immediately after the transfer, or (B) a transfer of assets by the Company to: (1) a stockholder of the Company (immediately before the asset transfer) in exchange for or with respect to the Company's stock, (2) an entity, fifty percent (50%) or more of the total value or voting power of which is owned, directly or indirectly, by the Company, (3) a Person, that owns, directly or indirectly, fifty percent (50%) or more of the total value or voting power of all the outstanding stock of the Company, or (4) an entity, at least fifty percent (50%) of the total value or voting power of which is owned, directly or indirectly, by a Person described in this subsection (iii)(B)(3). For purposes of this subsection (iii), gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

For purposes of this definition, persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the Company.

Notwithstanding the foregoing, a transaction will not be deemed a Change in Control unless the transaction qualifies as a change in control event within the meaning of Code Section 409A, as it has been and may be amended from time to time, and any proposed or final Treasury Regulations and Internal Revenue Service guidance that has been promulgated or may be promulgated thereunder from time to time.

Further and for the avoidance of doubt, a transaction will not constitute a Change in Control if: (i) its sole purpose is to change the state of the Company's incorporation, or (ii) its sole purpose is to create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transaction.

(g) "Code" means the Internal Revenue Code of 1986, as amended. Reference to a specific section of the Code or regulation thereunder shall include such section or regulation, any valid regulation promulgated under such section, and any comparable provision of any future legislation or regulation amending, supplementing or superseding such section or regulation.

(h) "Committee" means a committee of Directors or of other individuals satisfying Applicable Laws appointed by the Board in accordance with Section 4 hereof.

(i) "Common Stock" means the common stock of the Company.

(j) "Company" means Pacific Biosciences of California, Inc., a Delaware corporation, or any successor thereto.

(k) "Consultant" means any person, including an advisor, engaged by the Company or a Parent or Subsidiary to render services to such entity.

(l) "Director" means a member of the Board.

(m) "Disability" means total and permanent disability as defined in Section 22(e)(3) of the Code, provided that in the case of Awards other than Incentive Stock Options, the Administrator in its discretion may determine whether a permanent and total disability exists in accordance with uniform and non-discriminatory standards adopted by the Administrator from time to time.

(n) "Employee" means any person, including Officers and Directors, employed by the Company or any Parent or Subsidiary of the Company. Neither service as a Director nor payment of a director's fee by the Company will be sufficient to constitute "employment" by the Company.

(o) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(p) "Exchange Program" means a program under which (i) outstanding Awards are surrendered or cancelled in exchange for Awards of the same type (which may have higher or lower exercise prices and different terms), Awards of a different type, and/or cash, (ii) Participants would have the opportunity to transfer any outstanding Awards to a financial institution or other person or entity selected by the Administrator, and/or (iii) the exercise price of an outstanding Award is increased or reduced. The Administrator will determine the terms and conditions of any Exchange Program in its sole discretion.

(q) "Fair Market Value" means, as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the NASDAQ Global Select Market, the NASDAQ Global Market or the NASDAQ Capital Market of The NASDAQ Stock Market, its Fair Market Value will be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system on the day of determination, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable;

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, the Fair Market Value of a Share will be the mean between the high bid and low asked prices for the Common Stock on the day of determination, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable;

(iii) For purposes of any Awards granted on the Registration Date, the Fair Market Value will be the initial price to the public as set forth in the final prospectus included within the registration statement in Form S-1 filed with the Securities and Exchange Commission for the initial public offering of the Company's Common Stock; or

(iv) In the absence of an established market for the Common Stock, the Fair Market Value will be determined in good faith by the Administrator.

(r) "Fiscal Year" means the fiscal year of the Company.

(s) "Incentive Stock Option" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.

(t) "Inside Director" means a Director who is an Employee.

(u) "Nonstatutory Stock Option" means an Option that by its terms does not qualify or is not intended to qualify as an Incentive Stock Option.

(v) "Officer" means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(w) "Option" means a stock option granted pursuant to the Plan.

(x) "Outside Director" means a Director who is not an Employee.

(y) "Parent" means a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.

(z) "Participant" means the holder of an outstanding Award.

(aa) "Performance Share" means an Award denominated in Shares which may be earned in whole or in part upon attainment of performance goals or other vesting criteria as the Administrator may determine pursuant to Section 10.

(bb) "Performance Unit" means an Award which may be earned in whole or in part upon attainment of performance goals or other vesting criteria as the Administrator may determine and which may be settled for cash, Shares or other securities or a combination of the foregoing pursuant to Section 10.

(cc) "Period of Restriction" means the period during which the transfer of Shares of Restricted Stock are subject to restrictions and therefore, the Shares are subject to a substantial risk of forfeiture. Such restrictions may be based on the passage of time, the achievement of target levels of performance, or the occurrence of other events as determined by the Administrator.

(dd) "Plan" means this 2010 Equity Incentive Plan.

(ee) "Registration Date" means the effective date of the first registration statement that is filed by the Company and declared effective pursuant to Section 12(g) of the Exchange Act, with respect to any class of the Company's securities.

(ff) "Restricted Stock" means Shares issued pursuant to a Restricted Stock award under Section 7 of the Plan, or issued pursuant to the early exercise of an Option.

(gg) "Restricted Stock Unit" means a bookkeeping entry representing an amount equal to the Fair Market Value of one Share, granted pursuant to Section 8. Each Restricted Stock Unit represents an unfunded and unsecured obligation of the Company.

(hh) "Rule 16b-3" means Rule 16b-3 of the Exchange Act or any successor to Rule 16b-3, as in effect when discretion is being exercised with respect to the Plan.

(ii) "Section 16(b)" means Section 16(b) of the Exchange Act.

(jj) "Service Provider" means an Employee, Director or Consultant.

(kk) "Share" means a share of the Common Stock, as adjusted in accordance with Section 13 of the Plan.

(ll) "Stock Appreciation Right" means an Award, granted alone or in connection with an Option, that pursuant to Section 9 is designated as a Stock Appreciation Right.

(mm) "Subsidiary" means a "subsidiary corporation," whether now or hereafter existing, as defined in Section 424(f) of the Code.

3. Stock Subject to the Plan.

(a) Stock Subject to the Plan. Subject to the provisions of Section 13 of the Plan, the maximum aggregate number of Shares that may be issued under the Plan is 5,000,000 Shares, plus (i) any Shares that, as of the Registration Date, have been reserved but not issued pursuant to any awards granted under the Company's 2005 Stock Plan (the "Existing Plan") and are not subject to any awards granted thereunder, and (ii) any Shares subject to stock options or similar awards granted under the Existing Plan that expire or otherwise terminate without having been exercised in full and Shares issued pursuant to awards granted under the Existing Plan that are forfeited to or repurchased by the Company, with the maximum number of Shares to be added to the Plan pursuant to clauses (i) and (ii) equal to [ ] Shares. The Shares may be authorized, but unissued, or reacquired Common Stock.

(b) Automatic Share Reserve Increase. The number of Shares available for issuance under the Plan will be increased on the first day of each Fiscal Year beginning with the 2012 Fiscal Year, in an amount equal to the least of (i) 10,000,000 Shares, (ii) five percent (5%) of the outstanding Shares on the last day of the immediately preceding Fiscal Year or (iii) such number of Shares determined by the Board.

(c) Lapsed Awards. If an Award expires or becomes unexercisable without having been exercised in full, is surrendered pursuant to an Exchange Program, or, with respect to Restricted Stock, Restricted Stock Units, Performance Units or Performance Shares, is forfeited to or repurchased by the Company due to failure to vest, the unpurchased Shares (or for Awards other than Options or Stock Appreciation Rights the forfeited or repurchased Shares), which were subject thereto will become available for future grant or sale under the Plan (unless the Plan has terminated). With respect to Stock Appreciation Rights, only Shares actually issued (i.e., the net Shares issued) pursuant to a Stock Appreciation Right will cease to be available under the Plan; all remaining Shares under Stock Appreciation Rights will remain available for future grant or sale under the Plan (unless the Plan has terminated). Shares that have actually been issued under the Plan under any Award will not be returned to the Plan and will not become available for future distribution under the Plan; provided, however, that if Shares issued pursuant to Awards of Restricted Stock, Restricted Stock Units, Performance Shares or Performance Units are repurchased by the Company or are forfeited to the Company, such Shares will become available for future grant under the Plan. Shares used to pay the exercise price of an Award or to satisfy the tax withholding obligations related to an Award will become available for future grant or sale under the Plan. To the extent an Award under the Plan is paid out in cash rather than Shares, such cash payment will not result in reducing the number of Shares available for issuance under the Plan. Notwithstanding the foregoing and, subject to adjustment as provided in Section 13, the maximum number of Shares that may be issued upon the exercise of Incentive Stock Options will equal the aggregate Share number stated in Section 3(a), plus, to the extent allowable under Section 422 of the Code and the Treasury Regulations promulgated thereunder, any Shares that become available for issuance under the Plan pursuant to Sections 3(b) and 3(c).

(d) Share Reserve. The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as will be sufficient to satisfy the requirements of the Plan.

4. Administration of the Plan.

(a) Procedure.

(i) Multiple Administrative Bodies. Different Committees with respect to different groups of Service Providers may administer the Plan.

(ii) Section 162(m). To the extent that the Administrator determines it to be desirable to qualify Awards granted hereunder as “performance-based compensation” within the meaning of Section 162(m) of the Code, the Plan will be administered by a Committee of two (2) or more “outside directors” within the meaning of Section 162(m) of the Code.

(iii) Rule 16b-3. To the extent desirable to qualify transactions hereunder as exempt under Rule 16b-3, the transactions contemplated hereunder will be structured to satisfy the requirements for exemption under Rule 16b-3.

(iv) Other Administration. Other than as provided above, the Plan will be administered by (A) the Board or (B) a Committee, which committee will be constituted to satisfy Applicable Laws.

(b) Powers of the Administrator. Subject to the provisions of the Plan, and in the case of a Committee, subject to the specific duties delegated by the Board to such Committee, the Administrator will have the authority, in its discretion:

(i) to determine the Fair Market Value;

(ii) to select the Service Providers to whom Awards may be granted hereunder;

(iii) to determine the number of Shares to be covered by each Award granted hereunder;

(iv) to approve forms of Award Agreements for use under the Plan;

(v) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any Award granted hereunder. Such terms and conditions include, but are not limited to, the exercise price, the time or times when Awards may be exercised (which may be based on performance criteria), any vesting acceleration or waiver of forfeiture restrictions, and any restriction or limitation regarding any Award or the Shares relating thereto, based in each case on such factors as the Administrator will determine;

(vi) to determine the terms and conditions of any, and to institute any Exchange Program;

(vii) to construe and interpret the terms of the Plan and Awards granted pursuant to the Plan;

(viii) to prescribe, amend and rescind rules and regulations relating to the Plan, including rules and regulations relating to sub-plans established for the purpose of satisfying applicable foreign laws or for qualifying for favorable tax treatment under applicable foreign laws;

(ix) to modify or amend each Award (subject to Section 18 of the Plan), including but not limited to the discretionary authority to extend the post-termination exercisability period of Awards and to extend the maximum term of an Option (subject to Section 6(b) of the Plan regarding Incentive Stock Options);

(x) to allow Participants to satisfy withholding tax obligations in such manner as prescribed in Section 14 of the Plan;

(xi) to authorize any person to execute on behalf of the Company any instrument required to effect the grant of an Award previously granted by the Administrator;

(xii) to allow a Participant to defer the receipt of the payment of cash or the delivery of Shares that would otherwise be due to such Participant under an Award; and

(xiii) to make all other determinations deemed necessary or advisable for administering the Plan.

(c) Effect of Administrator's Decision. The Administrator's decisions, determinations and interpretations will be final and binding on all Participants and any other holders of Awards.

5. Eligibility. Nonstatutory Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Shares and Performance Units may be granted to Service Providers. Incentive Stock Options may be granted only to Employees.

6. Stock Options.

(a) Limitations. Each Option will be designated in the Award Agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designation, to the extent that the aggregate Fair Market Value of the Shares with respect to which Incentive Stock Options are exercisable for the first time by the Participant during any calendar year (under all plans of the Company and any Parent or Subsidiary) exceeds one hundred thousand dollars ($100,000), such Options will be treated as Nonstatutory Stock Options. For purposes of this Section 6(a), Incentive Stock Options will be taken into account in the order in which they were granted. The Fair Market Value of the Shares will be determined as of the time the Option with respect to such Shares is granted.

(b) Term of Option. The term of each Option will be stated in the Award Agreement. In the case of an Incentive Stock Option, the term will be ten (10) years from the date of grant or such shorter term as may be provided in the Award Agreement. Moreover, in the case of an Incentive Stock Option granted to a Participant who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Incentive Stock Option will be five (5) years from the date of grant or such shorter term as may be provided in the Award Agreement.

(c) Option Exercise Price and Consideration.

(i) Exercise Price. The per share exercise price for the Shares to be issued pursuant to exercise of an Option will be determined by the Administrator, subject to the following:

(1) In the case of an Incentive Stock Option

(A) granted to an Employee who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price will be no less than one hundred ten percent (110%) of the Fair Market Value per Share on the date of grant.

(B) granted to any Employee other than an Employee described in paragraph (A) immediately above, the per Share exercise price will be no less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant.

(2) In the case of a Nonstatutory Stock Option, the per Share exercise price will be no less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant.

(3) Notwithstanding the foregoing, Options may be granted with a per Share exercise price of less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant pursuant to a transaction described in, and in a manner consistent with, Section 424(a) of the Code.

(ii) Waiting Period and Exercise Dates. At the time an Option is granted, the Administrator will fix the period within which the Option may be exercised and will determine any conditions that must be satisfied before the Option may be exercised.

(iii) Form of Consideration. The Administrator will determine the acceptable form of consideration for exercising an Option, including the method of payment. In the case of an Incentive Stock Option, the Administrator will determine the acceptable form of consideration at the time of grant. Such consideration may consist entirely of: (1) cash; (2) check; (3) promissory note, to the extent permitted by Applicable Laws, (4) other Shares, provided that such Shares have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which such Option will be exercised and provided that accepting such Shares will not result in any adverse accounting consequences to the Company, as the Administrator determines in its sole discretion; (5) consideration received by the Company under a broker-assisted (or other) cashless exercise program (whether through a broker or otherwise) implemented by the Company in connection with the Plan; (6) by net exercise; (7) such other consideration and method of payment for the issuance of Shares to the extent permitted by Applicable Laws; or (8) any combination of the foregoing methods of payment.

(d) Exercise of Option.

(i) Procedure for Exercise; Rights as a Stockholder. Any Option granted hereunder will be exercisable according to the terms of the Plan and at such times and under such conditions as determined by the Administrator and set forth in the Award Agreement. An Option may not be exercised for a fraction of a Share.

An Option will be deemed exercised when the Company receives: (i) a notice of exercise (in such form as the Administrator may specify from time to time) from the person entitled to exercise the Option, and (ii) full payment for the Shares with respect to which the Option is exercised (together with applicable withholding taxes). Full payment may consist of any consideration and method of payment authorized by the Administrator and permitted by the Award Agreement and the Plan. Shares issued upon exercise of an Option will be issued in the name of the Participant. Until the Shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder will exist with respect to the Shares subject to an Option, notwithstanding the exercise of the Option. The Company will issue (or cause to be issued) such Shares promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 13 of the Plan.

Exercising an Option in any manner will decrease the number of Shares thereafter available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(ii) Termination of Relationship as a Service Provider. If a Participant ceases to be a Service Provider, other than upon the Participant's termination as the result of the Participant's death or Disability, the Participant may exercise his or her Option within such period of time as is specified in the Award Agreement to the extent that the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement). In the absence of a specified time in the Award Agreement, the Option will remain exercisable for three (3) months following the Participant's termination. Unless otherwise provided by the Administrator, if on the date of termination the Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will revert to the Plan. If after termination the Participant does not exercise his or her Option within the time specified by the Administrator, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

(iii) Disability of Participant. If a Participant ceases to be a Service Provider as a result of the Participant's Disability, the Participant may exercise his or her Option within such period of time as is specified in the Award Agreement to the extent the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement). In the absence of a specified time in the Award Agreement, the Option will remain exercisable for twelve (12) months following the Participant's termination. Unless otherwise provided by the Administrator, if on the date of termination the Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will revert to the Plan. If after termination the Participant does not exercise his or her Option within the time specified herein, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

(iv) Death of Participant. If a Participant dies while a Service Provider, the Option may be exercised following the Participant's death within such period of time as is specified in the Award Agreement to the extent that the Option is vested on the date of death (but in no event may the option be exercised later than the expiration of the term of such Option as set forth in the Award Agreement), by the Participant's designated beneficiary, provided such beneficiary has been designated prior to Participant's death in a form acceptable to the Administrator. If no such beneficiary has been designated by the Participant, then such Option may be exercised by the personal representative of the Participant's estate or by the person(s) to whom the Option is transferred pursuant to the Participant's will or in accordance with the laws of descent and distribution. In the absence of a specified time in the Award Agreement, the Option will remain exercisable for twelve (12) months following Participant's death. Unless otherwise provided by the Administrator, if at the time of death Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will immediately revert to the Plan. If the Option is not so exercised within the time specified herein, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

7. Restricted Stock.

(a) Grant of Restricted Stock. Subject to the terms and provisions of the Plan, the Administrator, at any time and from time to time, may grant Shares of Restricted Stock to Service Providers in such amounts as the Administrator, in its sole discretion, will determine.

(b) Restricted Stock Agreement. Each Award of Restricted Stock will be evidenced by an Award Agreement that will specify the Period of Restriction, the number of Shares granted, and such other terms and conditions as the Administrator, in its sole discretion, will determine. Unless the Administrator determines otherwise, the Company as escrow agent will hold Shares of Restricted Stock until the restrictions on such Shares have lapsed.

(c) Transferability. Except as provided in this Section 7 or the Award Agreement, Shares of Restricted Stock may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the end of the applicable Period of Restriction.

(d) Other Restrictions. The Administrator, in its sole discretion, may impose such other restrictions on Shares of Restricted Stock as it may deem advisable or appropriate.

(e) Removal of Restrictions. Except as otherwise provided in this Section 7, Shares of Restricted Stock covered by each Restricted Stock grant made under the Plan will be released from escrow as soon as practicable after the last day of the Period of Restriction or at such other time as the Administrator may determine. The Administrator, in its discretion, may accelerate the time at which any restrictions will lapse or be removed.

(f) Voting Rights. During the Period of Restriction, Service Providers holding Shares of Restricted Stock granted hereunder may exercise full voting rights with respect to those Shares, unless the Administrator determines otherwise.

(g) Dividends and Other Distributions. During the Period of Restriction, Service Providers holding Shares of Restricted Stock will be entitled to receive all dividends and other distributions paid with respect to such Shares, unless the Administrator provides otherwise. If any such dividends or distributions are paid in Shares, the Shares will be subject to the same restrictions on transferability and forfeitability as the Shares of Restricted Stock with respect to which they were paid.

(h) Return of Restricted Stock to Company. On the date set forth in the Award Agreement, the Restricted Stock for which restrictions have not lapsed will revert to the Company and again will become available for grant under the Plan.

8. Restricted Stock Units.

(a) Grant. Restricted Stock Units may be granted at any time and from time to time as determined by the Administrator. After the Administrator determines that it will grant Restricted Stock Units under the Plan, it will advise the Participant in an Award Agreement of the terms, conditions, and restrictions related to the grant, including the number of Restricted Stock Units.

(b) Vesting Criteria and Other Terms. The Administrator will set vesting criteria in its discretion, which, depending on the extent to which the criteria are met, will determine the number of Restricted Stock Units that will be paid out to the Participant. The Administrator may set vesting criteria based upon the achievement of Company-wide, business unit, or individual goals (including, but not limited to, continued employment), or any other basis determined by the Administrator in its discretion.

(c) Earning Restricted Stock Units. Upon meeting the applicable vesting criteria, the Participant will be entitled to receive a payout as determined by the Administrator. Notwithstanding the foregoing, at any time after the grant of Restricted Stock Units, the Administrator, in its sole discretion, may reduce or waive any vesting criteria that must be met to receive a payout.

(d) Form and Timing of Payment. Payment of earned Restricted Stock Units will be made as soon as practicable after the date(s) determined by the Administrator and set forth in the Award Agreement. The Administrator, in its sole discretion, may only settle earned Restricted Stock Units in cash, Shares, or a combination of both.

(e) Cancellation. On the date set forth in the Award Agreement, all unearned Restricted Stock Units will be forfeited to the Company.

9. Stock Appreciation Rights.

(a) Grant of Stock Appreciation Rights. Subject to the terms and conditions of the Plan, a Stock Appreciation Right may be granted to Service Providers at any time and from time to time as will be determined by the Administrator, in its sole discretion.

(b) Number of Shares. The Administrator will have complete discretion to determine the number of Stock Appreciation Rights granted to any Service Provider.

(c) Exercise Price and Other Terms. The per share exercise price for the Shares to be issued pursuant to exercise of a Stock Appreciation Right will be determined by the Administrator and will be no less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant. Otherwise, the Administrator, subject to the provisions of the Plan, will have complete discretion to determine the terms and conditions of Stock Appreciation Rights granted under the Plan.

(d) Stock Appreciation Right Agreement. Each Stock Appreciation Right grant will be evidenced by an Award Agreement that will specify the exercise price, the term of the Stock Appreciation Right, the conditions of exercise, and such other terms and conditions as the Administrator, in its sole discretion, will determine.

(e) Expiration of Stock Appreciation Rights. A Stock Appreciation Right granted under the Plan will expire upon the date determined by the Administrator, in its sole discretion, and set forth in the Award Agreement. Notwithstanding the foregoing, the rules of Section 6(b) relating to the maximum term and Section 6(d) relating to exercise also will apply to Stock Appreciation Rights.

(f) Payment of Stock Appreciation Right Amount. Upon exercise of a Stock Appreciation Right, a Participant will be entitled to receive payment from the Company in an amount determined by multiplying:

(i) The difference between the Fair Market Value of a Share on the date of exercise over the exercise price; times

(ii) The number of Shares with respect to which the Stock Appreciation Right is exercised.

At the discretion of the Administrator, the payment upon Stock Appreciation Right exercise may be in cash, in Shares of equivalent value, or in some combination thereof.

10. Performance Units and Performance Shares.

(a) Grant of Performance Units/Shares. Performance Units and Performance Shares may be granted to Service Providers at any time and from time to time, as will be determined by the Administrator, in its sole discretion. The Administrator will have complete discretion in determining the number of Performance Units and Performance Shares granted to each Participant.

(b) Value of Performance Units/Shares. Each Performance Unit will have an initial value that is established by the Administrator on or before the date of grant. Each Performance Share will have an initial value equal to the Fair Market Value of a Share on the date of grant.

(c) Performance Objectives and Other Terms. The Administrator will set performance objectives or other vesting provisions (including, without limitation, continued status as a Service Provider) in its discretion which, depending on the extent to which they are met, will determine the number or value of Performance Units/Shares that will be paid out to the Service Providers. The time period during which the performance objectives or other vesting provisions must be met will be called the “Performance Period.” Each Award of Performance Units/Shares will be evidenced by an Award Agreement that will specify the Performance Period, and such other terms and conditions as the Administrator, in its sole discretion, will determine. The Administrator may set performance objectives based upon the achievement of Company-wide, divisional, or individual goals, applicable federal or state securities laws, or any other basis determined by the Administrator in its discretion.

(d) Earning of Performance Units/Shares. After the applicable Performance Period has ended, the holder of Performance Units/Shares will be entitled to receive a payout of the number of Performance Units/Shares earned by the Participant over the Performance Period, to be determined as a function of the extent to which the corresponding performance objectives or other vesting provisions have been achieved. After the grant of a Performance Unit/Share, the Administrator, in its sole discretion, may reduce or waive any performance objectives or other vesting provisions for such Performance Unit/Share.

(e) Form and Timing of Payment of Performance Units/Shares. Payment of earned Performance Units/Shares will be made as soon as practicable after the expiration of the applicable Performance Period. The Administrator, in its sole discretion, may pay earned Performance Units/Shares in the form of cash, in Shares (which have an aggregate Fair Market Value equal to the value of the earned Performance Units/Shares at the close of the applicable Performance Period) or in a combination thereof.

(f) Cancellation of Performance Units/Shares. On the date set forth in the Award Agreement, all unearned or unvested Performance Units/Shares will be forfeited to the Company, and again will be available for grant under the Plan.

11. Leaves of Absence/Transfer Between Locations. Unless the Administrator provides otherwise, vesting of Awards granted hereunder will be suspended during any unpaid leave of absence. A Participant will not cease to be an Employee in the case of (i) any leave of absence approved by the Company or (ii) transfers between locations of the Company or between the Company, its Parent, or any Subsidiary. For purposes of Incentive Stock Options, no such leave may exceed three (3) months, unless reemployment upon expiration of such leave is guaranteed by statute or contract. If reemployment upon expiration of a leave of absence approved by the Company is not so guaranteed, then six (6) months following the first (1st) day of such leave any Incentive Stock Option held by the Participant will cease to be treated as an Incentive Stock Option and will be treated for tax purposes as a Nonstatutory Stock Option.

12. Transferability of Awards. Unless determined otherwise by the Administrator, an Award may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Participant, only by the Participant. If the Administrator makes an Award transferable, such Award will contain such additional terms and conditions as the Administrator deems appropriate.

13. Adjustments; Dissolution or Liquidation; Merger or Change in Control.

(a) Adjustments. In the event that any dividend or other distribution (whether in the form of cash, Shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Shares or other securities of the Company, or other change in the corporate structure of the Company affecting the Shares occurs, the Administrator, in order to prevent diminution or enlargement of the benefits or potential benefits intended to be made available under the Plan, will adjust the number and class of Shares that may be delivered under the Plan and/or the number, class, and price of Shares covered by each outstanding Award, and the numerical Share limits in Section 3 of the Plan.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Administrator will notify each Participant as soon as practicable prior to the effective date of such proposed transaction. To the extent it has not been previously exercised, an Award will terminate immediately prior to the consummation of such proposed action.

(c) Change in Control. In the event of a merger or Change in Control, each outstanding Award will be treated as the Administrator determines, including, without limitation, that each Award be assumed or an equivalent option or right substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. The Administrator will not be required to treat all Awards similarly in the transaction.

In the event that the successor corporation does not assume or substitute for the Award, the Participant will fully vest in and have the right to exercise all of his or her outstanding Options and Stock Appreciation Rights, including Shares as to which such Awards would not otherwise be vested or exercisable, all restrictions on Restricted Stock and Restricted Stock Units will lapse, and, with respect to Awards with performance-based vesting, all performance goals or other vesting criteria will be deemed achieved at one hundred percent (100%) of target levels and all other terms and conditions met. In addition, if an Option or Stock Appreciation Right is not assumed or substituted in the event of a Change in Control, the Administrator will notify the Participant in writing or electronically that the Option or Stock Appreciation Right will be exercisable for a period of time determined by the Administrator in its sole discretion, and the Option or Stock Appreciation Right will terminate upon the expiration of such period.

For the purposes of this subsection (c), an Award will be considered assumed if, following the Change in Control, the Award confers the right to purchase or receive, for each Share subject to the Award immediately prior to the Change in Control, the consideration (whether stock, cash, or other securities or property) received in the Change in Control by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the Change in Control is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of an Option or Stock Appreciation Right or upon the payout of a Restricted Stock Unit, Performance Unit or Performance Share, for each Share subject to such Award, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the Change in Control.

Notwithstanding anything in this Section 13(c) to the contrary, an Award that vests, is earned or paid-out upon the satisfaction of one or more performance goals will not be considered assumed if the Company or its successor modifies any of such performance goals without the Participant's consent; provided, however, a modification to such performance goals only to reflect the successor corporation's post-Change in Control corporate structure will not be deemed to invalidate an otherwise valid Award assumption.

(d) Outside Director Awards. With respect to Awards granted to an Outside Director that are assumed or substituted for, if on the date of or following such assumption or substitution the Participant's status as a Director or a director of the successor corporation, as applicable, is terminated other than upon a voluntary resignation by the Participant (unless such resignation is at the request of the acquirer), then the Participant will fully vest in and have the right to exercise Options and/or Stock Appreciation Rights as to all of the Shares underlying such Award, including those Shares which would not otherwise be vested or exercisable, all restrictions on Restricted Stock and Restricted Stock Units will lapse, and, with respect to Performance Units and Performance Shares, all performance goals or other vesting criteria will be deemed achieved at one hundred percent (100%) of target levels and all other terms and conditions met.

14. Tax.

(a) Withholding Requirements. Prior to the delivery of any Shares or cash pursuant to an Award (or exercise thereof), the Company will have the power and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy federal, state, local, foreign or other taxes (including the Participant's FICA obligation) required to be withheld with respect to such Award (or exercise thereof).

(b) Withholding Arrangements. The Administrator, in its sole discretion and pursuant to such procedures as it may specify from time to time, may permit a Participant to satisfy such tax withholding obligation, in whole or in part by (without limitation) (a) paying cash, (b) electing to have the Company withhold otherwise deliverable cash or Shares having a Fair Market Value equal to the minimum statutory amount required to be withheld, or (c) delivering to the Company already-owned Shares having a Fair Market Value equal to the minimum statutory amount required to be withheld. The Fair Market Value of the Shares to be withheld or delivered will be determined as of the date that the taxes are required to be withheld.

(c) Compliance With Code Section 409A. Awards will be designed and operated in such a manner that they are either exempt from the application of, or comply with, the requirements of Code Section 409A such that the grant, payment, settlement or deferral will not be subject to the additional tax or interest applicable under Code Section 409A, except as otherwise determined in the sole discretion of the Administrator. The Plan and each Award Agreement under the Plan is intended to meet the requirements of Code Section 409A and will be construed and interpreted in accordance with such intent, except as otherwise determined in the sole discretion of the Administrator. To the extent that an Award or payment, or the settlement or deferral thereof, is subject to Code Section 409A the Award will be granted, paid, settled or deferred in a manner that will meet the requirements of Code Section 409A, such that the grant, payment, settlement or deferral will not be subject to the additional tax or interest applicable under Code Section 409A.

15. No Effect on Employment or Service. Neither the Plan nor any Award will confer upon a Participant any right with respect to continuing the Participant's relationship as a Service Provider with the Company, nor will they interfere in any way with the Participant's right or the Company's right to terminate such relationship at any time, with or without cause, to the extent permitted by Applicable Laws.

16. Date of Grant. The date of grant of an Award will be, for all purposes, the date on which the Administrator makes the determination granting such Award, or such other later date as is determined by the Administrator. Notice of the determination will be provided to each Participant within a reasonable time after the date of such grant.

17. Term of Plan. Subject to Section 21 of the Plan, the Plan will become effective upon the later to occur of (i) its adoption by the Board or (ii) immediately prior to the Registration Date. It will continue in effect for a term of ten (10) years from the date adopted by the Board, unless terminated earlier under Section 18 of the Plan.

18. Amendment and Termination of the Plan.

(a) Amendment and Termination. The Board may at any time amend, alter, suspend or terminate the Plan.

(b) Stockholder Approval. The Company will obtain stockholder approval of any Plan amendment to the extent necessary and desirable to comply with Applicable Laws.

(c) Effect of Amendment or Termination. No amendment, alteration, suspension or termination of the Plan will impair the rights of any Participant, unless mutually agreed otherwise between the Participant and the Administrator, which agreement must be in writing and signed by the Participant and the Company. Termination of the Plan will not affect the Administrator's ability to exercise the powers granted to it hereunder with respect to Awards granted under the Plan prior to the date of such termination.

19. Conditions Upon Issuance of Shares.

(a) Legal Compliance. Shares will not be issued pursuant to the exercise of an Award unless the exercise of such Award and the issuance and delivery of such Shares will comply with Applicable Laws and will be further subject to the approval of counsel for the Company with respect to such compliance.

(b) Investment Representations. As a condition to the exercise of an Award, the Company may require the person exercising such Award to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required.

20. Inability to Obtain Authority. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, will relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority will not have been obtained.

21. Stockholder Approval. The Plan will be subject to approval by the stockholders of the Company within twelve (12) months after the date the Plan is adopted by the Board. Such stockholder approval will be obtained in the manner and to the degree required under Applicable Laws.

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.

2010 EQUITY INCENTIVE PLAN

STOCK OPTION AWARD AGREEMENT

Unless otherwise defined herein, the terms defined in the Pacific Biosciences of California, Inc. 2010 Equity Incentive Plan (the "Plan") will have the same defined meanings in this Stock Option Award Agreement (the "Award Agreement").

I. NOTICE OF STOCK OPTION GRANT

Participant Name:

Address:

You have been granted an Option to purchase Common Stock of Pacific Biosciences of California, Inc. (the "Company"), subject to the terms and conditions of the Plan and this Award Agreement, as follows:

Grant Number	_____
Date of Grant	_____
Vesting Commencement Date	_____
Exercise Price per Share	$ _____
Total Number of Shares Granted	_____
Total Exercise Price	$ _____
Type of Option:	____ Incentive Stock Option
	____ Nonstatutory Stock Option
Term/Expiration Date:	_____

Vesting Schedule:

Subject to any acceleration provisions contained in the Plan or set forth below, this Option may be exercised, in whole or in part, in accordance with the following schedule:

[INSERT VESTING SCHEDULE]

Termination Period:

This Option will be exercisable for three (3) months after Participant ceases to be a Service Provider, unless such termination is due to Participant's death or Disability, in which case this Option will be exercisable for twelve (12) months after Participant ceases to be Service Provider. Notwithstanding the foregoing, in no event may this Option be exercised after the Term/Expiration Date as provided above and may be subject to earlier termination as provided in Section 13 of the Plan.

By Participant's signature and the signature of the Company's representative below, Participant and the Company agree that this Option is granted under and governed by the terms and conditions of the Plan and this Award Agreement, including the Terms and Conditions of Stock Option Grant, attached hereto as Exhibit A, all of which are made a part of this document. Participant has reviewed the Plan and this Award Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Award Agreement and fully understands all provisions of the Plan and Award Agreement. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions relating to the Plan and Award Agreement. Participant further agrees to notify the Company upon any change in the residence address indicated below.

PARTICIPANT:	PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
Signature	By
Print Name	Title

Residence Address:

EXHIBIT A

TERMS AND CONDITIONS OF STOCK OPTION GRANT

1. Grant of Option. The Company hereby grants to the Participant named in the Notice of Grant attached as Part I of this Award Agreement (the "Participant") an option (the "Option") to purchase the number of Shares, as set forth in the Notice of Grant, at the exercise price per Share set forth in the Notice of Grant (the "Exercise Price"), subject to all of the terms and conditions in this Award Agreement and the Plan, which is incorporated herein by reference. Subject to Section 18 of the Plan, in the event of a conflict between the terms and conditions of the Plan and the terms and conditions of this Award Agreement, the terms and conditions of the Plan will prevail.

If designated in the Notice of Grant as an Incentive Stock Option ("ISO"), this Option is intended to qualify as an ISO under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"). However, if this Option is intended to be an ISO, to the extent that it exceeds the $100,000 rule of Code Section 422(d) it will be treated as a Nonstatutory Stock Option ("NSO"). Further, if for any reason this Option (or portion thereof) will not qualify as an ISO, then, to the extent of such nonqualification, such Option (or portion thereof) shall be regarded as a NSO granted under the Plan. In no event will the Administrator, the Company or any Parent or Subsidiary or any of their respective employees or directors have any liability to Participant (or any other person) due to the failure of the Option to qualify for any reason as an ISO.

2. Vesting Schedule. Except as provided in Section 3, the Option awarded by this Award Agreement will vest in accordance with the vesting provisions set forth in the Notice of Grant. Shares scheduled to vest on a certain date or upon the occurrence of a certain condition will not vest in Participant in accordance with any of the provisions of this Award Agreement, unless Participant will have been continuously a Service Provider from the Date of Grant until the date such vesting occurs.

3. Administrator Discretion. The Administrator, in its discretion, may accelerate the vesting of the balance, or some lesser portion of the balance, of the unvested Option at any time, subject to the terms of the Plan. If so accelerated, such Option will be considered as having vested as of the date specified by the Administrator.

4. Exercise of Option.

(a) Right to Exercise. This Option may be exercised only within the term set out in the Notice of Grant, and may be exercised during such term only in accordance with the Plan and the terms of this Award Agreement.

(b) Method of Exercise. This Option is exercisable by delivery of an exercise notice, in the form attached as Exhibit B (the "Exercise Notice") or in a manner and pursuant to such procedures as the Administrator may determine, which will state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised (the "Exercised Shares"), and such other representations and agreements as may be required by the Company pursuant to the provisions of the Plan. The Exercise Notice will be completed by Participant and delivered to the Company. The Exercise Notice will be accompanied by payment of the aggregate Exercise Price as to all Exercised Shares together with any applicable tax withholding. This Option will be deemed to be exercised upon receipt by the Company of such fully executed Exercise Notice accompanied by such aggregate Exercise Price.

5. Method of Payment. Payment of the aggregate Exercise Price will be by any of the following, or a combination thereof, at the election of Participant.

(a) cash;

(b) check;

(c) consideration received by the Company under a formal cashless exercise program adopted by the Company in connection with the Plan; or

(d) surrender of other Shares which have a Fair Market Value on the date of surrender equal to the aggregate Exercise Price of the Exercised Shares, provided that accepting such Shares, in the sole discretion of the Administrator, will not result in any adverse accounting consequences to the Company.

6. Tax Obligations.

(a) Withholding Taxes. Notwithstanding any contrary provision of this Award Agreement, no certificate representing the Shares will be issued to Participant, unless and until satisfactory arrangements (as determined by the Administrator) will have been made by Participant with respect to the payment of income, employment and other taxes which the Company determines must be withheld with respect to such Shares. To the extent determined appropriate by the Company in its discretion, it will have the right (but not the obligation) to satisfy any tax withholding obligations by reducing the number of Shares otherwise deliverable to Participant. If Participant fails to make satisfactory arrangements for the payment of any required tax withholding obligations hereunder at the time of the Option exercise, Participant acknowledges and agrees that the Company may refuse to honor the exercise and refuse to deliver Shares if such withholding amounts are not delivered at the time of exercise.

(b) Notice of Disqualifying Disposition of ISO Shares. If the Option granted to Participant herein is an ISO, and if Participant sells or otherwise disposes of any of the Shares acquired pursuant to the ISO on or before the later of (i) the date two (2) years after the Grant Date, or (ii) the date one (1) year after the date of exercise, Participant will immediately notify the Company in writing of such disposition. Participant agrees that Participant may be subject to income tax withholding by the Company on the compensation income recognized by Participant.

(c) Code Section 409A. Under Code Section 409A, an option that vests after December 31, 2004 (or that vested on or prior to such date but which was materially modified after October 3, 2004) that was granted with a per Share exercise price that is determined by the Internal Revenue Service (the “IRS”) to be less than the Fair Market Value of a Share on the date of grant (a “Discount Option”) may be considered “deferred compensation.” A Discount Option may result in (i) income recognition by Participant prior to the exercise of the option, (ii) an additional twenty percent (20%) federal income tax, and (iii) potential penalty and interest charges. The Discount Option may also result in additional state income, penalty and interest charges to the Participant. Participant acknowledges that the Company cannot and has not guaranteed that the IRS will agree that the per Share exercise price of this Option equals or exceeds the Fair Market Value of a Share

on the Date of Grant in a later examination. Participant agrees that if the IRS determines that the Option was granted with a per Share exercise price that was less than the Fair Market Value of a Share on the date of grant, Participant will be solely responsible for Participant's costs related to such a determination.

7. Rights as Stockholder. Neither Participant nor any person claiming under or through Participant will have any of the rights or privileges of a stockholder of the Company in respect of any Shares deliverable hereunder unless and until certificates representing such Shares will have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to Participant. After such issuance, recordation and delivery, Participant will have all the rights of a stockholder of the Company with respect to voting such Shares and receipt of dividends and distributions on such Shares.

8. No Guarantee of Continued Service. PARTICIPANT ACKNOWLEDGES AND AGREES THAT THE VESTING OF SHARES PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AT THE WILL OF THE COMPANY (OR THE PARENT OR SUBSIDIARY EMPLOYING OR RETAINING PARTICIPANT) AND NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THE OPTION OR ACQUIRING SHARES HEREUNDER. PARTICIPANT FURTHER ACKNOWLEDGES AND AGREES THAT THIS AWARD AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND WILL NOT INTERFERE IN ANY WAY WITH PARTICIPANT'S RIGHT OR THE RIGHT OF THE COMPANY (OR THE PARENT OR SUBSIDIARY EMPLOYING OR RETAINING PARTICIPANT) TO TERMINATE PARTICIPANT'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

9. Address for Notices. Any notice to be given to the Company under the terms of this Award Agreement will be addressed to the Company, in care of its [TITLE] at Pacific Biosciences of California, Inc., 1505 Adams Drive, Menlo Park, CA 94025, or at such other address as the Company may hereafter designate in writing.

10. Non-Transferability of Option. This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution and may be exercised during the lifetime of Participant only by Participant.

11. Binding Agreement. Subject to the limitation on the transferability of this grant contained herein, this Award Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

12. Additional Conditions to Issuance of Stock. If at any time the Company will determine, in its discretion, that the listing, registration or qualification of the Shares upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory authority is necessary or desirable as a condition to the issuance of Shares to Participant (or his or her estate), such issuance will not occur unless and until such listing, registration, qualification, consent or approval will have been effected or obtained free of any conditions not acceptable to the Company. The Company will make all reasonable efforts to meet the requirements

of any such state or federal law or securities exchange and to obtain any such consent or approval of any such governmental authority. Assuming such compliance, for income tax purposes the Exercised Shares will be considered transferred to Participant on the date the Option is exercised with respect to such Exercised Shares.

13. Plan Governs. This Award Agreement is subject to all terms and provisions of the Plan. In the event of a conflict between one or more provisions of this Award Agreement and one or more provisions of the Plan, the provisions of the Plan will govern. Capitalized terms used and not defined in this Award Agreement will have the meaning set forth in the Plan.

14. Administrator Authority. The Administrator will have the power to interpret the Plan and this Award Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules (including, but not limited to, the determination of whether or not any Shares subject to the Option have vested). All actions taken and all interpretations and determinations made by the Administrator in good faith will be final and binding upon Participant, the Company and all other interested persons. No member of the Administrator will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Award Agreement.

15. Electronic Delivery. The Company may, in its sole discretion, decide to deliver any documents related to Options awarded under the Plan or future options that may be awarded under the Plan by electronic means or request Participant's consent to participate in the Plan by electronic means. Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through any on-line or electronic system established and maintained by the Company or another third party designated by the Company.

16. Captions. Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Award Agreement.

17. Agreement Severable. In the event that any provision in this Award Agreement will be held invalid or unenforceable, such provision will be severable from, and such invalidity or unenforceability will not be construed to have any effect on, the remaining provisions of this Award Agreement.

18. Modifications to the Agreement. This Award Agreement constitutes the entire understanding of the parties on the subjects covered. Participant expressly warrants that he or she is not accepting this Award Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to this Award Agreement or the Plan can be made only in an express written contract executed by a duly authorized officer of the Company. Notwithstanding anything to the contrary in the Plan or this Award Agreement, the Company reserves the right to revise this Award Agreement as it deems necessary or advisable, in its sole discretion and without the consent of Participant, to comply with Code Section 409A or to otherwise avoid imposition of any additional tax or income recognition under Section 409A of the Code in connection to this Option.

19. Amendment, Suspension or Termination of the Plan. By accepting this Award, Participant expressly warrants that he or she has received an Option under the Plan, and has received, read and understood a description of the Plan. Participant understands that the Plan is discretionary in nature and may be amended, suspended or terminated by the Company at any time.

20. Governing Law. This Award Agreement will be governed by the laws of the State of California, without giving effect to the conflict of law principles thereof. For purposes of litigating any dispute that arises under this Option or this Award Agreement, the parties hereby submit to and consent to the jurisdiction of the State of California, and agree that such litigation will be conducted in the courts of San Mateo County, California, or the federal courts for the United States for the Northern District of California, and no other courts, where this Option is made and/or to be performed.

EXHIBIT B

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.

2010 EQUITY INCENTIVE PLAN

EXERCISE NOTICE

Pacific Biosciences of California, Inc.
1505 Adams Drive
Menlo Park, CA 94025
Attention: [_____]

1. Exercise of Option. Effective as of today, _____, ____, the undersigned ("Purchaser") hereby elects to purchase_____ shares (the "Shares") of the Common Stock of Pacific Biosciences of California, Inc. (the "Company") under and pursuant to the 2010 Equity Incentive Plan (the "Plan") and the Stock Option Award Agreement dated _____ (the "Award Agreement"). The purchase price for the Shares will be $____, as required by the Award Agreement.

2. Delivery of Payment. Purchaser herewith delivers to the Company the full purchase price of the Shares and any required tax withholding to be paid in connection with the exercise of the Option.

3. Representations of Purchaser. Purchaser acknowledges that Purchaser has received, read and understood the Plan and the Award Agreement and agrees to abide by and be bound by their terms and conditions.

4. Rights as Stockholder. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the Shares, no right to vote or receive dividends or any other rights as a stockholder will exist with respect to the Shares subject to the Option, notwithstanding the exercise of the Option. The Shares so acquired will be issued to Purchaser as soon as practicable after exercise of the Option. No adjustment will be made for a dividend or other right for which the record date is prior to the date of issuance, except as provided in Section 13 of the Plan.

5. Tax Consultation. Purchaser understands that Purchaser may suffer adverse tax consequences as a result of Purchaser's purchase or disposition of the Shares. Purchaser represents that Purchaser has consulted with any tax consultants Purchaser deems advisable in connection with the purchase or disposition of the Shares and that Purchaser is not relying on the Company for any tax advice.

6. Entire Agreement; Governing Law. The Plan and Award Agreement are incorporated herein by reference. This Exercise Notice, the Plan and the Award Agreement constitute the entire

agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Purchaser with respect to the subject matter hereof, and may not be modified adversely to the Purchaser's interest except by means of a writing signed by the Company and Purchaser. This agreement is governed by the internal substantive laws, but not the choice of law rules, of the State of California.

Submitted by:	Accepted by:
PURCHASER:	PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
_____	_____
Signature	By
_____	_____
Print Name	Title
Residence Address:	
_____	
_____	
	_____
	Date Received

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.

2010 EQUITY INCENTIVE PLAN

RESTRICTED STOCK AWARD AGREEMENT

Unless otherwise defined herein, the terms defined in the Pacific Biosciences of California, Inc. 2010 Equity Incentive Plan (the "Plan") will have the same defined meanings in this Restricted Stock Award Agreement (the "Award Agreement").

I. NOTICE OF RESTRICTED STOCK GRANT

Participant Name:

Address:

You have been granted the right to receive an Award of Restricted Stock, subject to the terms and conditions of the Plan and this Award Agreement, as follows:

Grant Number	_____
Date of Grant	_____
Vesting Commencement Date	_____
Total Number of Shares Granted	_____

Vesting Schedule:

Subject to any acceleration provisions contained in the Plan or set forth below, the Restricted Stock will vest and the Company's right to reacquire the Restricted Stock will lapse in accordance with the following schedule:

[INSERT VESTING SCHEDULE]

By Participant's signature and the signature of the representative of Pacific Biosciences of California, Inc. (the "Company") below, Participant and the Company agree that this Award of Restricted Stock is granted under and governed by the terms and conditions of the Plan and this Award Agreement, including the Terms and Conditions of Restricted Stock Grant, attached hereto as Exhibit A, all of which are made a part of this document. Participant has reviewed the Plan and this Award Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Award Agreement and fully understands all provisions of the Plan and Award Agreement. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions relating to the Plan and Award Agreement. Participant further agrees to notify the Company upon any change in the residence address indicated below.

PARTICIPANT:	PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
Signature	By
Print Name	Title

Residence Address:

EXHIBIT A

TERMS AND CONDITIONS OF RESTRICTED STOCK GRANT

1. Grant of Restricted Stock. The Company hereby grants to the individual named in the Notice of Grant attached as Part I of this Award Agreement (the "Participant") under the Plan for past services and as a separate incentive in connection with his or her services and not in lieu of any salary or other compensation for his or her services, an Award of Shares of Restricted Stock, subject to all of the terms and conditions in this Award Agreement and the Plan, which is incorporated herein by reference. Subject to Section 18 of the Plan, in the event of a conflict between the terms and conditions of the Plan and the terms and conditions of this Award Agreement, the terms and conditions of the Plan will prevail.

2. Escrow of Shares.

(a) All Shares of Restricted Stock will, upon execution of this Award Agreement, be delivered and deposited with an escrow holder designated by the Company (the "Escrow Holder"). The Shares of Restricted Stock will be held by the Escrow Holder until such time as the Shares of Restricted Stock vest or the date Participant ceases to be a Service Provider.

(b) The Escrow Holder will not be liable for any act it may do or omit to do with respect to holding the Shares of Restricted Stock in escrow while acting in good faith and in the exercise of its judgment.

(c) Upon Participant's termination as a Service Provider for any reason, the Escrow Holder, upon receipt of written notice of such termination, will take all steps necessary to accomplish the transfer of the unvested Shares of Restricted Stock to the Company. Participant hereby appoints the Escrow Holder with full power of substitution, as Participant's true and lawful attorney-in-fact with irrevocable power and authority in the name and on behalf of Participant to take any action and execute all documents and instruments, including, without limitation, stock powers which may be necessary to transfer the certificate or certificates evidencing such unvested Shares of Restricted Stock to the Company upon such termination.

(d) The Escrow Holder will take all steps necessary to accomplish the transfer of Shares of Restricted Stock to Participant after they vest following Participant's request that the Escrow Holder do so.

(e) Subject to the terms hereof, Participant will have all the rights of a stockholder with respect to the Shares while they are held in escrow, including without limitation, the right to vote the Shares and to receive any cash dividends declared thereon.

(f) In the event of any dividend or other distribution (whether in the form of cash, Shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Shares or other securities of the Company, or other change in the corporate structure of the Company affecting the Shares, the Shares of Restricted Stock will be increased, reduced or otherwise changed, and by virtue of any such change Participant will in his or her capacity as

owner of unvested Shares of Restricted Stock be entitled to new or additional or different shares of stock, cash or securities (other than rights or warrants to purchase securities); such new or additional or different shares, cash or securities will thereupon be considered to be unvested Shares of Restricted Stock and will be subject to all of the conditions and restrictions which were applicable to the unvested Shares of Restricted Stock pursuant to this Award Agreement. If Participant receives rights or warrants with respect to any unvested Shares of Restricted Stock, such rights or warrants may be held or exercised by Participant, provided that until such exercise any such rights or warrants and after such exercise any shares or other securities acquired by the exercise of such rights or warrants will be considered to be unvested Shares of Restricted Stock and will be subject to all of the conditions and restrictions which were applicable to the unvested Shares of Restricted Stock pursuant to this Award Agreement. The Administrator in its absolute discretion at any time may accelerate the vesting of all or any portion of such new or additional shares of stock, cash or securities, rights or warrants to purchase securities or shares or other securities acquired by the exercise of such rights or warrants.

(g) The Company may instruct the transfer agent for its Common Stock to place a legend on the certificates representing the Restricted Stock or otherwise note its records as to the restrictions on transfer set forth in this Award Agreement.

3. Vesting Schedule. Except as provided in Section 4, and subject to Section 5, the Shares of Restricted Stock awarded by this Award Agreement will vest in accordance with the vesting provisions set forth in the Notice of Grant. Shares of Restricted Stock scheduled to vest on a certain date or upon the occurrence of a certain condition will not vest in Participant in accordance with any of the provisions of this Award Agreement, unless Participant will have been continuously a Service Provider from the Date of Grant until the date such vesting occurs.

4. Administrator Discretion. The Administrator, in its discretion, may accelerate the vesting of the balance, or some lesser portion of the balance, of the unvested Restricted Stock at any time, subject to the terms of the Plan. If so accelerated, such Restricted Stock will be considered as having vested as of the date specified by the Administrator.

5. Forfeiture upon Termination of Status as a Service Provider. Notwithstanding any contrary provision of this Award Agreement, the balance of the Shares of Restricted Stock that have not vested at the time of Participant's termination as a Service Provider for any reason will be forfeited and automatically transferred to and reacquired by the Company at no cost to the Company upon the date of such termination and Participant will have no further rights thereunder. Participant will not be entitled to a refund of the price paid for the Shares of Restricted Stock, if any, returned to the Company pursuant to this Section 5. Participant hereby appoints the Escrow Agent with full power of substitution, as Participant's true and lawful attorney-in-fact with irrevocable power and authority in the name and on behalf of Participant to take any action and execute all documents and instruments, including, without limitation, stock powers which may be necessary to transfer the certificate or certificates evidencing such unvested Shares to the Company upon such termination of service.

6. Death of Participant. Any distribution or delivery to be made to Participant under this Award Agreement will, if Participant is then deceased, be made to Participant's designated beneficiary, or if no beneficiary survives Participant, the administrator or executor of

Participant's estate. Any such transferee must furnish the Company with (a) written notice of his or her status as transferee, and (b) evidence satisfactory to the Company to establish the validity of the transfer and compliance with any laws or regulations pertaining to said transfer.

7. Withholding of Taxes. Notwithstanding any contrary provision of this Award Agreement, no certificate representing the Shares of Restricted Stock may be released from the escrow established pursuant to Section 2, unless and until satisfactory arrangements (as determined by the Administrator) will have been made by Participant with respect to the payment of income, employment and other taxes which the Company determines must be withheld with respect to such Shares. The Administrator, in its sole discretion and pursuant to such procedures as it may specify from time to time, may permit Participant to satisfy such tax withholding obligation, in whole or in part (without limitation) by (a) paying cash, (b) electing to have the Company withhold otherwise deliverable Shares having a Fair Market Value equal to the minimum amount required to be withheld, (c) delivering to the Company already vested and owned Shares having a Fair Market Value equal to the amount required to be withheld, or (d) selling a sufficient number of such Shares otherwise deliverable to Participant through such means as the Company may determine in its sole discretion (whether through a broker or otherwise) equal to the amount required to be withheld. To the extent determined appropriate by the Company in its discretion, it will have the right (but not the obligation) to satisfy any tax withholding obligations by reducing the number of Shares otherwise deliverable to Participant. If Participant fails to make satisfactory arrangements for the payment of any required tax withholding obligations hereunder at the time any applicable Shares otherwise are scheduled to vest pursuant to Sections 3 or 4, Participant will permanently forfeit such Shares and the Shares will be returned to the Company at no cost to the Company.

8. Rights as Stockholder. Neither Participant nor any person claiming under or through Participant will have any of the rights or privileges of a stockholder of the Company in respect of any Shares deliverable hereunder unless and until certificates representing such Shares will have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to Participant or the Escrow Agent. Except as provided in Section 2, after such issuance, recordation and delivery, Participant will have all the rights of a stockholder of the Company with respect to voting such Shares and receipt of dividends and distributions on such Shares.

9. No Guarantee of Continued Service. PARTICIPANT ACKNOWLEDGES AND AGREES THAT THE VESTING OF THE SHARES OF RESTRICTED STOCK PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AT THE WILL OF THE COMPANY (OR THE PARENT OR SUBSIDIARY EMPLOYING OR RETAINING PARTICIPANT) AND NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THIS RESTRICTED STOCK OR ACQUIRING SHARES HEREUNDER. PARTICIPANT FURTHER ACKNOWLEDGES AND AGREES THAT THIS AWARD AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND WILL NOT INTERFERE IN ANY WAY WITH PARTICIPANT'S RIGHT OR THE RIGHT OF THE COMPANY (OR THE PARENT OR SUBSIDIARY EMPLOYING OR RETAINING PARTICIPANT) TO TERMINATE PARTICIPANT'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

10. Address for Notices. Any notice to be given to the Company under the terms of this Award Agreement will be addressed to the Company, in care of its Stock Administration at Pacific Biosciences of California, Inc., at 1505 Adams Drive, Menlo Park, CA 94025, or at such other address as the Company may hereafter designate in writing.

11. Grant is Not Transferable. Except to the limited extent provided in Section 6, the unvested Shares subject to this grant and the rights and privileges conferred hereby will not be transferred, assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) and will not be subject to sale under execution, attachment or similar process. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of any unvested Shares of Restricted Stock subject to this grant, or any right or privilege conferred hereby, or upon any attempted sale under any execution, attachment or similar process, this grant and the rights and privileges conferred hereby immediately will become null and void.

12. Binding Agreement. Subject to the limitation on the transferability of this grant contained herein, this Award Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

13. Additional Conditions to Release from Escrow. The Company will not be required to issue any certificate or certificates for Shares hereunder or release such Shares from the escrow established pursuant to Section 2 prior to fulfillment of all the following conditions: (a) the admission of such Shares to listing on all stock exchanges on which such class of stock is then listed; (b) the completion of any registration or other qualification of such Shares under any state or federal law or under the rulings or regulations of the Securities and Exchange Commission or any other governmental regulatory body, which the Administrator will, in its absolute discretion, deem necessary or advisable; (c) the obtaining of any approval or other clearance from any state or federal governmental agency, which the Administrator will, in its absolute discretion, determine to be necessary or advisable; and (d) the lapse of such reasonable period of time following the date of grant of the Restricted Stock as the Administrator may establish from time to time for reasons of administrative convenience.

14. Plan Governs. This Award Agreement is subject to all terms and provisions of the Plan. In the event of a conflict between one or more provisions of this Award Agreement and one or more provisions of the Plan, the provisions of the Plan will govern. Capitalized terms used and not defined in this Award Agreement will have the meaning set forth in the Plan.

15. Administrator Authority. The Administrator will have the power to interpret the Plan and this Award Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules (including, but not limited to, the determination of whether or not any Shares of Restricted Stock have vested). All actions taken and all interpretations and determinations made by the Administrator in good faith will be final and binding upon Participant, the Company and all other interested persons. No member of the Administrator will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Award Agreement.

16. Electronic Delivery. The Company may, in its sole discretion, decide to deliver any documents related to the Shares of Restricted Stock awarded under the Plan or future Restricted Stock that may be awarded under the Plan by electronic means or request Participant's consent to participate in the Plan by electronic means. Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through any on-line or electronic system established and maintained by the Company or another third party designated by the Company.

17. Captions. Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Award Agreement.

18. Agreement Severable. In the event that any provision in this Award Agreement will be held invalid or unenforceable, such provision will be severable from, and such invalidity or unenforceability will not be construed to have any effect on, the remaining provisions of this Award Agreement.

19. Modifications to the Agreement. This Award Agreement constitutes the entire understanding of the parties on the subjects covered. Participant expressly warrants that he or she is not accepting this Award Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to this Award Agreement or the Plan can be made only in an express written contract executed by a duly authorized officer of the Company. Notwithstanding anything to the contrary in the Plan or this Award Agreement, the Company reserves the right to revise this Award Agreement as it deems necessary or advisable, in its sole discretion and without the consent of Participant, to comply with Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") or to otherwise avoid imposition of any additional tax or income recognition under Section 409A of the Code in connection to this Award of Restricted Stock.

20. Amendment, Suspension or Termination of the Plan. By accepting this Award, Participant expressly warrants that he or she has received an Award of Restricted Stock under the Plan, and has received, read and understood a description of the Plan. Participant understands that the Plan is discretionary in nature and may be amended, suspended or terminated by the Company at any time.

21. Governing Law. This Award Agreement will be governed by the laws of the State of California, without giving effect to the conflict of law principles thereof. For purposes of litigating any dispute that arises under this Award of Restricted Stock or this Award Agreement, the parties hereby submit to and consent to the jurisdiction of the State of California**,** and agree that such litigation will be conducted in the courts of San Mateo County, California**,** or the federal courts for the United States for the Northern District of California, and no other courts, where this Award of Restricted Stock is made and/or to be performed.

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.

2010 EQUITY INCENTIVE PLAN

RESTRICTED STOCK UNIT AWARD AGREEMENT

Unless otherwise defined herein, the terms defined in the Pacific Biosciences of California, Inc. 2010 Equity Incentive Plan (the "Plan") will have the same defined meanings in this Restricted Stock Unit Award Agreement (the "Award Agreement").

I. NOTICE OF RESTRICTED STOCK UNIT GRANT

Participant Name:

Address:

You have been granted the right to receive an Award of Restricted Stock Units, subject to the terms and conditions of the Plan and this Award Agreement, as follows:

Grant Number	_____
Date of Grant	_____
Vesting Commencement Date	_____
Number of Restricted Stock Units	_____

Vesting Schedule:

Subject to any acceleration provisions contained in the Plan or set forth below, the Restricted Stock Unit will vest in accordance with the following schedule:

[INSERT VESTING SCHEDULE.]

In the event Participant ceases to be a Service Provider for any or no reason before Participant vests in the Restricted Stock Unit, the Restricted Stock Unit and Participant's right to acquire any Shares hereunder will immediately terminate.

By Participant's signature and the signature of the representative of Pacific Biosciences of California, Inc. (the "Company") below, Participant and the Company agree that this Award of Restricted Stock Units is granted under and governed by the terms and conditions of the Plan and this Award Agreement, including the Terms and Conditions of Restricted Stock Unit Grant, attached hereto as Exhibit A, all of which are made a part of this document. Participant has reviewed the Plan and this Award Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Award Agreement and fully understands all provisions of the Plan and Award Agreement. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions relating to the Plan and Award Agreement. Participant further agrees to notify the Company upon any change in the residence address indicated below.

PARTICIPANT:	PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
Signature	By
Print Name	Title

Residence Address:

EXHIBIT A

TERMS AND CONDITIONS OF RESTRICTED STOCK UNIT GRANT

1. Grant. The Company hereby grants to the individual named in the Notice of Grant attached as Part I of this Award Agreement (the "Participant") under the Plan an Award of Restricted Stock Units, subject to all of the terms and conditions in this Award Agreement and the Plan, which is incorporated herein by reference. Subject to Section 18 of the Plan, in the event of a conflict between the terms and conditions of the Plan and the terms and conditions of this Award Agreement, the terms and conditions of the Plan will prevail.

2. Company's Obligation to Pay. Each Restricted Stock Unit represents the right to receive a Share on the date it vests. Unless and until the Restricted Stock Units will have vested in the manner set forth in Section 3, Participant will have no right to payment of any such Restricted Stock Units. Prior to actual payment of any vested Restricted Stock Units, such Restricted Stock Unit will represent an unsecured obligation of the Company, payable (if at all) only from the general assets of the Company. Any Restricted Stock Units that vest in accordance with Sections 3 or 4 will be paid to Participant (or in the event of Participant's death, to his or her estate) in whole Shares, subject to Participant satisfying any applicable tax withholding obligations as set forth in Section 7. Subject to the provisions of Section 4, such vested Restricted Stock Units will be paid in Shares as soon as practicable after vesting, but in each such case within the period ending no later than the date that is two and one-half (2 1/2) months from the end of the Company's tax year that includes the vesting date.

3. Vesting Schedule. Except as provided in Section 4, and subject to Section 5, the Restricted Stock Units awarded by this Award Agreement will vest in accordance with the vesting provisions set forth in the Notice of Grant. Restricted Stock Units scheduled to vest on a certain date or upon the occurrence of a certain condition will not vest in Participant in accordance with any of the provisions of this Award Agreement, unless Participant will have been continuously a Service Provider from the Date of Grant until the date such vesting occurs.

4. Administrator Discretion. The Administrator, in its discretion, may accelerate the vesting of the balance, or some lesser portion of the balance, of the unvested Restricted Stock Units at any time, subject to the terms of the Plan. If so accelerated, such Restricted Stock Units will be considered as having vested as of the date specified by the Administrator.

Notwithstanding anything in the Plan or this Award Agreement to the contrary, if the vesting of the balance, or some lesser portion of the balance, of the Restricted Stock Units is accelerated in connection with Participant's termination as a Service Provider (provided that such termination is a "separation from service" within the meaning of Section 409A, as determined by the Company), other than due to death**,** and if (x) Participant is a "specified employee" within the meaning of Section 409A at the time of such termination as a Service Provider and (y) the payment of such accelerated Restricted Stock Units will result in the imposition of additional tax under Section 409A if paid to Participant on or within the six (6) month period following Participant's termination as a Service Provider, then the payment of such accelerated Restricted Stock Units will not be made until the date six (6) months and one (1) day following the date of Participant's termination as a Service Provider, unless the Participant dies

following his or her termination as a Service Provider, in which case, the Restricted Stock Units will be paid in Shares to the Participant's estate as soon as practicable following his or her death. It is the intent of this Award Agreement to comply with the requirements of Section 409A so that none of the Restricted Stock Units provided under this Award Agreement or Shares issuable thereunder will be subject to the additional tax imposed under Section 409A, and any ambiguities herein will be interpreted to so comply. For purposes of this Award Agreement, "Section 409A" means Section 409A of the Code, and any proposed, temporary or final Treasury Regulations and Internal Revenue Service guidance thereunder, as each may be amended from time to time.

5. Forfeiture upon Termination of Status as a Service Provider. Notwithstanding any contrary provision of this Award Agreement, the balance of the Restricted Stock Units that have not vested as of the time of Participant's termination as a Service Provider for any or no reason and Participant's right to acquire any Shares hereunder will immediately terminate.

6. Death of Participant. Any distribution or delivery to be made to Participant under this Award Agreement will, if Participant is then deceased, be made to Participant's designated beneficiary, or if no beneficiary survives Participant, the administrator or executor of Participant's estate. Any such transferee must furnish the Company with (a) written notice of his or her status as transferee, and (b) evidence satisfactory to the Company to establish the validity of the transfer and compliance with any laws or regulations pertaining to said transfer.

7. Withholding of Taxes. Notwithstanding any contrary provision of this Award Agreement, no certificate representing the Shares will be issued to Participant, unless and until satisfactory arrangements (as determined by the Administrator) will have been made by Participant with respect to the payment of income, employment and other taxes which the Company determines must be withheld with respect to such Shares. The Administrator, in its sole discretion and pursuant to such procedures as it may specify from time to time, may permit Participant to satisfy such tax withholding obligation, in whole or in part (without limitation) by (a) paying cash, (b) electing to have the Company withhold otherwise deliverable Shares having a Fair Market Value equal to the minimum amount required to be withheld, (c) delivering to the Company already vested and owned Shares having a Fair Market Value equal to the amount required to be withheld, or (d) selling a sufficient number of such Shares otherwise deliverable to Participant through such means as the Company may determine in its sole discretion (whether through a broker or otherwise) equal to the amount required to be withheld. To the extent determined appropriate by the Company in its discretion, it will have the right (but not the obligation) to satisfy any tax withholding obligations by reducing the number of Shares otherwise deliverable to Participant. If Participant fails to make satisfactory arrangements for the payment of any required tax withholding obligations hereunder at the time any applicable Restricted Stock Units otherwise are scheduled to vest pursuant to Sections 3 or 4, Participant will permanently forfeit such Restricted Stock Units and any right to receive Shares thereunder and the Restricted Stock Units will be returned to the Company at no cost to the Company.

8. Rights as Stockholder. Neither Participant nor any person claiming under or through Participant will have any of the rights or privileges of a stockholder of the Company in respect of any Shares deliverable hereunder unless and until certificates representing such Shares will have been issued, recorded on the records of the Company or its transfer agents or registrars,

and delivered to Participant. After such issuance, recordation and delivery, Participant will have all the rights of a stockholder of the Company with respect to voting such Shares and receipt of dividends and distributions on such Shares.

9. No Guarantee of Continued Service. PARTICIPANT ACKNOWLEDGES AND AGREES THAT THE VESTING OF THE RESTRICTED STOCK UNITS PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AT THE WILL OF THE COMPANY (OR THE PARENT OR SUBSIDIARY EMPLOYING OR RETAINING PARTICIPANT) AND NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THIS AWARD OF RESTRICTED STOCK UNITS OR ACQUIRING SHARES HEREUNDER. PARTICIPANT FURTHER ACKNOWLEDGES AND AGREES THAT THIS AWARD AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND WILL NOT INTERFERE IN ANY WAY WITH PARTICIPANT'S RIGHT OR THE RIGHT OF THE COMPANY (OR THE PARENT OR SUBSIDIARY EMPLOYING OR RETAINING PARTICIPANT) TO TERMINATE PARTICIPANT'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

10. Address for Notices. Any notice to be given to the Company under the terms of this Award Agreement will be addressed to the Company, in care of Stock Administration at Pacific Biosciences of California, Inc., at 1505 Adams Drive, Menlo Park, CA 94025, or at such other address as the Company may hereafter designate in writing.

11. Grant is Not Transferable. Except to the limited extent provided in Section 6, this grant and the rights and privileges conferred hereby will not be transferred, assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) and will not be subject to sale under execution, attachment or similar process. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of this grant, or any right or privilege conferred hereby, or upon any attempted sale under any execution, attachment or similar process, this grant and the rights and privileges conferred hereby immediately will become null and void.

12. Binding Agreement. Subject to the limitation on the transferability of this grant contained herein, this Award Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

13. Additional Conditions to Issuance of Stock. If at any time the Company will determine, in its discretion, that the listing, registration or qualification of the Shares upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory authority is necessary or desirable as a condition to the issuance of Shares to Participant (or his or her estate), such issuance will not occur unless and until such listing, registration, qualification, consent or approval will have been effected or obtained free of any conditions not acceptable to the Company. Where the Company determines that the delivery of the payment of any Shares will violate federal securities laws or other applicable laws, the Company will defer delivery until the earliest date at which the Company reasonably anticipates

that the delivery of Shares will no longer cause such violation. The Company will make all reasonable efforts to meet the requirements of any such state or federal law or securities exchange and to obtain any such consent or approval of any such governmental authority.

14. Plan Governs. This Award Agreement is subject to all terms and provisions of the Plan. In the event of a conflict between one or more provisions of this Award Agreement and one or more provisions of the Plan, the provisions of the Plan will govern. Capitalized terms used and not defined in this Award Agreement will have the meaning set forth in the Plan.

15. Administrator Authority. The Administrator will have the power to interpret the Plan and this Award Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules (including, but not limited to, the determination of whether or not any Restricted Stock Units have vested). All actions taken and all interpretations and determinations made by the Administrator in good faith will be final and binding upon Participant, the Company and all other interested persons. No member of the Administrator will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Award Agreement.

16. Electronic Delivery. The Company may, in its sole discretion, decide to deliver any documents related to Restricted Stock Units awarded under the Plan or future Restricted Stock Units that may be awarded under the Plan by electronic means or request Participant's consent to participate in the Plan by electronic means. Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through any on-line or electronic system established and maintained by the Company or another third party designated by the Company.

17. Captions. Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Award Agreement.

18. Agreement Severable. In the event that any provision in this Award Agreement will be held invalid or unenforceable, such provision will be severable from, and such invalidity or unenforceability will not be construed to have any effect on, the remaining provisions of this Award Agreement.

19. Modifications to the Agreement. This Award Agreement constitutes the entire understanding of the parties on the subjects covered. Participant expressly warrants that he or she is not accepting this Award Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to this Award Agreement or the Plan can be made only in an express written contract executed by a duly authorized officer of the Company. Notwithstanding anything to the contrary in the Plan or this Award Agreement, the Company reserves the right to revise this Award Agreement as it deems necessary or advisable, in its sole discretion and without the consent of Participant, to comply with Section 409A or to otherwise avoid imposition of any additional tax or income recognition under Section 409A in connection to this Award of Restricted Stock Units.

20. Amendment, Suspension or Termination of the Plan. By accepting this Award,

Participant expressly warrants that he or she has received an Award of Restricted Stock Units under the Plan, and has received, read and understood a description of the Plan. Participant understands that the Plan is discretionary in nature and may be amended, suspended or terminated by the Company at any time.

21. Governing Law. This Award Agreement will be governed by the laws of the State of California, without giving effect to the conflict of law principles thereof. For purposes of litigating any dispute that arises under this Award of Restricted Stock Units or this Award Agreement, the parties hereby submit to and consent to the jurisdiction of the State of California, and agree that such litigation will be conducted in the courts of San Mateo County, California, or the federal courts for the United States for the Northern District of California, and no other courts, where this Award of Restricted Stock Units is made and/or to be performed.

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.

2010 EMPLOYEE STOCK PURCHASE PLAN

1. Purpose. The purpose of the Plan is to provide employees of the Company and its Designated Subsidiaries with an opportunity to purchase Common Stock through accumulated Contributions (as defined in Section 2(j) below). The Company's intention is to have Plan qualify as an "employee stock purchase plan" under Section 423 of the Code. The provisions of the Plan, accordingly, will be construed so as to extend and limit Plan participation in a uniform and nondiscriminatory basis consistent with the requirements of Section 423 of the Code.

2. Definitions.

(a) "Administrator" means the Board or any Committee designated by the Board to administer the Plan pursuant to Section 14.

(b) "Applicable Laws" means the requirements relating to the administration of equity-based awards under U.S. state corporate laws, U.S. federal and state securities laws, the Code, any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any foreign country or jurisdiction where options are, or will be, granted under the Plan.

(c) "Board" means the Board of Directors of the Company.

(d) "Change in Control" means the occurrence of any of the following events:

(i) A change in the ownership of the Company which occurs on the date that any one person, or more than one person acting as a group ("Person"), acquires ownership of the stock of the Company that, together with the stock held by such Person, constitutes more than fifty percent (50%) of the total voting power of the stock of the Company; provided, however, that for purposes of this subsection, the acquisition of additional stock by any one Person, who is considered to own more than fifty percent (50%) of the total voting power of the stock of the Company will not be considered a Change in Control; or

(ii) If the Company has a class of securities registered pursuant to Section 12 of the Exchange Act, a change in the effective control of the Company which occurs on the date that a majority of members of the Board is replaced during any twelve (12) month period by Directors whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of the appointment or election. For purposes of this clause (ii), if any Person is considered to be in effective control of the Company, the acquisition of additional control of the Company by the same Person will not be considered a Change in Control; or

(iii) A change in the ownership of a substantial portion of the Company's assets which occurs on the date that any Person acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by such person or persons) assets from the Company that have a total gross fair market value equal to or more than 50% of the total gross fair market value of all of the assets of the Company immediately prior to such acquisition or acquisitions; provided, however, that for purposes of this subsection, the following will not constitute a change in the ownership of a substantial portion of the Company's assets: (A) a transfer to an entity that is controlled by the Company's stockholders immediately after the transfer, or (B) a transfer of assets by the Company to: (1) a stockholder of the Company (immediately before the asset transfer) in exchange for or with respect to the Company's stock, (2) an entity, fifty percent (50%) or more of the total value or voting power of which is owned, directly or indirectly, by the Company, (3) a Person, that owns, directly or indirectly, fifty percent (50%) or more of the total value or voting power of all the outstanding stock of the Company, or (4) an entity, at least fifty percent (50%) of the total value or voting power of which is owned, directly or indirectly, by a Person described in this subsection (iii)(B)(3). For purposes of this subsection, gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

For purposes of this definition, persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the Company.

Notwithstanding the foregoing, a transaction will not be deemed a Change in Control unless the transaction qualifies as a change in control event within the meaning of Code Section 409A, as it has been and may be amended from time to time, and any proposed or final Treasury Regulations and Internal Revenue Service guidance that has been promulgated or may be promulgated thereunder from time to time.

Further and for the avoidance of doubt, a transaction will not constitute a Change in Control if: (i) its sole purpose is to change the state of the Company's incorporation, or (ii) its sole purpose is to create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transaction.

(e) "Code" means the U.S. Internal Revenue Code of 1986, as amended. Reference to a specific section of the Code or Treasury Regulation thereunder will include such section or regulation, any valid regulation or other official applicable guidance promulgated under such section, and any comparable provision of any future legislation or regulation amending, supplementing or superseding such section or regulation.

(f) "Committee" means a committee of the Board appointed in accordance with Section 14 hereof.

(g) "Common Stock" means the common stock of the Company.

(h) "Company" means Pacific Biosciences of California, Inc., a Delaware corporation, or any successor thereto.

(i) "Compensation" means an Eligible Employee's base straight time gross earnings, commissions (to the extent such commissions are an integral, recurring part of compensation), payments for overtime and shift premium, but exclusive of payments for incentive compensation, bonuses and other similar compensation. The Administrator, in its discretion, may, on a uniform and nondiscriminatory basis, establish a different definition of Compensation for a subsequent Offering Period.

(j) "Contributions" means the payroll deductions and other additional payments that the Company may permit to be made by a Participant to fund the exercise of options granted pursuant to the Plan.

(k) "Designated Subsidiary" means any Subsidiary that has been designated by the Administrator from time to time in its sole discretion as eligible to participate in the Plan.

(l) "Director" means a member of the Board.

(m) "Eligible Employee" means any individual who is a common law employee of the Company or a Designated Subsidiary and is customarily employed for at least twenty (20) hours per week and more than five (5) months in any calendar year by the Employer, or any lesser number of hours per week and/or number of months in any calendar year established by the Administrator (if required under applicable local law) for purposes of any separate Offering. For purposes of the Plan, the employment relationship will be treated as continuing intact while the individual is on sick leave or other leave of absence that the Employer approves. Where the period of leave exceeds three (3) months and the individual's right to reemployment is not guaranteed either by statute or by contract, the employment relationship will be deemed to have terminated three (3) months and one (1) day following the commencement of such leave. The Administrator, in its discretion, from time to time may, prior to an Enrollment Date for all options to be granted on such Enrollment Date, determine (on a uniform and nondiscriminatory basis) that the definition of Eligible Employee will or will not

include an individual if he or she: (i) has not completed at least two (2) years of service since his or her last hire date (or such lesser period of time as may be determined by the Administrator in its discretion), (ii) customarily works not more than twenty (20) hours per week (or such lesser period of time as may be determined by the Administrator in its discretion), (iii) customarily works not more than five (5) months per calendar year (or such lesser period of time as may be determined by the Administrator in its discretion), (iv) is a highly compensated employee within the meaning of Section 414(q) of the Code with compensation above a certain level or is an officer or subject to the disclosure requirements of Section 16(a) of the Exchange Act, provided the exclusion is applied with respect to each Offering in an identical manner to all highly compensated individuals of the Employer whose Employees are participating in that Offering.

(n) "Employer" means the employer of the applicable Eligible Employee(s).

(o) "Enrollment Date" means the first Trading Day of each Offering Period.

(p) "Exchange Act" means the Securities Exchange Act of 1934, as amended, including the rules and regulations promulgated thereunder.

(q) "Exercise Date" means the first Trading Day on or after March 1 and September 1 of each Purchase Period. Notwithstanding the foregoing, the first Exercise Date under the Plan will be September 1, 2011.

(r) "Fair Market Value" means, as of any date and unless the Administrator determines otherwise, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the NASDAQ Global Select Market, the NASDAQ Global Market or the NASDAQ Capital Market of The NASDAQ Stock Market, its Fair Market Value will be the closing sales price for such stock as quoted on such exchange or system on the date of determination (or the closing bid, if no sales were reported), as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable;

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, its Fair Market Value will be the mean between the high bid and low asked prices for the Common Stock on the date of determination, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable;

(iii) In the absence of an established market for the Common Stock, the Fair Market Value thereof will be determined in good faith by the Administrator; or

(iv) For purposes of the Enrollment Date of the first Offering Period under the Plan, the Fair Market Value will be the initial price to the public as set forth in the final prospectus included within the registration statement on Form S-1 filed with the Securities and Exchange Commission for the initial public offering of the Common Stock (the "Registration Statement").

(s) "Fiscal Year" means the fiscal year of the Company.

(t) "New Exercise Date" means a new Exercise Date if the Administrator shortens any Offering Period then in progress.

(u) "Offering Periods" means the periods of approximately twenty-four (24) months during which an option granted pursuant to the Plan may be exercised, (i) commencing on the first Trading Day on or after March 1 and September 1 of each year and terminating on the first Trading Day on or after March 1 and September 1, approximately twenty-four (24) months later; provided, however, that the first Offering Period under the Plan will commence with the first Trading Day on or after the date on which the Securities and Exchange Commission declares the Company's Registration Statement effective and will end on the earlier of (i) the first Trading Day on or after September 1, 2012, or (ii) twenty-seven (27) months from the beginning of the first Offering Period, and provided, further, that the second Offering Period under the Plan will commence on the first Trading Day on or after September 1, 2011. The duration and timing of Offering Periods may be changed pursuant to Sections 4 and 20.

(v) "Parent" means a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.

(w) "Participant" means an Eligible Employee that participates in the Plan.

(x) "Plan" means this Pacific Biosciences of California, Inc. 2010 Employee Stock Purchase Plan.

(y) "Purchase Period" means the approximately six (6) month period commencing after one Exercise Date and ending with the next Exercise Date, except that the first Purchase Period of any Offering Period will commence on the Enrollment Date and end with the next Exercise Date.

(z) "Purchase Price" means an amount equal to eighty-five percent (85%) of the Fair Market Value of a share of Common Stock on the Enrollment Date or on the Exercise Date, whichever is lower; provided however, that the Purchase Price may be determined for subsequent Offering Periods by the Administrator subject to compliance with Section 423 of the Code (or any successor rule or provision or any other applicable law, regulation or stock exchange rule) or pursuant to Section 20.

(aa) "Subsidiary" means a "subsidiary corporation," whether now or hereafter existing, as defined in Section 424(f) of the Code.

(bb) "Trading Day" means a day on which the national stock exchange upon which the Common Stock is listed is open for trading.

3. Eligibility.

(a) First Offering Period. Any individual who is an Eligible Employee immediately prior to the first Offering Period will be automatically enrolled in the first Offering Period.

(b) Offering Periods. Any Eligible Employee on a given Enrollment Date subsequent to the first Offering Period will be eligible to participate in the Plan, subject to the requirements of Section 5.

(c) Non-U.S. Employees. Employees who are citizens or residents of a non-U.S. jurisdiction may be excluded from participation in the Plan or an Offering if the participation of such Employees is prohibited under the laws of the applicable jurisdiction or if complying with the laws of the applicable jurisdiction would cause the Plan or an Offering to violate Section 423 of the Code.

(d) Limitations. Any provisions of the Plan to the contrary notwithstanding, no Eligible Employee will be granted an option under the Plan (i) to the extent that, immediately after the grant, such Eligible Employee (or any other person whose stock would be attributed to such Eligible Employee pursuant to Section 424(d) of the Code) would own capital stock of the Company or any Parent or Subsidiary of the Company and/or hold outstanding options to purchase such stock possessing five percent (5%) or more of the total combined voting power or value of all classes of the capital stock of the Company or of any Parent or Subsidiary of the Company, or (ii) to the extent that his or her rights to purchase stock under all employee stock purchase plans (as defined in Section 423 of the Code) of the Company or any Parent or Subsidiary of the Company accrues at a rate, which exceeds twenty-five thousand dollars ($25,000) worth of stock (determined at the Fair Market Value of the stock at the time such option is granted) for each calendar year in which such option is outstanding at any time, as determined in accordance with Section 423 of the Code and the regulations thereunder.

4. Offering Periods. The Plan will be implemented by consecutive, overlapping Offering Periods with a new Offering Period commencing on the first Trading Day on or after March 1 and September 1 each year, or on such other date as the Administrator will determine; provided, however, that the first Offering Period under the Plan will commence with the first Trading Day on or after the date upon which the Company's Registration Statement is declared effective by the Securities and Exchange Commission and end on the earlier of (i) the first Trading Day on or after

September 1, 2012, or (ii) twenty-seven (27) months from the beginning of the first Offering Period, and provided, further, that the second Offering Period under the Plan will commence on the first Trading Day on or after September 1, 2011. The Administrator will have the power to change the duration of Offering Periods (including the commencement dates thereof) with respect to future offerings without stockholder approval if such change is announced prior to the scheduled beginning of the first Offering Period to be affected thereafter.

5. Participation.

(a) First Offering Period. An Eligible Employee will be entitled to continue to participate in the first Offering Period pursuant to Section 3(a) only if such individual submits a subscription agreement authorizing payroll deductions in a form determined by the Administrator to the Company's designated plan administrator (i) no earlier than the effective date of the Form S-8 registration statement with respect to the issuance of Common Stock under this Plan and (ii) no later than ten (10) business days following the effective date of such S-8 registration statement or such other period of time as the Administrator may determine (the "Enrollment Window"). An Eligible Employee's failure to submit the subscription agreement during the Enrollment Window will result in the automatic termination of such individual's participation in the first Offering Period.

(b) Subsequent Offering Periods. An Eligible Employee may participate in the Plan pursuant to Section 3(b) by (i) submitting to the Company's stock administration office (or its designee), on or before a date determined by the Administrator prior to an applicable Enrollment Date, a properly completed subscription agreement authorizing Contributions in the form provided by the Administrator for such purpose, or (ii) following an electronic or other enrollment procedure determined by the Administrator.

6. Contributions.

(a) At the time a Participant enrolls in the Plan pursuant to Section 5, he or she will elect to have payroll deductions made on each pay day or other Contributions (to the extent permitted by the Administrator) made during the Offering Period in an amount not exceeding twenty percent (20%) of the Compensation, which he or she receives on each pay day during the Offering Period; provided, however, that should a pay day occur on an Exercise Date, a Participant will have any payroll deductions made on such day applied to his or her account under the subsequent Purchase Period or Offering Period. The Administrator, in its sole discretion, may permit all Participants in a specified Offering to contribute amounts to the Plan through payment by cash, check or other means set forth in the subscription agreement prior to each Exercise Date of each Purchase Period, provided that payment through means other than payroll deductions shall be permitted only if the Participant has not already had the maximum permitted amount withheld through payroll deductions during the Purchase Period or Offering Period. A Participant's subscription agreement will remain in effect for successive Offering Periods unless terminated as provided in Section 10 hereof.

(b) Payroll deductions for a Participant will commence on the first pay day following the Enrollment Date and will end on the last pay day prior to the Exercise Date of such Offering Period to which such authorization is applicable, unless sooner terminated by the Participant as provided in Section 10 hereof; provided, however, that for the first Offering Period, payroll deductions will commence on the first pay day on or following the end of the Enrollment Window.

(c) All Contributions made for a Participant will be credited to his or her account under the Plan and payroll deductions will be made in whole percentages only. A Participant may not make any additional payments into such account.

(d) A Participant may discontinue his or her participation in the Plan as provided in Section 10. If permitted by the Administrator, as determined in its sole discretion, for an Offering Period, a Participant may increase or decrease the rate of his or her Contributions during the Offering Period by (i) properly completing and submitting to the Company's stock administration office (or its designee), on or before a date determined by the Administrator prior to an applicable Exercise Date, a new subscription agreement authorizing the change in Contribution rate in the form provided by the Administrator for such purpose, or (ii) following an electronic or other procedure prescribed by the Administrator. If a Participant has not followed such procedures to change the rate of Contributions, the rate of his or her Contributions will continue at the originally elected rate throughout the Offering Period and future Offering Periods (unless terminated as provided in Section 10). The Administrator may, in its sole discretion, limit the nature and/or number of Contribution rate changes that may be made by Participants during any Offering Period, and may establish such other conditions or limitations as it deems appropriate for Plan administration. Any change in payroll deduction rate made pursuant to this Section 6(d) will be effective as of the first full payroll period following five (5) business days after the date on which the change is made by the Participant (unless the Administrator, in its sole discretion, elects to process a given change in payroll deduction rate more quickly).

(e) Notwithstanding the foregoing, to the extent necessary to comply with Section 423(b)(8) of the Code and Section 3(b), a Participant's Contributions may be decreased to zero percent (0%) at any time during a Purchase Period. Subject to Section 423(b)(8) of the Code and Section 3(b) hereof, Contributions will recommence at the rate originally elected by the Participant effective as of the beginning of the first Purchase Period scheduled to end in the following calendar year, unless terminated by the Participant as provided in Section 10.

(f) Notwithstanding any provisions to the contrary in the Plan, the Administrator may allow Eligible Employees to participate in the Plan via cash contributions instead of payroll deductions if (i) payroll deductions are not permitted under applicable local law, and (ii) the Administrator determines that cash contributions are permissible under Section 423 of the Code.

(g) At the time the option is exercised, in whole or in part, or at the time some or all of the Common Stock issued under the Plan is disposed of (or any other time that a taxable event related to the Plan occurs), the Participant must make adequate provision for the Company's or Employer's federal, state, local or any other tax liability payable to any authority including taxes imposed by jurisdictions outside of the U.S., national insurance, social security or other tax withholding obligations, if any, which arise upon the exercise of the option or the disposition of the Common Stock (or any other time that a taxable event related to the Plan occurs). At any time, the Company or the Employer may, but will not be obligated to, withhold from the Participant's Compensation the amount necessary for the Company or the Employer to meet applicable withholding obligations, including any withholding required to make available to the Company or the Employer any tax deductions or benefits attributable to sale or early disposition of Common Stock by the Eligible Employee. In addition, the Company or the Employer may, but will not be obligated to, withhold from the proceeds of the sale of Common Stock or any other method of withholding the Company or the Employer deems appropriate to the extent permitted by U.S. Treasury Regulation Section 1.423-2(f).

7. Grant of Option. On the Enrollment Date of each Offering Period, each Eligible Employee participating in such Offering Period will be granted an option to purchase on each Exercise Date during such Offering Period (at the applicable Purchase Price) up to a number of shares of Common Stock determined by dividing such Eligible Employee's Contributions accumulated prior to such Exercise Date and retained in the Eligible Employee's account as of the Exercise Date by the applicable Purchase Price; provided that in no event will an Eligible Employee be permitted to

purchase during each Purchase Period more than 7,500 shares of the Company's Common Stock (subject to any adjustment pursuant to Section 19) and provided further that such purchase will be subject to the limitations set forth in Sections 3(c) and 13. The Eligible Employee may accept the grant of such option (i) with respect to the first Offering Period by submitting a properly completed subscription agreement in accordance with the requirements of Section 5 on or before the last day of the Enrollment Window, and (ii) with respect to any subsequent Offering Period under the Plan, by electing to participate in the Plan in accordance with the requirements of Section 5. The Administrator may, for future Offering Periods, increase or decrease, in its absolute discretion, the maximum number of shares of Common Stock that an Eligible Employee may purchase during each Purchase Period of an Offering Period. Exercise of the option will occur as provided in Section 8, unless the Participant has withdrawn pursuant to Section 10. The option will expire on the last day of the Offering Period.

8. Exercise of Option.

(a) Unless a Participant withdraws from the Plan as provided in Section 10, his or her option for the purchase of shares of Common Stock will be exercised automatically on the Exercise Date, and the maximum number of full shares subject to the option will be purchased for such Participant at the applicable Purchase Price with the accumulated Contributions from his or her account. No fractional shares of Common Stock will be purchased; any Contributions accumulated in a Participant's account, which are not sufficient to purchase a full share will be retained in the Participant's account for the subsequent Purchase Period or Offering Period, subject to earlier withdrawal by the Participant as provided in Section 10. Any other funds left over in a Participant's account after the Exercise Date will be returned to the Participant. During a Participant's lifetime, a Participant's option to purchase shares hereunder is exercisable only by him or her.

(b) If the Administrator determines that, on a given Exercise Date, the number of shares of Common Stock with respect to which options are to be exercised may exceed (i) the number of shares of Common Stock that were available for sale under the Plan on the Enrollment Date of the applicable Offering Period, or (ii) the number of shares of Common Stock available for sale under the Plan on such Exercise Date, the Administrator may in its sole discretion (x) provide that the Company will make a pro rata allocation of the shares of Common Stock available for purchase on such Enrollment Date or Exercise Date, as applicable, in as uniform a manner as will be practicable and as it will determine in its sole discretion to be equitable among all Participants exercising options to purchase Common Stock on such Exercise Date, and continue all Offering Periods then in effect or (y) provide that the Company will make a pro rata allocation of the shares available for purchase on such Enrollment Date or Exercise Date, as applicable, in as uniform a manner as will be practicable and as it will determine in its sole discretion to be equitable among all participants exercising options to purchase Common Stock on such Exercise Date, and terminate any or all Offering Periods then in effect pursuant to Section 20. The Company may make a pro rata allocation of the shares available on the Enrollment Date of any applicable Offering Period pursuant to the preceding sentence, notwithstanding any authorization of additional shares for issuance under the Plan by the Company's stockholders subsequent to such Enrollment Date.

9. Delivery. As soon as reasonably practicable after each Exercise Date on which a purchase of shares of Common Stock occurs, the Company will arrange the delivery to each Participant of the shares purchased upon exercise of his or her option in a form determined by the Administrator (in its sole discretion) and pursuant to rules established by the Administrator. The Company may permit or require that shares be deposited directly with a broker designated by the Company or to a designated agent of the Company, and the Company may utilize electronic or automated methods of share

transfer. The Company may require that shares be retained with such broker or agent for a designated period of time and/or may establish other procedures to permit tracking of disqualifying dispositions of such shares. No Participant will have any voting, dividend, or other stockholder rights with respect to shares of Common Stock subject to any option granted under the Plan until such shares have been purchased and delivered to the Participant as provided in this Section 9.

10. Withdrawal.

(a) A Participant may withdraw all but not less than all the Contributions credited to his or her account and not yet used to exercise his or her option under the Plan at any time by (i) submitting to the Company's stock administration office (or its designee) a written notice of withdrawal in the form determined by the Administrator for such purpose, or (ii) following an electronic or other withdrawal procedure determined by the Administrator. All of the Participant's Contributions credited to his or her account will be paid to such Participant promptly after receipt of notice of withdrawal and such Participant's option for the Offering Period will be automatically terminated, and no further Contributions for the purchase of shares will be made for such Offering Period. If a Participant withdraws from an Offering Period, Contributions will not resume at the beginning of the succeeding Offering Period, unless the Participant re-enrolls in the Plan in accordance with the provisions of Section 5.

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

11. Termination of Employment. Upon a Participant's ceasing to be an Eligible Employee, for any reason, he or she will be deemed to have elected to withdraw from the Plan and the Contributions credited to such Participant's account during the Offering Period but not yet used to purchase shares of Common Stock under the Plan will be returned to such Participant or, in the case of his or her death, to the person or persons entitled thereto under Section 15, and such Participant's option will be automatically terminated.

12. Interest. No interest will accrue on the Contributions of a participant in the Plan, except as may be required by applicable law, as determined by the Company, and if so required by the laws of a particular jurisdiction, shall apply to all Participants in the relevant Offering except to the extent otherwise permitted by U.S. Treasury Regulation Section 1.423-2(f).

13. Stock.

(a) Subject to adjustment upon changes in capitalization of the Company as provided in Section 19 hereof, the maximum number of shares of Common Stock that will be made available for sale under the Plan will be 1,500,000 shares of Common Stock, plus an annual increase to be added on the first day of each Fiscal Year beginning with the 2011 Fiscal Year equal to the least of (i) 4,000,000 shares of Common Stock, (ii) two percent (2%) of the outstanding shares of Common Stock on such date, or (iii) an amount determined by the Administrator.

(b) Until the shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), a Participant will only have the rights of an unsecured creditor with respect to such shares, and no right to vote or receive dividends or any other rights as a stockholder will exist with respect to such shares.

(c) Shares of Common Stock to be delivered to a Participant under the Plan will be registered in the name of the Participant or in the name of the Participant and his or her spouse.

14. Administration. The Plan will be administered by the Board or a Committee appointed by the Board, which Committee will be constituted to comply with Applicable Laws. The Administrator will have full and exclusive discretionary authority to construe, interpret and apply the terms of the Plan, to designate separate Offerings under the Plan, to determine eligibility, to adjudicate all disputed claims filed under the Plan and to establish such procedures that it deems necessary for the administration of the Plan (including, without limitation, to adopt such procedures and sub-plans as are necessary or appropriate to permit the participation in the Plan by employees who are foreign nationals or employed outside the U.S.). Unless otherwise determined by the Administrator, the Employees eligible to participate in each sub-plan will participate in a separate Offering. Without limiting the generality of the foregoing, the Administrator is specifically authorized to adopt rules and procedures regarding eligibility to participate, the definition of Compensation, handling of Contributions, making of Contributions to the Plan (including, without limitation, in forms other than payroll deductions), establishment of bank or trust accounts to hold Contributions, payment of interest, conversion of local currency, obligations to pay payroll tax, determination of beneficiary designation requirements, withholding procedures and handling of stock certificates that vary with applicable local requirements. Every finding, decision and determination made by the Administrator will, to the full extent permitted by law, be final and binding upon all parties.

15. Designation of Beneficiary.

(a) If permitted by the Administrator, a Participant may file a designation of a beneficiary who is to receive any shares of Common Stock and cash, if any, from the Participant's account under the Plan in the event of such Participant's death subsequent to an Exercise Date on which the option is exercised but prior to delivery to such Participant of such shares and cash. In addition, if permitted by the Administrator, a Participant may file a designation of a beneficiary who is to receive any cash from the Participant's account under the Plan in the event of such Participant's death prior to exercise of the option. If a Participant is married and the designated beneficiary is not the spouse, spousal consent will be required for such designation to be effective.

(b) Such designation of beneficiary may be changed by the Participant at any time by notice in a form determined by the Administrator. In the event of the death of a Participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such Participant's death, the Company will deliver such shares and/or cash to the executor or administrator of the estate of the Participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its discretion, may deliver such shares and/or cash to the spouse or to any one or more dependents or relatives of the Participant, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

(c) All beneficiary designations will be in such form and manner as the Administrator may designate from time to time. Notwithstanding Sections 15(a) and (b) above, the Company and/or the Administrator may decide not to permit such designations by Participants in non-U.S. jurisdictions to the extent permitted by U.S. Treasury Regulation Section 1.423-2(f).

16. Transferability. Neither Contributions credited to a Participant's account nor any rights with regard to the exercise of an option or to receive shares of Common Stock under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way (other than by will, the laws of descent and distribution or as provided in Section 15 hereof) by the Participant. Any such attempt at assignment, transfer, pledge or other disposition will be without effect, except that the Company may treat such act as an election to withdraw funds from an Offering Period in accordance with Section 10 hereof.

17. Use of Funds. The Company may use all Contributions received or held by it under the Plan for any corporate purpose, and the Company will not be obligated to segregate such Contributions except under Offerings in which applicable local law requires that Contributions to the Plan by

Participants be segregated from the Company's general corporate funds and/or deposited with an independent third party for Participants in non-U.S. jurisdictions. Until shares of Common Stock are issued, Participants will only have the rights of an unsecured creditor with respect to such shares.

18. Reports. Individual accounts will be maintained for each Participant in the Plan. Statements of account will be given to participating Eligible Employees at least annually, which statements will set forth the amounts of Contributions, the Purchase Price, the number of shares of Common Stock purchased and the remaining cash balance, if any.

19. Adjustments, Dissolution, Liquidation, Merger or Change in Control.

(a) Adjustments. In the event that any dividend or other distribution (whether in the form of cash, Common Stock, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Common Stock or other securities of the Company, or other change in the corporate structure of the Company affecting the Common Stock occurs, the Administrator, in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, will, in such manner as it may deem equitable, adjust the number and class of Common Stock that may be delivered under the Plan, the Purchase Price per share and the number of shares of Common Stock covered by each option under the Plan that has not yet been exercised, and the numerical limits of Sections 7 and 13.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, any Offering Period then in progress will be shortened by setting a New Exercise Date, and will terminate immediately prior to the consummation of such proposed dissolution or liquidation, unless provided otherwise by the Administrator. The New Exercise Date will be before the date of the Company's proposed dissolution or liquidation. The Administrator will notify each Participant in writing or electronically, at least ten (10) business days prior to the New Exercise Date, that the Exercise Date for the Participant's option has been changed to the New Exercise Date and that the Participant's option will be exercised automatically on the New Exercise Date, unless prior to such date the Participant has withdrawn from the Offering Period as provided in Section 10 hereof.

(c) Merger or Change in Control. In the event of a merger or Change in Control, each outstanding option will be assumed or an equivalent option substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. In the event that the successor corporation refuses to assume or substitute for the option, the Offering Period with respect to which such option relates will be shortened by setting a New Exercise Date on which such Offering Period shall end. The New Exercise Date will occur before the date of the Company's proposed merger or Change in Control. The Administrator will notify each Participant in writing or electronically prior to the New Exercise Date, that the Exercise Date for the Participant's option has been changed to the New Exercise Date and that the Participant's option will be exercised automatically on the New Exercise Date, unless prior to such date the Participant has withdrawn from the Offering Period as provided in Section 10 hereof.

20. Amendment or Termination.

(a) The Administrator, in its sole discretion, may amend, suspend, or terminate the Plan, or any part thereof, at any time and for any reason. If the Plan is terminated, the Administrator, in its discretion, may elect to terminate all outstanding Offering Periods either immediately or upon completion of the purchase of shares of Common Stock on the next Exercise Date (which may be sooner than originally scheduled, if determined by the Administrator in its discretion), or may elect to permit Offering Periods to expire in accordance with their terms (and subject to any adjustment pursuant to

Section 19). If the Offering Periods are terminated prior to expiration, all amounts then credited to Participants' accounts that have not been used to purchase shares of Common Stock will be returned to the Participants (without interest thereon, except as otherwise required under local laws, as further set forth in Section 12 hereof) as soon as administratively practicable.

(b) Without stockholder consent and without limiting Section 20(a), the Administrator will be entitled to change the Offering Periods or Purchase Periods, designate separate Offerings, limit the frequency and/or number of changes in the amount withheld during an Offering Period, establish the exchange ratio applicable to amounts withheld in a currency other than U.S. dollars, permit payroll withholding in excess of the amount designated by a Participant in order to adjust for delays or mistakes in the Company's processing of properly completed withholding elections, establish reasonable waiting and adjustment periods and/or accounting and crediting procedures to ensure that amounts applied toward the purchase of Common Stock for each Participant properly correspond with Contribution amounts, and establish such other limitations or procedures as the Administrator determines in its sole discretion advisable that are consistent with the Plan.

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

(i) amending the Plan to conform with the safe harbor definition under the Financial Accounting Standards Board Accounting Standards Codification Topic 718 (or any successor thereto), including with respect to an Offering Period underway at the time;

(ii) altering the Purchase Price for any Offering Period or Purchase Period including an Offering Period or Purchase Period underway at the time of the change in Purchase Price;

(iii) shortening any Offering Period or Purchase Period by setting a New Exercise Date, including an Offering Period or Purchase Period underway at the time of the Administrator action;

(iv) reducing the maximum percentage of Compensation a Participant may elect to set aside as Contributions; and

(v) reducing the maximum number of Shares a Participant may purchase during any Offering Period or Purchase Period.

Such modifications or amendments will not require stockholder approval or the consent of any Plan Participants.

21. Notices. All notices or other communications by a Participant to the Company under or in connection with the Plan will be deemed to have been duly given when received in the form and manner specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

22. Conditions Upon Issuance of Shares. Shares of Common Stock will not be issued with respect to an option unless the exercise of such option and the issuance and delivery of such shares pursuant thereto will comply with all applicable provisions of law, domestic or foreign, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the shares may then be listed, and will be further subject to the approval of counsel for the Company with respect to such compliance.

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

23. Code Section 409A. The Plan is exempt from the application of Code Section 409A. In furtherance of the foregoing and notwithstanding any provision in the Plan to the contrary, if the Administrator determines that an option granted under the Plan may be subject to Code Section 409A or that any provision in the Plan would cause an option under the Plan to be subject to Code Section 409A, the Administrator may amend the terms of the Plan and/or of an outstanding option granted under the Plan, or take such other action the Administrator determines is necessary or appropriate, in each case, without the Participant's consent, to exempt any outstanding option or future option that may be granted under the Plan from or to allow any such options to comply with Code Section 409A, but only to the extent any such amendments or action by the Administrator would not violate Code Section 409A. Notwithstanding the foregoing, the Company shall have no liability to a Participant or any other party if the option to purchase Common Stock under the Plan that is intended to be exempt from or compliant with Code Section 409A is not so exempt or compliant or for any action taken by the Administrator with respect thereto. The Company makes no representation that the option to purchase Common Stock under the Plan is compliant with Code Section 409A.

24. Term of Plan. The Plan will become effective upon the earlier to occur of its adoption by the Board or its approval by the stockholders of the Company. It will continue in effect for a term of twenty (20) years, unless sooner terminated under Section 20.

25. Stockholder Approval. The Plan will be subject to approval by the stockholders of the Company within twelve (12) months after the date the Plan is adopted by the Board. Such stockholder approval will be obtained in the manner and to the degree required under Applicable Laws.

26. Governing Law. The Plan shall be governed by, and construed in accordance with, the laws of the State of California (except its choice-of-law provisions).

27. Severability. If any provision of the Plan is or becomes or is deemed to be invalid, illegal, or unenforceable for any reason in any jurisdiction or as to any Participant, such invalidity, illegality or unenforceability shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as to such jurisdiction or Participant as if the invalid, illegal or unenforceable provision had not been included.

28. Automatic Transfer to Low Price Offering Period. To the extent permitted by Applicable Laws, if the Fair Market Value of the Common Stock on any Exercise Date in an Offering Period is lower than the Fair Market Value of the Common Stock on the Enrollment Date of such Offering Period, then all participants in such Offering Period will be automatically withdrawn from such Offering Period immediately after the exercise of their option on such Exercise Date and automatically re-enrolled in the immediately following Offering Period as of the first day thereof.

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.

2010 EMPLOYEE STOCK PURCHASE PLAN

SUBSCRIPTION AGREEMENT

_____ Original Application
_____ Change in Payroll Deduction Rate
_____ Change of Beneficiary(ies)

Offering Date: _____

1. _____ hereby elects to participate in the Pacific Biosciences of California, Inc. 2010 Employee Stock Purchase Plan (the "Plan") and subscribes to purchase shares of the Company's Common Stock in accordance with this Subscription Agreement and the Plan.

2. I hereby authorize payroll deductions from each paycheck in the amount of ____% of my Compensation on each payday (from 0 to 20%) during the Offering Period in accordance with the Plan. (Please note that no fractional percentages are permitted.)

3. I understand that said payroll deductions will be accumulated for the purchase of shares of Common Stock at the applicable Purchase Price determined in accordance with the Plan. I understand that if I do not withdraw from an Offering Period, any accumulated payroll deductions will be used to automatically exercise my option and purchase Common Stock under the Plan.

4. I have received a copy of the complete Plan and its accompanying prospectus. I understand that my participation in the Plan is in all respects subject to the terms of the Plan.

5. Shares of Common Stock purchased for me under the Plan should be issued in the name(s) of _____ (Eligible Employee or Eligible Employee and Spouse only).

6. I understand that if I dispose of any shares received by me pursuant to the Plan within two (2) years after the Offering Date (the first day of the Offering Period during which I purchased such shares) or one (1) year after the Exercise Date, I will be treated for federal income tax purposes as having received ordinary income at the time of such disposition in an amount equal to the excess of the fair market value of the shares at the time such shares were purchased by me over the price that I paid for the shares. I hereby agree to notify the Company in writing within thirty (30) days after the date of any disposition of my shares and I will make adequate provision for Federal, state or other tax withholding obligations, if any, which arise upon the disposition of the Common Stock. The Company may, but will not be obligated to, withhold from my compensation the amount necessary to meet any applicable withholding obligation including any withholding necessary to make available to the Company any tax deductions or benefits attributable to sale or early disposition of Common Stock by me. If I dispose of such shares at any time after the expiration of the two (2)-year and one (1)-year holding periods, I understand that I will be treated for federal income tax purposes as having received income only at the time of such disposition, and that such income will be taxed as ordinary income only to the extent of an amount equal to the lesser of (a) the

excess of the fair market value of the shares at the time of such disposition over the purchase price which I paid for the shares, or (b) 15% of the fair market value of the shares on the first day of the Offering Period. The remainder of the gain, if any, recognized on such disposition will be taxed as capital gain.

7. I hereby agree to be bound by the terms of the Plan. The effectiveness of this Subscription Agreement is dependent upon my eligibility to participate in the Plan.

8. In the event of my death, I hereby designate the following as my beneficiary(ies) to receive all payments and shares due me under the Plan:

NAME: (please print) _____
First Middle Last

_____ _____
Relationship

_____ _____
Percentage Benefit

_____
Address

NAME: (please print) _____
First Middle Last

_____ _____
Relationship

_____ _____
Percentage Benefit

_____
Address

Employee's Social Security Number: _____

Employee's Address: _____

_____

_____

I UNDERSTAND THAT THIS SUBSCRIPTION AGREEMENT WILL REMAIN IN EFFECT THROUGHOUT SUCCESSIVE OFFERING PERIODS UNLESS TERMINATED BY ME.

Dated: _____ _____

Signature of Employee

Dated: _____ _____

Spouse's Signature (If beneficiary other than spouse)

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.

2010 EMPLOYEE STOCK PURCHASE PLAN

NOTICE OF WITHDRAWAL

The undersigned participant in the Offering Period of the Pacific Biosciences of California, Inc. 2010 Employee Stock Purchase Plan that began on _____, ____ (the "Offering Date") hereby notifies the Company that he or she hereby withdraws from the Offering Period. He or she hereby directs the Company to pay to the undersigned as promptly as practicable all the payroll deductions credited to his or her account with respect to such Offering Period. The undersigned understands and agrees that his or her option for such Offering Period will be automatically terminated. The undersigned understands further that no further payroll deductions will be made for the purchase of shares in the current Offering Period and the undersigned will be eligible to participate in succeeding Offering Periods only by delivering to the Company a new Subscription Agreement.

Name and Address of Participant:

_____

_____

_____

Signature:

_____

Date: _____

Exhibit 10.6

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.

2010 OUTSIDE DIRECTOR EQUITY INCENTIVE PLAN

1. Purposes of the Plan. The purposes of this Plan are:

- to attract and retain the best available personnel for Outside Director positions,
- to provide additional incentive to Outside Directors, and
- to promote the success of the Company's business.

The Plan permits the grant of Nonstatutory Stock Options, Restricted Stock, Restricted Stock Units, Stock Appreciation Rights, Performance Units and Performance Shares.

2. Definitions. As used herein, the following definitions will apply:

(a) "Administrator" means the Board or any of its Committees as will be administering the Plan, in accordance with Section 4 of the Plan.

(b) "Applicable Laws" means the requirements relating to the administration of equity-based awards under U.S. state corporate laws, U.S. federal and state securities laws, the Code, any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any foreign country or jurisdiction where Awards are, or will be, granted under the Plan.

(c) "Award" means, individually or collectively, a grant under the Plan of Nonstatutory Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Units or Performance Shares.

(d) "Award Agreement" means the written or electronic agreement setting forth the terms and provisions applicable to each Award granted under the Plan. The Award Agreement is subject to the terms and conditions of the Plan.

(e) "Board" means the Board of Directors of the Company.

(f) "Change in Control" means the occurrence of any of the following events:

(i) A change in the ownership of the Company which occurs on the date that any one person, or more than one person acting as a group ("Person"), acquires ownership of the stock of the Company that, together with the stock held by such Person, constitutes more than fifty percent (50%) of the total voting power of the stock of the Company; provided, however, that for purposes of this subsection, the acquisition of additional stock by any one Person, who is considered to own more than fifty percent (50%) of the total voting power of the stock of the Company will not be considered a Change in Control; or

(ii) A change in the effective control of the Company which occurs on the date that a majority of members of the Board is replaced during any twelve (12) month period by Directors whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of the appointment or election. For purposes of this clause (ii), if any Person is considered to be in effective control of the Company, the acquisition of additional control of the Company by the same Person will not be considered a Change in Control; or

(iii) A change in the ownership of a substantial portion of the Company's assets which occurs on the date that any Person acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by such person or persons) assets from the Company that have a total gross fair market value equal to or more than fifty percent (50%) of the total gross fair market value of all of the assets of the Company immediately prior to such acquisition or acquisitions; provided, however, that for purposes of this subsection (iii), the following will not constitute a change in the ownership of a substantial portion of the Company's assets: (A) a transfer to an entity that is controlled by the Company's stockholders immediately after the transfer, or (B) a transfer of assets by the Company to: (1) a stockholder of the Company (immediately before the asset transfer) in exchange for or with respect to the Company's stock, (2) an entity, fifty percent (50%) or more of the total value or voting power of which is owned, directly or indirectly, by the Company, (3) a Person, that owns, directly or indirectly, fifty percent (50%) or more of the total value or voting power of all the outstanding stock of the Company, or (4) an entity, at least fifty percent (50%) of the total value or voting power of which is owned, directly or indirectly, by a Person described in this subsection (iii)(B)(3). For purposes of this subsection (iii), gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

For purposes of this definition, persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the Company.

Notwithstanding the foregoing, a transaction will not be deemed a Change in Control unless the transaction qualifies as a change in control event within the meaning of Code Section 409A, as it has been and may be amended from time to time, and any proposed or final Treasury Regulations and Internal Revenue Service guidance that has been promulgated or may be promulgated thereunder from time to time.

Further and for the avoidance of doubt, a transaction will not constitute a Change in Control if: (i) its sole purpose is to change the state of the Company's incorporation, or (ii) its sole purpose is to create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transaction.

(g) "Code" means the Internal Revenue Code of 1986, as amended. Reference to a specific section of the Code or regulation thereunder shall include such section or regulation, any valid regulation promulgated under such section, and any comparable provision of any future legislation or regulation amending, supplementing or superseding such section or regulation.

(h) "Committee" means a committee of Directors or of other individuals satisfying Applicable Laws appointed by the Board in accordance with Section 4 hereof.

(i) "Common Stock" means the common stock of the Company.

(j) "Company" means Pacific Biosciences of California, Inc., a Delaware corporation, or any successor thereto.

(k) "Consultant" means any person, including an advisor, engaged by the Company or a Parent or Subsidiary to render services to such entity.

(l) "Director" means a member of the Board.

(m) "Disability" means total and permanent disability as defined in Section 22(e)(3) of the Code, provided that the Administrator in its discretion may determine whether a permanent and total disability exists in accordance with uniform and non-discriminatory standards adopted by the Administrator from time to time.

(n) "Employee" means any person, including Officers and Directors, employed by the Company or any Parent or Subsidiary of the Company. Neither service as a Director nor payment of a director's fee by the Company will be sufficient to constitute "employment" by the Company.

(o) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(p) "Exchange Program" means a program under which (i) outstanding Awards are surrendered or cancelled in exchange for Awards of the same type (which may have higher or lower exercise prices and different terms), Awards of a different type, and/or cash, (ii) Participants would have the opportunity to transfer any outstanding Awards to a financial institution or other person or entity selected by the Administrator, and/or (iii) the exercise price of an outstanding Award is increased or reduced. The Administrator will determine the terms and conditions of any Exchange Program in its sole discretion.

(q) "Fair Market Value" means, as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the NASDAQ Global Select Market, the NASDAQ Global Market or the NASDAQ Capital Market of The NASDAQ Stock Market, its Fair Market Value will be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system on the day of determination, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable;

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, the Fair Market Value of a Share will be the mean between the high bid and low asked prices for the Common Stock on the day of determination, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable;

(iii) For purposes of any Awards granted on the Registration Date, the Fair Market Value will be the initial price to the public as set forth in the final prospectus included within the registration statement in Form S-1 filed with the Securities and Exchange Commission for the initial public offering of the Company's Common Stock; or

(iv) In the absence of an established market for the Common Stock, the Fair Market Value will be determined in good faith by the Administrator.

(r) "Fiscal Year" means the fiscal year of the Company.

(s) "Incentive Stock Option" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.

(t) "Inside Director" means a Director who is an Employee.

(u) "Nonstatutory Stock Option" means an Option that by its terms does not qualify or is not intended to qualify as an Incentive Stock Option.

(v) "Officer" means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(w) "Option" means a stock option granted pursuant to the Plan.

(x) "Outside Director" means a Director who is not an Employee.

(y) "Parent" means a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.

(z) "Participant" means the holder of an outstanding Award.

(aa) "Performance Share" means an Award denominated in Shares which may be earned in whole or in part upon attainment of performance goals or other vesting criteria as the Administrator may determine pursuant to Section 10.

(bb) "Performance Unit" means an Award which may be earned in whole or in part upon attainment of performance goals or other vesting criteria as the Administrator may determine and which may be settled for cash, Shares or other securities or a combination of the foregoing pursuant to Section 10.

(cc) "Period of Restriction" means the period during which the transfer of Shares of Restricted Stock are subject to restrictions and therefore, the Shares are subject to a substantial risk of forfeiture. Such restrictions may be based on the passage of time, the achievement of target levels of performance, or the occurrence of other events as determined by the Administrator.

(dd) "Plan" means this 2010 Outside Director Equity Incentive Plan.

(ee) "Registration Date" means the effective date of the first registration statement that is filed by the Company and declared effective pursuant to Section 12(g) of the Exchange Act, with respect to any class of the Company's securities.

(ff) "Restricted Stock" means Shares issued pursuant to a Restricted Stock award under Section 7 of the Plan, or issued pursuant to the early exercise of an Option.

(gg) "Restricted Stock Unit" means a bookkeeping entry representing an amount equal to the Fair Market Value of one Share, granted pursuant to Section 8. Each Restricted Stock Unit represents an unfunded and unsecured obligation of the Company.

(hh) "Rule 16b-3" means Rule 16b-3 of the Exchange Act or any successor to Rule 16b-3, as in effect when discretion is being exercised with respect to the Plan.

(ii) "Section 16(b)" means Section 16(b) of the Exchange Act.

(jj) "Service Provider" means a Director.

(kk) "Share" means a share of the Common Stock, as adjusted in accordance with Section 13 of the Plan.

(ll) "Stock Appreciation Right" means an Award, granted alone or in connection with an Option, that pursuant to Section 9 is designated as a Stock Appreciation Right.

(mm) "Subsidiary" means a "subsidiary corporation," whether now or hereafter existing, as defined in Section 424(f) of the Code.

3. Stock Subject to the Plan.

(a) Stock Subject to the Plan. Subject to the provisions of Section 13 of the Plan, the maximum aggregate number of Shares that may be issued under the Plan is 1,000,000 Shares. The Shares may be authorized, but unissued, or reacquired Common Stock.

(b) Automatic Share Reserve Increase. The number of Shares available for issuance under the Plan will be increased on the first day of each Fiscal Year beginning with the 2012 Fiscal Year, in an amount equal to the lesser of (ii) one percent (1%) of the outstanding Shares on the last day of the immediately preceding Fiscal Year or (ii) such number of Shares determined by the Board.

(c) Lapsed Awards. If an Award expires or becomes unexercisable without having been exercised in full, is surrendered pursuant to an Exchange Program, or, with respect to Restricted Stock, Restricted Stock Units, Performance Units or Performance Shares, is forfeited to or repurchased by the Company due to failure to vest, the unpurchased Shares (or for Awards other than Options or Stock Appreciation Rights the forfeited or repurchased Shares), which were subject thereto will become available for future grant or sale under the Plan (unless the Plan has terminated). With respect to Stock Appreciation Rights, only Shares actually issued (i.e., the net Shares issued) pursuant to a Stock Appreciation Right will cease to be available under the Plan; all remaining Shares under Stock Appreciation Rights will remain available for future grant or sale under the Plan (unless the Plan has terminated). Shares that have actually been issued under the Plan under any Award will not be returned to the Plan and will not become available for future distribution under the Plan; provided, however, that if Shares issued pursuant to Awards of Restricted Stock, Restricted Stock Units, Performance Shares or Performance Units are repurchased by the Company or are

forfeited to the Company, such Shares will become available for future grant under the Plan. Shares used to pay the exercise price of an Award or to satisfy the tax withholding obligations related to an Award will become available for future grant or sale under the Plan. To the extent an Award under the Plan is paid out in cash rather than Shares, such cash payment will not result in reducing the number of Shares available for issuance under the Plan.

(d) Share Reserve. The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as will be sufficient to satisfy the requirements of the Plan.

4. Administration of the Plan.

(a) Procedure. The Plan will be administered by (A) the Board or (B) a Committee, which committee will be constituted to satisfy Applicable Laws, including and without limiting the foregoing, that to the extent desirable to qualify transactions hereunder as exempt under Rule 16b-3, the transactions contemplated hereunder will be structured to satisfy the requirements for exemption under Rule 16b-3.

(b) Powers of the Administrator. Subject to the provisions of the Plan, and in the case of a Committee, subject to the specific duties delegated by the Board to such Committee, the Administrator will have the authority, in its discretion:

(i) to determine the Fair Market Value;

(ii) to select the Outside Directors to whom Awards may be granted hereunder;

(iii) to determine the number of Shares to be covered by each Award granted hereunder;

(iv) to approve forms of Award Agreements for use under the Plan;

(v) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any Award granted hereunder. Such terms and conditions include, but are not limited to, the exercise price, the time or times when Awards may be exercised (which may be based on performance criteria), any vesting acceleration or waiver of forfeiture restrictions, and any restriction or limitation regarding any Award or the Shares relating thereto, based in each case on such factors as the Administrator will determine;

(vi) to determine the terms and conditions of any, and to institute any Exchange Program;

(vii) to construe and interpret the terms of the Plan and Awards granted pursuant to the Plan;

(viii) to prescribe, amend and rescind rules and regulations relating to the Plan, including rules and regulations relating to sub-plans established for the purpose of satisfying applicable foreign laws or for qualifying for favorable tax treatment under applicable foreign laws;

(ix) to modify or amend each Award (subject to Section 18 of the Plan), including but not limited to the discretionary authority to extend the post-termination exercisability period of Awards and to extend the maximum term of an Option;

(x) to allow Participants to satisfy withholding tax obligations in such manner as prescribed in Section 14 of the Plan;

(xi) to authorize any person to execute on behalf of the Company any instrument required to effect the grant of an Award previously granted by the Administrator;

(xii) to allow a Participant to defer the receipt of the payment of cash or the delivery of Shares that would otherwise be due to such Participant under an Award; and

(xiii) to make all other determinations deemed necessary or advisable for administering the Plan.

(c) Effect of Administrator's Decision. The Administrator's decisions, determinations and interpretations will be final and binding on all Participants and any other holders of Awards.

5. Eligibility. Nonstatutory Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Shares and Performance Units may be granted to Outside Directors.

6. Stock Options.

(a) Limitations. Each Option will be designated in the Award Agreement as a Nonstatutory Stock Option. The Fair Market Value of the Shares will be determined as of the time the Option with respect to such Shares is granted.

(b) Term of Option. The term of each Option will be stated in the Award Agreement.

(c) Option Exercise Price and Consideration.

(i) Exercise Price. The per share exercise price for the Shares to be issued pursuant to exercise of a Nonstatutory Stock Option will be determined by the Administrator, subject to the following:

(1) The per Share exercise price will be no less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant.

(2) Notwithstanding the foregoing, Options may be granted with a per Share exercise price of less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant pursuant to a transaction described in, and in a manner consistent with, Section 424(a) of the Code.

(ii) Waiting Period and Exercise Dates. At the time an Option is granted, the Administrator will fix the period within which the Option may be exercised and will determine any conditions that must be satisfied before the Option may be exercised.

(iii) Form of Consideration. The Administrator will determine the acceptable form of consideration for exercising an Option, including the method of payment. Such consideration may consist entirely of: (1) cash; (2) check; (3) promissory note, to the extent permitted by Applicable Laws, (4) other Shares, provided that such Shares have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which such Option will be exercised and provided that accepting such Shares will not result in any adverse accounting consequences to the Company, as the Administrator determines in its sole discretion; (5) consideration received by the Company under a broker-assisted (or other) cashless exercise program (whether through a broker or otherwise) implemented by the Company in connection with the Plan; (6) by net exercise; (7) such other consideration and method of payment for the issuance of Shares to the extent permitted by Applicable Laws; or (8) any combination of the foregoing methods of payment.

(d) Exercise of Option.

(i) Procedure for Exercise; Rights as a Stockholder. Any Option granted hereunder will be exercisable according to the terms of the Plan and at such times and under such conditions as determined by the Administrator and set forth in the Award Agreement. An Option may not be exercised for a fraction of a Share.

An Option will be deemed exercised when the Company receives: (i) a notice of exercise (in such form as the Administrator may specify from time to time) from the person entitled to exercise the Option, and (ii) full payment for the Shares with respect to which the Option is exercised (together with applicable withholding taxes). Full payment may consist of any consideration and method of payment authorized by the Administrator and permitted by the Award Agreement and the Plan. Shares issued upon exercise of an Option will be issued in the name of the Participant or, if requested by the Participant, in the name of the Participant and his or her spouse. Until the Shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder will exist with respect to the Shares subject to an Option, notwithstanding the exercise of the Option. The Company will issue (or cause to be issued) such Shares promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 13 of the Plan.

Exercising an Option in any manner will decrease the number of Shares thereafter available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(ii) Termination of Relationship as a Service Provider. If a Participant ceases to be a Service Provider, other than upon the Participant's termination as the result of the Participant's death or Disability, the Participant may exercise his or her Option within such period of time as is specified in the Award Agreement to the extent that the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the

Award Agreement). In the absence of a specified time in the Award Agreement, the Option will remain exercisable for three (3) months following the Participant's termination. Unless otherwise provided by the Administrator, if on the date of termination the Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will revert to the Plan. If after termination the Participant does not exercise his or her Option within the time specified by the Administrator, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

(iii) Disability of Participant. If a Participant ceases to be a Service Provider as a result of the Participant's Disability, the Participant may exercise his or her Option within such period of time as is specified in the Award Agreement to the extent the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement). In the absence of a specified time in the Award Agreement, the Option will remain exercisable for twelve (12) months following the Participant's termination. Unless otherwise provided by the Administrator, if on the date of termination the Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will revert to the Plan. If after termination the Participant does not exercise his or her Option within the time specified herein, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

(iv) Death of Participant. If a Participant dies while a Service Provider, the Option may be exercised following the Participant's death within such period of time as is specified in the Award Agreement to the extent that the Option is vested on the date of death (but in no event may the option be exercised later than the expiration of the term of such Option as set forth in the Award Agreement), by the Participant's designated beneficiary, provided such beneficiary has been designated prior to Participant's death in a form acceptable to the Administrator. If no such beneficiary has been designated by the Participant, then such Option may be exercised by the personal representative of the Participant's estate or by the person(s) to whom the Option is transferred pursuant to the Participant's will or in accordance with the laws of descent and distribution. In the absence of a specified time in the Award Agreement, the Option will remain exercisable for twelve (12) months following Participant's death. Unless otherwise provided by the Administrator, if at the time of death Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will immediately revert to the Plan. If the Option is not so exercised within the time specified herein, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

7. Restricted Stock.

(a) Grant of Restricted Stock. Subject to the terms and provisions of the Plan, the Administrator, at any time and from time to time, may grant Shares of Restricted Stock to Outside Directors in such amounts as the Administrator, in its sole discretion, will determine.

(b) Restricted Stock Agreement. Each Award of Restricted Stock will be evidenced by an Award Agreement that will specify the Period of Restriction, the number of Shares granted, and such other terms and conditions as the Administrator, in its sole discretion, will determine. Unless the Administrator determines otherwise, the Company as escrow agent will hold Shares of Restricted Stock until the restrictions on such Shares have lapsed.

(c) Transferability. Except as provided in this Section 7 or the Award Agreement, Shares of Restricted Stock may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the end of the applicable Period of Restriction.

(d) Other Restrictions. The Administrator, in its sole discretion, may impose such other restrictions on Shares of Restricted Stock as it may deem advisable or appropriate.

(e) Removal of Restrictions. Except as otherwise provided in this Section 7, Shares of Restricted Stock covered by each Restricted Stock grant made under the Plan will be released from escrow as soon as practicable after the last day of the Period of Restriction or at such other time as the Administrator may determine. The Administrator, in its discretion, may accelerate the time at which any restrictions will lapse or be removed.

(f) Voting Rights. During the Period of Restriction, Service Providers holding Shares of Restricted Stock granted hereunder may exercise full voting rights with respect to those Shares, unless the Administrator determines otherwise.

(g) Dividends and Other Distributions. During the Period of Restriction, Service Providers holding Shares of Restricted Stock will be entitled to receive all dividends and other distributions paid with respect to such Shares, unless the Administrator provides otherwise. If any such dividends or distributions are paid in Shares, the Shares will be subject to the same restrictions on transferability and forfeitability as the Shares of Restricted Stock with respect to which they were paid.

(h) Return of Restricted Stock to Company. On the date set forth in the Award Agreement, the Restricted Stock for which restrictions have not lapsed will revert to the Company and again will become available for grant under the Plan.

8. Restricted Stock Units.

(a) Grant. Restricted Stock Units may be granted at any time and from time to time as determined by the Administrator. After the Administrator determines that it will grant Restricted Stock Units under the Plan, it will advise the Participant in an Award Agreement of the terms, conditions, and restrictions related to the grant, including the number of Restricted Stock Units.

(b) Vesting Criteria and Other Terms. The Administrator will set vesting criteria in its discretion, which, depending on the extent to which the criteria are met, will determine the number of Restricted Stock Units that will be paid out to the Participant. The Administrator may set vesting criteria based upon the achievement of Company-wide, business unit, or individual goals (including, but not limited to, continued employment), or any other basis determined by the Administrator in its discretion.

(c) Earning Restricted Stock Units. Upon meeting the applicable vesting criteria, the Participant will be entitled to receive a payout as determined by the Administrator. Notwithstanding the foregoing, at any time after the grant of Restricted Stock Units, the Administrator, in its sole discretion, may reduce or waive any vesting criteria that must be met to receive a payout.

(d) Form and Timing of Payment. Payment of earned Restricted Stock Units will be made as soon as practicable after the date(s) determined by the Administrator and set forth in the Award Agreement. The Administrator, in its sole discretion, may only settle earned Restricted Stock Units in cash, Shares, or a combination of both.

(e) Cancellation. On the date set forth in the Award Agreement, all unearned Restricted Stock Units will be forfeited to the Company.

9. Stock Appreciation Rights.

(a) Grant of Stock Appreciation Rights. Subject to the terms and conditions of the Plan, a Stock Appreciation Right may be granted to Outside Directors at any time and from time to time as will be determined by the Administrator, in its sole discretion.

(b) Number of Shares. The Administrator will have complete discretion to determine the number of Stock Appreciation Rights granted to any Outside Director.

(c) Exercise Price and Other Terms. The per share exercise price for the Shares to be issued pursuant to exercise of a Stock Appreciation Right will be determined by the Administrator and will be no less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant. Otherwise, the Administrator, subject to the provisions of the Plan, will have complete discretion to determine the terms and conditions of Stock Appreciation Rights granted under the Plan.

(d) Stock Appreciation Right Agreement. Each Stock Appreciation Right grant will be evidenced by an Award Agreement that will specify the exercise price, the term of the Stock Appreciation Right, the conditions of exercise, and such other terms and conditions as the Administrator, in its sole discretion, will determine.

(e) Expiration of Stock Appreciation Rights. A Stock Appreciation Right granted under the Plan will expire upon the date determined by the Administrator, in its sole discretion, and set forth in the Award Agreement. Notwithstanding the foregoing, the rules of Section 6(b) relating to the maximum term and Section 6(d) relating to exercise also will apply to Stock Appreciation Rights.

(f) Payment of Stock Appreciation Right Amount. Upon exercise of a Stock Appreciation Right, a Participant will be entitled to receive payment from the Company in an amount determined by multiplying:

(i) The difference between the Fair Market Value of a Share on the date of exercise over the exercise price; times

(ii) The number of Shares with respect to which the Stock Appreciation Right is exercised.

At the discretion of the Administrator, the payment upon Stock Appreciation Right exercise may be in cash, in Shares of equivalent value, or in some combination thereof.

10. Performance Units and Performance Shares.

(a) Grant of Performance Units/Shares. Performance Units and Performance Shares may be granted to Outside Directors at any time and from time to time, as will be determined by the Administrator, in its sole discretion. The Administrator will have complete discretion in determining the number of Performance Units and Performance Shares granted to each Participant.

(b) Value of Performance Units/Shares. Each Performance Unit will have an initial value that is established by the Administrator on or before the date of grant. Each Performance Share will have an initial value equal to the Fair Market Value of a Share on the date of grant.

(c) Performance Objectives and Other Terms. The Administrator will set performance objectives or other vesting provisions (including, without limitation, continued status as a Service Provider) in its discretion which, depending on the extent to which they are met, will determine the number or value of Performance Units/Shares that will be paid out to the Service Providers. The time period during which the performance objectives or other vesting provisions must be met will be called the "Performance Period." Each Award of Performance Units/Shares will be evidenced by an Award Agreement that will specify the Performance Period, and such other terms and conditions as the Administrator, in its sole discretion, will determine. The Administrator may set performance objectives based upon the achievement of Company-wide, divisional, or individual goals, applicable federal or state securities laws, or any other basis determined by the Administrator in its discretion.

(d) Earning of Performance Units/Shares. After the applicable Performance Period has ended, the holder of Performance Units/Shares will be entitled to receive a payout of the number of Performance Units/Shares earned by the Participant over the Performance Period, to be determined as a function of the extent to which the corresponding performance objectives or other vesting provisions have been achieved. After the grant of a Performance Unit/Share, the Administrator, in its sole discretion, may reduce or waive any performance objectives or other vesting provisions for such Performance Unit/Share.

(e) Form and Timing of Payment of Performance Units/Shares. Payment of earned Performance Units/Shares will be made as soon as practicable after the expiration of the applicable Performance Period. The Administrator, in its sole discretion, may pay earned Performance Units/Shares in the form of cash, in Shares (which have an aggregate Fair Market Value equal to the value of the earned Performance Units/Shares at the close of the applicable Performance Period) or in a combination thereof.

(f) Cancellation of Performance Units/Shares. On the date set forth in the Award Agreement, all unearned or unvested Performance Units/Shares will be forfeited to the Company, and again will be available for grant under the Plan.

11. Leaves of Absence/Transfer Between Locations. Unless the Administrator provides otherwise, vesting of Awards granted hereunder will be suspended during any unpaid leave of absence.

12. Transferability of Awards. Unless determined otherwise by the Administrator, an Award may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Participant, only by the Participant. If the Administrator makes an Award transferable, such Award will contain such additional terms and conditions as the Administrator deems appropriate.

13. Adjustments; Dissolution or Liquidation; Merger or Change in Control.

(a) Adjustments. In the event that any dividend or other distribution (whether in the form of cash, Shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Shares or other securities of the Company, or other change in the corporate structure of the Company affecting the Shares occurs, the Administrator, in order to prevent diminution or enlargement of the benefits or potential benefits intended to be made available under the Plan, will adjust the number and class of Shares that may be delivered under the Plan and/or the number, class, and price of Shares covered by each outstanding Award, and the numerical Share limits in Section 3 of the Plan.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Administrator will notify each Participant as soon as practicable prior to the effective date of such proposed transaction. To the extent it has not been previously exercised, an Award will terminate immediately prior to the consummation of such proposed action.

(c) Change in Control. In the event of a merger or Change in Control, each outstanding Award will be treated as the Administrator determines, including, without limitation, that each Award be assumed or an equivalent option or right substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. The Administrator will not be required to treat all Awards similarly in the transaction.

Notwithstanding the foregoing, in the event of a Change in Control, the Participant will fully vest in and have the right to exercise all of his or her outstanding Options and Stock Appreciation Rights, including Shares as to which such Awards would not otherwise be vested or exercisable, all restrictions on Restricted Stock and Restricted Stock Units will lapse, and, with respect to Awards with performance-based vesting, all performance goals or other vesting criteria will be deemed achieved at one hundred percent (100%) of target levels and all other terms and conditions met. In addition, if an Option or Stock Appreciation Right is not assumed or substituted in the event of a Change in Control, the Administrator will notify the Participant in writing or electronically that the Option or Stock Appreciation Right will be exercisable for a period of time determined by the Administrator in its sole discretion, and the Option or Stock Appreciation Right will terminate upon the expiration of such period.

For the purposes of this subsection (c), an Award will be considered assumed if, following the Change in Control, the Award confers the right to purchase or receive, for each Share subject to the Award immediately prior to the Change in Control, the consideration (whether stock, cash, or other securities or property) received in the Change in Control by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding

Shares); provided, however, that if such consideration received in the Change in Control is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of an Option or Stock Appreciation Right or upon the payout of a Restricted Stock Unit, Performance Unit or Performance Share, for each Share subject to such Award, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the Change in Control.

Notwithstanding anything in this Section 13(c) to the contrary, an Award that vests, is earned or paid-out upon the satisfaction of one or more performance goals will not be considered assumed if the Company or its successor modifies any of such performance goals without the Participant's consent; provided, however, a modification to such performance goals only to reflect the successor corporation's post-Change in Control corporate structure will not be deemed to invalidate an otherwise valid Award assumption.

14. Tax.

(a) Withholding Requirements. Prior to the delivery of any Shares or cash pursuant to an Award (or exercise thereof), the Company will have the power and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy federal, state, local, foreign or other taxes (including the Participant's FICA obligation), if any, required to be withheld with respect to such Award (or exercise thereof).

(b) Withholding Arrangements. The Administrator, in its sole discretion and pursuant to such procedures as it may specify from time to time, may permit a Participant to satisfy such tax withholding obligation, if any, in whole or in part by (without limitation) (a) paying cash, (b) electing to have the Company withhold otherwise deliverable cash or Shares having a Fair Market Value equal to the minimum statutory amount required to be withheld, or (c) delivering to the Company already-owned Shares having a Fair Market Value equal to the minimum statutory amount required to be withheld. The Fair Market Value of the Shares to be withheld or delivered will be determined as of the date that the taxes are required to be withheld.

(c) Compliance With Code Section 409A. Awards will be designed and operated in such a manner that they are either exempt from the application of, or comply with, the requirements of Code Section 409A such that the grant, payment, settlement or deferral will not be subject to the additional tax or interest applicable under Code Section 409A, except as otherwise determined in the sole discretion of the Administrator. The Plan and each Award Agreement under the Plan is intended to meet the requirements of Code Section 409A and will be construed and interpreted in accordance with such intent, except as otherwise determined in the sole discretion of the Administrator. To the extent that an Award or payment, or the settlement or deferral thereof, is subject to Code Section 409A the Award will be granted, paid, settled or deferred in a manner that will meet the requirements of Code Section 409A, such that the grant, payment, settlement or deferral will not be subject to the additional tax or interest applicable under Code Section 409A.

15. No Effect on Employment or Service. Neither the Plan nor any Award will confer upon a Participant any right with respect to continuing the Participant's relationship as a Service Provider with the Company, nor will they interfere in any way with the Participant's right or the Company's right to terminate such relationship at any time, with or without cause, to the extent permitted by Applicable Laws.

16. Date of Grant. The date of grant of an Award will be, for all purposes, the date on which the Administrator makes the determination granting such Award, or such other later date as is determined by the Administrator. Notice of the determination will be provided to each Participant within a reasonable time after the date of such grant.

17. Term of Plan. Subject to Section 21 of the Plan, the Plan will become effective upon the later to occur of (i) its adoption by the Board or (ii) immediately prior to the Registration Date. It will continue in effect for a term of ten (10) years from the date adopted by the Board, unless terminated earlier under Section 18 of the Plan.

18. Amendment and Termination of the Plan.

(a) Amendment and Termination. The Board may at any time amend, alter, suspend or terminate the Plan.

(b) Stockholder Approval. The Company will obtain stockholder approval of any Plan amendment to the extent necessary and desirable to comply with Applicable Laws.

(c) Effect of Amendment or Termination. No amendment, alteration, suspension or termination of the Plan will impair the rights of any Participant, unless mutually agreed otherwise between the Participant and the Administrator, which agreement must be in writing and signed by the Participant and the Company. Termination of the Plan will not affect the Administrator's ability to exercise the powers granted to it hereunder with respect to Awards granted under the Plan prior to the date of such termination.

19. Conditions Upon Issuance of Shares.

(a) Legal Compliance. Shares will not be issued pursuant to the exercise of an Award unless the exercise of such Award and the issuance and delivery of such Shares will comply with Applicable Laws and will be further subject to the approval of counsel for the Company with respect to such compliance.

(b) Investment Representations. As a condition to the exercise of an Award, the Company may require the person exercising such Award to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required.

20. Inability to Obtain Authority. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, will relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority will not have been obtained.

21. Stockholder Approval. The Plan will be subject to approval by the stockholders of the Company within twelve (12) months after the date the Plan is adopted by the Board. Such stockholder approval will be obtained in the manner and to the degree required under Applicable Laws.

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.

2010 OUTSIDE DIRECTOR EQUITY INCENTIVE PLAN

STOCK OPTION AWARD AGREEMENT

Unless otherwise defined herein, the terms defined in the Pacific Biosciences of California, Inc. 2010 Outside Director Equity Incentive Plan (the "Plan") will have the same defined meanings in this Stock Option Award Agreement (the "Award Agreement").

I. NOTICE OF STOCK OPTION GRANT

Participant Name:

Address:

You have been granted an Option to purchase Common Stock of Pacific Biosciences of California, Inc. (the "Company"), subject to the terms and conditions of the Plan and this Award Agreement, as follows:

Grant Number	_____
Date of Grant	_____
Vesting Commencement Date	_____
Exercise Price per Share	$ _____
Total Number of Shares Granted	_____
Total Exercise Price	$ _____
Type of Option:	Nonstatutory Stock Option
Term/Expiration Date:	_____

Vesting Schedule:

Subject to any acceleration provisions contained in the Plan or set forth below, this Option may be exercised, in whole or in part, in accordance with the following schedule:

[INSERT VESTING SCHEDULE]

Termination Period:

This Option will be exercisable for three (3) months after Participant ceases to be a Service Provider, unless such termination is due to Participant's death or Disability, in which case this

Option will be exercisable for twelve (12) months after Participant ceases to be Service Provider. Notwithstanding the foregoing, in no event may this Option be exercised after the Term/Expiration Date as provided above and may be subject to earlier termination as provided in Section 13 of the Plan.

By Participant's signature and the signature of the Company's representative below, Participant and the Company agree that this Option is granted under and governed by the terms and conditions of the Plan and this Award Agreement, including the Terms and Conditions of Stock Option Grant, attached hereto as Exhibit A, all of which are made a part of this document. Participant has reviewed the Plan and this Award Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Award Agreement and fully understands all provisions of the Plan and Award Agreement. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions relating to the Plan and Award Agreement. Participant further agrees to notify the Company upon any change in the residence address indicated below.

PARTICIPANT:	PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
Signature	By
Print Name	Title

Residence Address:

EXHIBIT A

TERMS AND CONDITIONS OF STOCK OPTION GRANT

1. Grant of Option. The Company hereby grants to the Participant named in the Notice of Grant attached as Part I of this Award Agreement (the "Participant") an option (the "Option") to purchase the number of Shares, as set forth in the Notice of Grant, at the exercise price per Share set forth in the Notice of Grant (the "Exercise Price"), subject to all of the terms and conditions in this Award Agreement and the Plan, which is incorporated herein by reference. Subject to Section 18 of the Plan, in the event of a conflict between the terms and conditions of the Plan and the terms and conditions of this Award Agreement, the terms and conditions of the Plan will prevail.

2. Vesting Schedule. Except as provided in Section 3 below and Section 13 of the Plan, the Option awarded by this Award Agreement will vest in accordance with the vesting provisions set forth in the Notice of Grant. Shares scheduled to vest on a certain date or upon the occurrence of a certain condition will not vest in Participant in accordance with any of the provisions of this Award Agreement, unless Participant will have been continuously a Service Provider from the Date of Grant until the date such vesting occurs.

3. Administrator Discretion. The Administrator, in its discretion, may accelerate the vesting of the balance, or some lesser portion of the balance, of the unvested Option at any time, subject to the terms of the Plan. If so accelerated, such Option will be considered as having vested as of the date specified by the Administrator.

4. Exercise of Option.

(a) Right to Exercise. This Option may be exercised only within the term set out in the Notice of Grant, and may be exercised during such term only in accordance with the Plan and the terms of this Award Agreement.

(b) Method of Exercise. This Option is exercisable by delivery of an exercise notice, in the form attached as Exhibit B (the "Exercise Notice") or in a manner and pursuant to such procedures as the Administrator may determine, which will state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised (the "Exercised Shares"), and such other representations and agreements as may be required by the Company pursuant to the provisions of the Plan. The Exercise Notice will be completed by Participant and delivered to the Company. The Exercise Notice will be accompanied by payment of the aggregate Exercise Price as to all Exercised Shares together with any applicable tax withholding. This Option will be deemed to be exercised upon receipt by the Company of such fully executed Exercise Notice accompanied by such aggregate Exercise Price.

5. Method of Payment. Payment of the aggregate Exercise Price will be by any of the following, or a combination thereof, at the election of Participant.

(a) cash;

(b) check;

(c) consideration received by the Company under a formal cashless exercise program adopted by the Company in connection with the Plan; or

(d) surrender of other Shares which have a Fair Market Value on the date of surrender equal to the aggregate Exercise Price of the Exercised Shares, provided that accepting such Shares, in the sole discretion of the Administrator, will not result in any adverse accounting consequences to the Company.

6. Tax Obligations.

(a) Withholding Taxes. Notwithstanding any contrary provision of this Award Agreement, no certificate representing the Shares will be issued to Participant, unless and until satisfactory arrangements (as determined by the Administrator) will have been made by Participant with respect to the payment of income, employment and other taxes which the Company determines must be withheld with respect to such Shares. To the extent determined appropriate by the Company in its discretion, it will have the right (but not the obligation) to satisfy any tax withholding obligations by reducing the number of Shares otherwise deliverable to Participant. If Participant fails to make satisfactory arrangements for the payment of any required tax withholding obligations hereunder at the time of the Option exercise, Participant acknowledges and agrees that the Company may refuse to honor the exercise and refuse to deliver Shares if such withholding amounts are not delivered at the time of exercise.

(b) Code Section 409A. Under Code Section 409A, an option that vests after December 31, 2004 (or that vested on or prior to such date but which was materially modified after October 3, 2004) that was granted with a per Share exercise price that is determined by the Internal Revenue Service (the "IRS") to be less than the Fair Market Value of a Share on the date of grant (a "Discount Option") may be considered "deferred compensation." A Discount Option may result in (i) income recognition by Participant prior to the exercise of the option, (ii) an additional twenty percent (20%) federal income tax, and (iii) potential penalty and interest charges. The Discount Option may also result in additional state income, penalty and interest charges to the Participant. Participant acknowledges that the Company cannot and has not guaranteed that the IRS will agree that the per Share exercise price of this Option equals or exceeds the Fair Market Value of a Share on the Date of Grant in a later examination. Participant agrees that if the IRS determines that the Option was granted with a per Share exercise price that was less than the Fair Market Value of a Share on the date of grant, Participant will be solely responsible for Participant's costs related to such a determination.

7. Rights as Stockholder. Neither Participant nor any person claiming under or through Participant will have any of the rights or privileges of a stockholder of the Company in respect of any Shares deliverable hereunder unless and until certificates representing such Shares will have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to Participant. After such issuance, recordation and delivery, Participant will have all the rights of a stockholder of the Company with respect to voting such Shares and receipt of dividends and distributions on such Shares.

8. No Guarantee of Continued Service. PARTICIPANT ACKNOWLEDGES AND AGREES THAT THE VESTING OF SHARES PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AT THE WILL OF THE COMPANY (OR THE PARENT OR SUBSIDIARY EMPLOYING OR RETAINING

PARTICIPANT) AND NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THE OPTION OR ACQUIRING SHARES HEREUNDER. PARTICIPANT FURTHER ACKNOWLEDGES AND AGREES THAT THIS AWARD AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND WILL NOT INTERFERE IN ANY WAY WITH PARTICIPANT'S RIGHT OR THE RIGHT OF THE COMPANY (OR THE PARENT OR SUBSIDIARY EMPLOYING OR RETAINING PARTICIPANT) TO TERMINATE PARTICIPANT'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

9. Address for Notices. Any notice to be given to the Company under the terms of this Award Agreement will be addressed to the Company, in care of its [TITLE] at Pacific Biosciences of California, Inc., 1505 Adams Drive, Menlo Park, CA 94025, or at such other address as the Company may hereafter designate in writing.

10. Non-Transferability of Option. This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution and may be exercised during the lifetime of Participant only by Participant.

11. Binding Agreement. Subject to the limitation on the transferability of this grant contained herein, this Award Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

12. Additional Conditions to Issuance of Stock. If at any time the Company will determine, in its discretion, that the listing, registration or qualification of the Shares upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory authority is necessary or desirable as a condition to the issuance of Shares to Participant (or his or her estate), such issuance will not occur unless and until such listing, registration, qualification, consent or approval will have been effected or obtained free of any conditions not acceptable to the Company. The Company will make all reasonable efforts to meet the requirements of any such state or federal law or securities exchange and to obtain any such consent or approval of any such governmental authority. Assuming such compliance, for income tax purposes the Exercised Shares will be considered transferred to Participant on the date the Option is exercised with respect to such Exercised Shares.

13. Plan Governs. This Award Agreement is subject to all terms and provisions of the Plan. In the event of a conflict between one or more provisions of this Award Agreement and one or more provisions of the Plan, the provisions of the Plan will govern. Capitalized terms used and not defined in this Award Agreement will have the meaning set forth in the Plan.

14. Administrator Authority. The Administrator will have the power to interpret the Plan and this Award Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules (including, but not limited to, the determination of whether or not any Shares subject to the Option have vested). All actions taken and all interpretations and determinations made by the Administrator in good faith will be final and binding upon Participant, the Company and all other interested persons. No member of the Administrator will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Award Agreement.

15. Electronic Delivery. The Company may, in its sole discretion, decide to deliver any documents related to Options awarded under the Plan or future options that may be awarded under the Plan by electronic means or request Participant's consent to participate in the Plan by electronic means. Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through any on-line or electronic system established and maintained by the Company or another third party designated by the Company.

16. Captions. Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Award Agreement.

17. Agreement Severable. In the event that any provision in this Award Agreement will be held invalid or unenforceable, such provision will be severable from, and such invalidity or unenforceability will not be construed to have any effect on, the remaining provisions of this Award Agreement.

18. Modifications to the Agreement. This Award Agreement constitutes the entire understanding of the parties on the subjects covered. Participant expressly warrants that he or she is not accepting this Award Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to this Award Agreement or the Plan can be made only in an express written contract executed by a duly authorized officer of the Company. Notwithstanding anything to the contrary in the Plan or this Award Agreement, the Company reserves the right to revise this Award Agreement as it deems necessary or advisable, in its sole discretion and without the consent of Participant, to comply with Code Section 409A or to otherwise avoid imposition of any additional tax or income recognition under Section 409A of the Code in connection to this Option.

19. Amendment, Suspension or Termination of the Plan. By accepting this Award, Participant expressly warrants that he or she has received an Option under the Plan, and has received, read and understood a description of the Plan. Participant understands that the Plan is discretionary in nature and may be amended, suspended or terminated by the Company at any time.

20. Governing Law. This Award Agreement will be governed by the laws of the State of California, without giving effect to the conflict of law principles thereof. For purposes of litigating any dispute that arises under this Option or this Award Agreement, the parties hereby submit to and consent to the jurisdiction of the State of California, and agree that such litigation will be conducted in the courts of San Mateo County, California, or the federal courts for the United States for the Northern District of California, and no other courts, where this Option is made and/or to be performed.

EXHIBIT B

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.

2010 OUTSIDE DIRECTOR EQUITY INCENTIVE PLAN

EXERCISE NOTICE

Pacific Biosciences of California, Inc.
1505 Adams Drive
Menlo Park, CA 94025
Attention: [_____]

1. Exercise of Option. Effective as of today, _____, _____, the undersigned ("Purchaser") hereby elects to purchase _____ shares (the "Shares") of the Common Stock of Pacific Biosciences of California, Inc. (the "Company") under and pursuant to the 2010 Outside Director Equity Incentive Plan (the "Plan") and the Stock Option Award Agreement dated _____ (the "Award Agreement"). The purchase price for the Shares will be $_____, as required by the Award Agreement.

2. Delivery of Payment. Purchaser herewith delivers to the Company the full purchase price of the Shares and any required tax withholding to be paid in connection with the exercise of the Option.

3. Representations of Purchaser. Purchaser acknowledges that Purchaser has received, read and understood the Plan and the Award Agreement and agrees to abide by and be bound by their terms and conditions.

4. Rights as Stockholder. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the Shares, no right to vote or receive dividends or any other rights as a stockholder will exist with respect to the Shares subject to the Option, notwithstanding the exercise of the Option. The Shares so acquired will be issued to Purchaser as soon as practicable after exercise of the Option. No adjustment will be made for a dividend or other right for which the record date is prior to the date of issuance, except as provided in Section 13 of the Plan.

5. Tax Consultation. Purchaser understands that Purchaser may suffer adverse tax consequences as a result of Purchaser's purchase or disposition of the Shares. Purchaser represents that Purchaser has consulted with any tax consultants Purchaser deems advisable in connection with the purchase or disposition of the Shares and that Purchaser is not relying on the Company for any tax advice.

6. Entire Agreement; Governing Law. The Plan and Award Agreement are incorporated herein by reference. This Exercise Notice, the Plan and the Award Agreement constitute the entire

agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Purchaser with respect to the subject matter hereof, and may not be modified adversely to the Purchaser's interest except by means of a writing signed by the Company and Purchaser. This agreement is governed by the internal substantive laws, but not the choice of law rules, of the State of California.

Submitted by:	Accepted by:
PURCHASER:	PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
_____	_____
Signature	By
_____	_____
Print Name	Title
Residence Address:	
_____	
_____	
	_____
	Date Received

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.

2010 OUTSIDE DIRECTOR EQUITY INCENTIVE PLAN

RESTRICTED STOCK AWARD AGREEMENT

Unless otherwise defined herein, the terms defined in the Pacific Biosciences of California, Inc. 2010 Outside Director Equity Incentive Plan (the "Plan") will have the same defined meanings in this Restricted Stock Award Agreement (the "Award Agreement").

I. NOTICE OF RESTRICTED STOCK GRANT

Participant Name:

Address:

You have been granted the right to receive an Award of Restricted Stock, subject to the terms and conditions of the Plan and this Award Agreement, as follows:

Grant Number _____

Date of Grant _____

Vesting Commencement Date _____

Total Number of Shares Granted _____

Vesting Schedule:

Subject to any acceleration provisions contained in the Plan or set forth below, the Restricted Stock will vest and the Company's right to reacquire the Restricted Stock will lapse in accordance with the following schedule:

[INSERT VESTING SCHEDULE]

By Participant's signature and the signature of the representative of Pacific Biosciences of California, Inc. (the "Company") below, Participant and the Company agree that this Award of Restricted Stock is granted under and governed by the terms and conditions of the Plan and this Award Agreement, including the Terms and Conditions of Restricted Stock Grant, attached hereto as Exhibit A, all of which are made a part of this document. Participant has reviewed the Plan and this Award Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Award Agreement and fully understands all provisions of the Plan and Award Agreement. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions relating to the Plan and Award Agreement. Participant further agrees to notify the Company upon any change in the residence address indicated below.

PARTICIPANT:	PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
Signature	By
Print Name	Title

Residence Address:

EXHIBIT A

TERMS AND CONDITIONS OF RESTRICTED STOCK GRANT

1. Grant of Restricted Stock. The Company hereby grants to the individual named in the Notice of Grant attached as Part I of this Award Agreement (the "Participant") under the Plan for past services and as a separate incentive in connection with his or her services and not in lieu of any salary or other compensation for his or her services, an Award of Shares of Restricted Stock, subject to all of the terms and conditions in this Award Agreement and the Plan, which is incorporated herein by reference. Subject to Section 18 of the Plan, in the event of a conflict between the terms and conditions of the Plan and the terms and conditions of this Award Agreement, the terms and conditions of the Plan will prevail.

2. Escrow of Shares.

(a) All Shares of Restricted Stock will, upon execution of this Award Agreement, be delivered and deposited with an escrow holder designated by the Company (the "Escrow Holder"). The Shares of Restricted Stock will be held by the Escrow Holder until such time as the Shares of Restricted Stock vest or the date Participant ceases to be a Service Provider.

(b) The Escrow Holder will not be liable for any act it may do or omit to do with respect to holding the Shares of Restricted Stock in escrow while acting in good faith and in the exercise of its judgment.

(c) Upon Participant's termination as a Service Provider for any reason, the Escrow Holder, upon receipt of written notice of such termination, will take all steps necessary to accomplish the transfer of the unvested Shares of Restricted Stock to the Company. Participant hereby appoints the Escrow Holder with full power of substitution, as Participant's true and lawful attorney-in-fact with irrevocable power and authority in the name and on behalf of Participant to take any action and execute all documents and instruments, including, without limitation, stock powers which may be necessary to transfer the certificate or certificates evidencing such unvested Shares of Restricted Stock to the Company upon such termination.

(d) The Escrow Holder will take all steps necessary to accomplish the transfer of Shares of Restricted Stock to Participant after they vest following Participant's request that the Escrow Holder do so.

(e) Subject to the terms hereof, Participant will have all the rights of a stockholder with respect to the Shares while they are held in escrow, including without limitation, the right to vote the Shares and to receive any cash dividends declared thereon.

(f) In the event of any dividend or other distribution (whether in the form of cash, Shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Shares or other securities of the Company, or other change in the corporate structure of the Company affecting the Shares, the Shares of Restricted Stock will be increased, reduced or otherwise changed, and by virtue of any such change Participant will in his or her capacity as

owner of unvested Shares of Restricted Stock be entitled to new or additional or different shares of stock, cash or securities (other than rights or warrants to purchase securities); such new or additional or different shares, cash or securities will thereupon be considered to be unvested Shares of Restricted Stock and will be subject to all of the conditions and restrictions which were applicable to the unvested Shares of Restricted Stock pursuant to this Award Agreement. If Participant receives rights or warrants with respect to any unvested Shares of Restricted Stock, such rights or warrants may be held or exercised by Participant, provided that until such exercise any such rights or warrants and after such exercise any shares or other securities acquired by the exercise of such rights or warrants will be considered to be unvested Shares of Restricted Stock and will be subject to all of the conditions and restrictions which were applicable to the unvested Shares of Restricted Stock pursuant to this Award Agreement. The Administrator in its absolute discretion at any time may accelerate the vesting of all or any portion of such new or additional shares of stock, cash or securities, rights or warrants to purchase securities or shares or other securities acquired by the exercise of such rights or warrants.

(g) The Company may instruct the transfer agent for its Common Stock to place a legend on the certificates representing the Restricted Stock or otherwise note its records as to the restrictions on transfer set forth in this Award Agreement.

3. Vesting Schedule. Except as provided in Section 4 below and Section 13 of the Plan, and subject to Section 5 below, the Shares of Restricted Stock awarded by this Award Agreement will vest in accordance with the vesting provisions set forth in the Notice of Grant. Shares of Restricted Stock scheduled to vest on a certain date or upon the occurrence of a certain condition will not vest in Participant in accordance with any of the provisions of this Award Agreement, unless Participant will have been continuously a Service Provider from the Date of Grant until the date such vesting occurs.

4. Administrator Discretion. The Administrator, in its discretion, may accelerate the vesting of the balance, or some lesser portion of the balance, of the unvested Restricted Stock at any time, subject to the terms of the Plan. If so accelerated, such Restricted Stock will be considered as having vested as of the date specified by the Administrator.

5. Forfeiture upon Termination of Status as a Service Provider. Notwithstanding any contrary provision of this Award Agreement, the balance of the Shares of Restricted Stock that have not vested at the time of Participant's termination as a Service Provider for any reason will be forfeited and automatically transferred to and reacquired by the Company at no cost to the Company upon the date of such termination and Participant will have no further rights thereunder. Participant will not be entitled to a refund of the price paid for the Shares of Restricted Stock, if any, returned to the Company pursuant to this Section 5. Participant hereby appoints the Escrow Agent with full power of substitution, as Participant's true and lawful attorney-in-fact with irrevocable power and authority in the name and on behalf of Participant to take any action and execute all documents and instruments, including, without limitation, stock powers which may be necessary to transfer the certificate or certificates evidencing such unvested Shares to the Company upon such termination of service.

6. Death of Participant. Any distribution or delivery to be made to Participant under this Award Agreement will, if Participant is then deceased, be made to Participant's designated

beneficiary, or if no beneficiary survives Participant, the administrator or executor of Participant's estate. Any such transferee must furnish the Company with (a) written notice of his or her status as transferee, and (b) evidence satisfactory to the Company to establish the validity of the transfer and compliance with any laws or regulations pertaining to said transfer.

7. Withholding of Taxes. Notwithstanding any contrary provision of this Award Agreement, no certificate representing the Shares of Restricted Stock may be released from the escrow established pursuant to Section 2, unless and until satisfactory arrangements (as determined by the Administrator) will have been made by Participant with respect to the payment of income, employment and other taxes which the Company determines must be withheld with respect to such Shares. The Administrator, in its sole discretion and pursuant to such procedures as it may specify from time to time, may permit Participant to satisfy such tax withholding obligation, in whole or in part (without limitation) by (a) paying cash, (b) electing to have the Company withhold otherwise deliverable Shares having a Fair Market Value equal to the minimum amount required to be withheld, (c) delivering to the Company already vested and owned Shares having a Fair Market Value equal to the amount required to be withheld, or (d) selling a sufficient number of such Shares otherwise deliverable to Participant through such means as the Company may determine in its sole discretion (whether through a broker or otherwise) equal to the amount required to be withheld. To the extent determined appropriate by the Company in its discretion, it will have the right (but not the obligation) to satisfy any tax withholding obligations by reducing the number of Shares otherwise deliverable to Participant. If Participant fails to make satisfactory arrangements for the payment of any required tax withholding obligations hereunder at the time any applicable Shares otherwise are scheduled to vest pursuant to Sections 3 or 4 (or Section 13 of the Plan), Participant will permanently forfeit such Shares and the Shares will be returned to the Company at no cost to the Company.

8. Rights as Stockholder. Neither Participant nor any person claiming under or through Participant will have any of the rights or privileges of a stockholder of the Company in respect of any Shares deliverable hereunder unless and until certificates representing such Shares will have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to Participant or the Escrow Agent. Except as provided in Section 2, after such issuance, recordation and delivery, Participant will have all the rights of a stockholder of the Company with respect to voting such Shares and receipt of dividends and distributions on such Shares.

9. No Guarantee of Continued Service. PARTICIPANT ACKNOWLEDGES AND AGREES THAT THE VESTING OF THE SHARES OF RESTRICTED STOCK PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AT THE WILL OF THE COMPANY (OR THE PARENT OR SUBSIDIARY EMPLOYING OR RETAINING PARTICIPANT) AND NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THIS RESTRICTED STOCK OR ACQUIRING SHARES HEREUNDER. PARTICIPANT FURTHER ACKNOWLEDGES AND AGREES THAT THIS AWARD AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND WILL NOT INTERFERE IN ANY WAY WITH PARTICIPANT'S RIGHT OR

THE RIGHT OF THE COMPANY (OR THE PARENT OR SUBSIDIARY EMPLOYING OR RETAINING PARTICIPANT) TO TERMINATE PARTICIPANT'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

10. Address for Notices. Any notice to be given to the Company under the terms of this Award Agreement will be addressed to the Company, in care of its Stock Administration at Pacific Biosciences of California, Inc., at 1505 Adams Drive, Menlo Park, CA 94025, or at such other address as the Company may hereafter designate in writing.

11. Grant is Not Transferable. Except to the limited extent provided in Section 6, the unvested Shares subject to this grant and the rights and privileges conferred hereby will not be transferred, assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) and will not be subject to sale under execution, attachment or similar process. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of any unvested Shares of Restricted Stock subject to this grant, or any right or privilege conferred hereby, or upon any attempted sale under any execution, attachment or similar process, this grant and the rights and privileges conferred hereby immediately will become null and void.

12. Binding Agreement. Subject to the limitation on the transferability of this grant contained herein, this Award Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

13. Additional Conditions to Release from Escrow. The Company will not be required to issue any certificate or certificates for Shares hereunder or release such Shares from the escrow established pursuant to Section 2 prior to fulfillment of all the following conditions: (a) the admission of such Shares to listing on all stock exchanges on which such class of stock is then listed; (b) the completion of any registration or other qualification of such Shares under any state or federal law or under the rulings or regulations of the Securities and Exchange Commission or any other governmental regulatory body, which the Administrator will, in its absolute discretion, deem necessary or advisable; (c) the obtaining of any approval or other clearance from any state or federal governmental agency, which the Administrator will, in its absolute discretion, determine to be necessary or advisable; and (d) the lapse of such reasonable period of time following the date of grant of the Restricted Stock as the Administrator may establish from time to time for reasons of administrative convenience.

14. Plan Governs. This Award Agreement is subject to all terms and provisions of the Plan. In the event of a conflict between one or more provisions of this Award Agreement and one or more provisions of the Plan, the provisions of the Plan will govern. Capitalized terms used and not defined in this Award Agreement will have the meaning set forth in the Plan.

15. Administrator Authority. The Administrator will have the power to interpret the Plan and this Award Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules (including, but not limited to, the determination of whether or not any Shares of Restricted Stock have vested). All actions taken and all interpretations and determinations made by the Administrator in good faith will be final and binding upon Participant, the Company and all other interested persons. No member of the Administrator will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Award Agreement.

16. Electronic Delivery. The Company may, in its sole discretion, decide to deliver any documents related to the Shares of Restricted Stock awarded under the Plan or future Restricted Stock that may be awarded under the Plan by electronic means or request Participant's consent to participate in the Plan by electronic means. Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through any on-line or electronic system established and maintained by the Company or another third party designated by the Company.

17. Captions. Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Award Agreement.

18. Agreement Severable. In the event that any provision in this Award Agreement will be held invalid or unenforceable, such provision will be severable from, and such invalidity or unenforceability will not be construed to have any effect on, the remaining provisions of this Award Agreement.

19. Modifications to the Agreement. This Award Agreement constitutes the entire understanding of the parties on the subjects covered. Participant expressly warrants that he or she is not accepting this Award Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to this Award Agreement or the Plan can be made only in an express written contract executed by a duly authorized officer of the Company. Notwithstanding anything to the contrary in the Plan or this Award Agreement, the Company reserves the right to revise this Award Agreement as it deems necessary or advisable, in its sole discretion and without the consent of Participant, to comply with Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") or to otherwise avoid imposition of any additional tax or income recognition under Section 409A of the Code in connection to this Award of Restricted Stock.

20. Amendment, Suspension or Termination of the Plan. By accepting this Award, Participant expressly warrants that he or she has received an Award of Restricted Stock under the Plan, and has received, read and understood a description of the Plan. Participant understands that the Plan is discretionary in nature and may be amended, suspended or terminated by the Company at any time.

21. Governing Law. This Award Agreement will be governed by the laws of the State of California, without giving effect to the conflict of law principles thereof. For purposes of litigating any dispute that arises under this Award of Restricted Stock or this Award Agreement, the parties hereby submit to and consent to the jurisdiction of the State of California, and agree that such litigation will be conducted in the courts of San Mateo County, California, or the federal courts for the United States for the Northern District of California, and no other courts, where this Award of Restricted Stock is made and/or to be performed.

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.

2010 OUTSIDE DIRECTOR EQUITY INCENTIVE PLAN

RESTRICTED STOCK UNIT AWARD AGREEMENT

Unless otherwise defined herein, the terms defined in the Pacific Biosciences of California, Inc. 2010 Outside Director Equity Incentive Plan (the "Plan") will have the same defined meanings in this Restricted Stock Unit Award Agreement (the "Award Agreement").

I. NOTICE OF RESTRICTED STOCK UNIT GRANT

Participant Name:

Address:

You have been granted the right to receive an Award of Restricted Stock Units, subject to the terms and conditions of the Plan and this Award Agreement, as follows:

Grant Number _____

Date of Grant _____

Vesting Commencement Date _____

Number of Restricted Stock Units _____

Vesting Schedule:

Subject to any acceleration provisions contained in the Plan or set forth below, the Restricted Stock Unit will vest in accordance with the following schedule:

[INSERT VESTING SCHEDULE.]

In the event Participant ceases to be a Service Provider for any or no reason before Participant vests in the Restricted Stock Unit, the Restricted Stock Unit and Participant's right to acquire any Shares hereunder will immediately terminate.

By Participant's signature and the signature of the representative of Pacific Biosciences of California, Inc. (the "Company") below, Participant and the Company agree that this Award of Restricted Stock Units is granted under and governed by the terms and conditions of the Plan and this Award Agreement, including the Terms and Conditions of Restricted Stock Unit Grant, attached hereto as Exhibit A, all of which are made a part of this document. Participant has reviewed the Plan and this Award Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Award Agreement and fully understands all provisions of the Plan and Award Agreement. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions relating to the Plan and Award Agreement. Participant further agrees to notify the Company upon any change in the residence address indicated below.

PARTICIPANT:	PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
Signature	By
Print Name	Title

Residence Address:

EXHIBIT A

TERMS AND CONDITIONS OF RESTRICTED STOCK UNIT GRANT

1. Grant. The Company hereby grants to the individual named in the Notice of Grant attached as Part I of this Award Agreement (the "Participant") under the Plan an Award of Restricted Stock Units, subject to all of the terms and conditions in this Award Agreement and the Plan, which is incorporated herein by reference. Subject to Section 18 of the Plan, in the event of a conflict between the terms and conditions of the Plan and the terms and conditions of this Award Agreement, the terms and conditions of the Plan will prevail.

2. Company's Obligation to Pay. Each Restricted Stock Unit represents the right to receive a Share on the date it vests. Unless and until the Restricted Stock Units will have vested in the manner set forth in Section 3, Participant will have no right to payment of any such Restricted Stock Units. Prior to actual payment of any vested Restricted Stock Units, such Restricted Stock Unit will represent an unsecured obligation of the Company, payable (if at all) only from the general assets of the Company. Any Restricted Stock Units that vest in accordance with Sections 3 or 4 or under Section 13 of the Plan will be paid to Participant (or in the event of Participant's death, to his or her estate) in whole Shares, subject to Participant satisfying any applicable tax withholding obligations as set forth in Section 7. Subject to the provisions of Section 4, such vested Restricted Stock Units will be paid in Shares as soon as practicable after vesting, but in each such case within the period ending no later than the date that is two and one-half (2 ½) months from the end of the Company's tax year that includes the vesting date.

3. Vesting Schedule. Except as provided in Section 4 below and Section 13 of the Plan, and subject to Section 5 below, the Restricted Stock Units awarded by this Award Agreement will vest in accordance with the vesting provisions set forth in the Notice of Grant. Restricted Stock Units scheduled to vest on a certain date or upon the occurrence of a certain condition will not vest in Participant in accordance with any of the provisions of this Award Agreement, unless Participant will have been continuously a Service Provider from the Date of Grant until the date such vesting occurs.

4. Administrator Discretion. The Administrator, in its discretion, may accelerate the vesting of the balance, or some lesser portion of the balance, of the unvested Restricted Stock Units at any time, subject to the terms of the Plan. If so accelerated, such Restricted Stock Units will be considered as having vested as of the date specified by the Administrator.

Notwithstanding anything in the Plan or this Award Agreement to the contrary, if the vesting of the balance, or some lesser portion of the balance, of the Restricted Stock Units is accelerated in connection with Participant's termination as a Service Provider (provided that such termination is a "separation from service" within the meaning of Section 409A, as determined by the Company), other than due to death**,** and if (x) Participant is a "specified employee" within the meaning of Section 409A at the time of such termination as a Service Provider and (y) the payment of such accelerated Restricted Stock Units will result in the imposition of additional tax under Section 409A if paid to Participant on or within the six (6) month period following Participant's termination as a Service Provider, then the payment of such

accelerated Restricted Stock Units will not be made until the date six (6) months and one (1) day following the date of Participant's termination as a Service Provider, unless the Participant dies following his or her termination as a Service Provider, in which case, the Restricted Stock Units will be paid in Shares to the Participant's estate as soon as practicable following his or her death. It is the intent of this Award Agreement to comply with the requirements of Section 409A so that none of the Restricted Stock Units provided under this Award Agreement or Shares issuable thereunder will be subject to the additional tax imposed under Section 409A, and any ambiguities herein will be interpreted to so comply. For purposes of this Award Agreement, "Section 409A" means Section 409A of the Code, and any proposed, temporary or final Treasury Regulations and Internal Revenue Service guidance thereunder, as each may be amended from time to time.

5. Forfeiture upon Termination of Status as a Service Provider. Notwithstanding any contrary provision of this Award Agreement, the balance of the Restricted Stock Units that have not vested as of the time of Participant's termination as a Service Provider for any or no reason and Participant's right to acquire any Shares hereunder will immediately terminate.

6. Death of Participant. Any distribution or delivery to be made to Participant under this Award Agreement will, if Participant is then deceased, be made to Participant's designated beneficiary, or if no beneficiary survives Participant, the administrator or executor of Participant's estate. Any such transferee must furnish the Company with (a) written notice of his or her status as transferee, and (b) evidence satisfactory to the Company to establish the validity of the transfer and compliance with any laws or regulations pertaining to said transfer.

7. Withholding of Taxes. Notwithstanding any contrary provision of this Award Agreement, no certificate representing the Shares will be issued to Participant, unless and until satisfactory arrangements (as determined by the Administrator) will have been made by Participant with respect to the payment of income, employment and other taxes which the Company determines must be withheld with respect to such Shares. The Administrator, in its sole discretion and pursuant to such procedures as it may specify from time to time, may permit Participant to satisfy such tax withholding obligation, in whole or in part (without limitation) by (a) paying cash, (b) electing to have the Company withhold otherwise deliverable Shares having a Fair Market Value equal to the minimum amount required to be withheld, (c) delivering to the Company already vested and owned Shares having a Fair Market Value equal to the amount required to be withheld, or (d) selling a sufficient number of such Shares otherwise deliverable to Participant through such means as the Company may determine in its sole discretion (whether through a broker or otherwise) equal to the amount required to be withheld. To the extent determined appropriate by the Company in its discretion, it will have the right (but not the obligation) to satisfy any tax withholding obligations by reducing the number of Shares otherwise deliverable to Participant. If Participant fails to make satisfactory arrangements for the payment of any required tax withholding obligations hereunder at the time any applicable Restricted Stock Units otherwise are scheduled to vest pursuant to Sections 3 or 4, Participant will permanently forfeit such Restricted Stock Units and any right to receive Shares thereunder and the Restricted Stock Units will be returned to the Company at no cost to the Company.

8. Rights as Stockholder. Neither Participant nor any person claiming under or through Participant will have any of the rights or privileges of a stockholder of the Company in

respect of any Shares deliverable hereunder unless and until certificates representing such Shares will have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to Participant. After such issuance, recordation and delivery, Participant will have all the rights of a stockholder of the Company with respect to voting such Shares and receipt of dividends and distributions on such Shares.

9. No Guarantee of Continued Service. PARTICIPANT ACKNOWLEDGES AND AGREES THAT THE VESTING OF THE RESTRICTED STOCK UNITS PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AT THE WILL OF THE COMPANY (OR THE PARENT OR SUBSIDIARY EMPLOYING OR RETAINING PARTICIPANT) AND NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THIS AWARD OF RESTRICTED STOCK UNITS OR ACQUIRING SHARES HEREUNDER. PARTICIPANT FURTHER ACKNOWLEDGES AND AGREES THAT THIS AWARD AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND WILL NOT INTERFERE IN ANY WAY WITH PARTICIPANT'S RIGHT OR THE RIGHT OF THE COMPANY (OR THE PARENT OR SUBSIDIARY EMPLOYING OR RETAINING PARTICIPANT) TO TERMINATE PARTICIPANT'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

10. Address for Notices. Any notice to be given to the Company under the terms of this Award Agreement will be addressed to the Company, in care of Stock Administration at Pacific Biosciences of California, Inc., at 1505 Adams Drive, Menlo Park, CA 94025, or at such other address as the Company may hereafter designate in writing.

11. Grant is Not Transferable. Except to the limited extent provided in Section 6, this grant and the rights and privileges conferred hereby will not be transferred, assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) and will not be subject to sale under execution, attachment or similar process. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of this grant, or any right or privilege conferred hereby, or upon any attempted sale under any execution, attachment or similar process, this grant and the rights and privileges conferred hereby immediately will become null and void.

12. Binding Agreement. Subject to the limitation on the transferability of this grant contained herein, this Award Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

13. Additional Conditions to Issuance of Stock. If at any time the Company will determine, in its discretion, that the listing, registration or qualification of the Shares upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory authority is necessary or desirable as a condition to the issuance of Shares to Participant (or his or her estate), such issuance will not occur unless and until such listing, registration, qualification, consent or approval will have been effected or obtained free of any conditions not acceptable to the Company. Where the Company determines that the delivery

of the payment of any Shares will violate federal securities laws or other applicable laws, the Company will defer delivery until the earliest date at which the Company reasonably anticipates that the delivery of Shares will no longer cause such violation. The Company will make all reasonable efforts to meet the requirements of any such state or federal law or securities exchange and to obtain any such consent or approval of any such governmental authority.

14. Plan Governs. This Award Agreement is subject to all terms and provisions of the Plan. In the event of a conflict between one or more provisions of this Award Agreement and one or more provisions of the Plan, the provisions of the Plan will govern. Capitalized terms used and not defined in this Award Agreement will have the meaning set forth in the Plan.

15. Administrator Authority. The Administrator will have the power to interpret the Plan and this Award Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules (including, but not limited to, the determination of whether or not any Restricted Stock Units have vested). All actions taken and all interpretations and determinations made by the Administrator in good faith will be final and binding upon Participant, the Company and all other interested persons. No member of the Administrator will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Award Agreement.

16. Electronic Delivery. The Company may, in its sole discretion, decide to deliver any documents related to Restricted Stock Units awarded under the Plan or future Restricted Stock Units that may be awarded under the Plan by electronic means or request Participant's consent to participate in the Plan by electronic means. Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through any on-line or electronic system established and maintained by the Company or another third party designated by the Company.

17. Captions. Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Award Agreement.

18. Agreement Severable. In the event that any provision in this Award Agreement will be held invalid or unenforceable, such provision will be severable from, and such invalidity or unenforceability will not be construed to have any effect on, the remaining provisions of this Award Agreement.

19. Modifications to the Agreement. This Award Agreement constitutes the entire understanding of the parties on the subjects covered. Participant expressly warrants that he or she is not accepting this Award Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to this Award Agreement or the Plan can be made only in an express written contract executed by a duly authorized officer of the Company. Notwithstanding anything to the contrary in the Plan or this Award Agreement, the Company reserves the right to revise this Award Agreement as it deems necessary or advisable, in its sole discretion and without the consent of Participant, to comply with Section 409A or to otherwise avoid imposition of any additional tax or income recognition under Section 409A in connection to this Award of Restricted Stock Units.

20. Amendment, Suspension or Termination of the Plan. By accepting this Award, Participant expressly warrants that he or she has received an Award of Restricted Stock Units under the Plan, and has received, read and understood a description of the Plan. Participant understands that the Plan is discretionary in nature and may be amended, suspended or terminated by the Company at any time.

21. Governing Law. This Award Agreement will be governed by the laws of the State of California, without giving effect to the conflict of law principles thereof. For purposes of litigating any dispute that arises under this Award of Restricted Stock Units or this Award Agreement, the parties hereby submit to and consent to the jurisdiction of the State of California, and agree that such litigation will be conducted in the courts of San Mateo County, California, or the federal courts for the United States for the Northern District of California, and no other courts, where this Award of Restricted Stock Units is made and/or to be performed.

Exhibit 10.11

AMENDED AND RESTATED LEASE

BY AND BETWEEN

MENLO BUSINESS PARK, LLC, LESSOR

AND

PACIFIC BIOSCIENCES OF CALIFORNIA, INC., LESSEE

Menlo Business Park
1505 Adams Drive
and
1525 O'Brien Drive
Menlo Park, California 94025

December 17, 2007

TABLE OF CONTENTS

SCHEDULE OF EXHIBITS

AMENDED AND RESTATED LEASE

Building #16
1505 Adams Drive
and
Building #13
1525 O'Brien Drive
Menlo Park, California 94025

THIS AMENDED AND RESTATED LEASE, referred to herein as "this Lease," is made and entered into as of December 17, 2007 (the "Effective Date") by and between MENLO BUSINESS PARK, LLC, a California limited liability company, hereafter referred to as "Lessor," and PACIFIC BIOSCIENCES OF CALIFORNIA, INC., a Delaware corporation, hereafter referred to as "Lessee" or "Pac Bio, Inc."

RECITALS:

A. Lessor is the owner of (1) the real property located in Menlo Business Park, Menlo Park, California, commonly referred to as 1505 Adams Drive, more particularly described on Exhibit "A-1" attached hereto and incorporated by reference herein, consisting of a parcel of land containing approximately 1.62 acres, together with all easements and appurtenances thereto (the "Building #16 Land") and the existing building thereon containing approximately 30,240 rentable square feet ("Building #16"), and all other improvements located thereon (collectively, the "Building #16 Improvements"), and (2) the real property located in Menlo Business Park, Menlo Park, California, commonly referred to as 1525 O'Brien Drive, more particularly described on Exhibit "A-2" attached hereto and incorporated by reference herein, consisting of a parcel of land containing approximately 3.68 acres, together with all easements and appurtenances thereto (the "Building #13 Land") and the existing building thereon containing approximately 74,300 rentable square feet ("Building #13") and all other improvements located thereon (collectively, the "Building #13 Improvements"). The Building #16 Land and the Building #16 Improvements are referred to herein collectively as the "Building #16 Property." The Building #13 Land and the Building #13 Improvements are referred to herein collectively as the "Building #13 Property." The Menlo Business Park Master Plan is attached hereto as Exhibit "B" and incorporated by reference herein. The floor plan of Building #16 is attached hereto as Exhibit "C-1" and incorporated by reference herein. The floor plan of Building #13 showing the expansion premises to be leased by Lessee pursuant to this Lease is attached hereto as Exhibit "C-2" and incorporated by reference herein.

B. Lessor and Lessee entered into a Lease dated as of August 30, 2004, which was amended by First Amendment to Lease dated August 15, 2005, and further amended by Second Amendment to Lease dated January 23, 2007 (the "Building #16 Lease") for the entire space in Building #16 consisting of a total of 30,240 rentable square feet, as shown on the floor plan of Building #16 attached hereto as Exhibit "C-1" (the "Building #16 Premises").

C. Lessor and Lessee wish to enter into this Lease (1) to amend and restate the Building #16 Lease in its entirety, as hereafter provided, and (2) to provide for the lease by Lessor to Lessee of a portion of Building #13 that is physically separated from adjoining space in Building #13, and consisting of approximately 31,560 rentable square feet as shown on the floor plan of Building #13 attached hereto as Exhibit "C-2" (the "Building #13 Premises").

NOW, THEREFORE, the parties agree as follows:

1. Lease.

(a) The Building #16 Lease is hereby amended and restated in its entirety as provided in this Lease, and as so amended and restated, (1) as of the Effective Date Lessor hereby leases to Lessee, and Lessee leases from Lessor, the Building #16 Premises consisting of approximately 30,240 rentable square feet at the rental rate and upon the terms and conditions set forth herein; and (2) as of the Commencement Date of this Lease with respect to the Building #13 Premises as provided Paragraph 2(b), Lessor hereby leases to Lessee, and Lessee leases from Lessor, the Building #13 Premises consisting of approximately 31,560 rentable square feet at the rental rate and upon the terms and conditions set forth herein.

(b) Lessee shall have the right to use all of the on-site parking spaces on the Building #16 Land and Lessee's pro rata share of the on-site parking spaces on the Building #13 Land pursuant to Paragraph 29, and the right to use the common areas of Building #16 and the non-exclusive right to use the common areas of Building #13, respectively, and other Improvements on the Building #16 Property and the Building #13 Property, respectively, intended for use by the tenants of said Buildings. "Lessee's Share" of Building #16 is 100%. "Lessee's Share" of Building #13 is 42.48%, based upon the pro rata rentable square feet of the Building #13 Premises as compared to the total rentable square feet of Building #13 (31,560/74,300).

(c) Lessor grants to Lessee the right to use at no additional cost to Lessee Lessor's existing equipment and fixtures located in the Building #16 Premises in accordance with Paragraph 14(a).

(d) Lessor grants to Lessee the right to use at no additional cost to Lessee all of the furniture owned by Lessor located as of the date hereof in the Building #13 Premises, including, but not limited to, cubicles, chairs, office furniture, conference room furniture and wiring network. Lessee shall have the right to reconfigure the existing furniture systems. Lessor may, within reason, require Lessee to restore the furniture systems to their original configuration, provided that Lessor gives Lessee written notice of such requirement within a reasonable time (not to exceed ten (10) business days) after the date that Lessor receives from Lessee the plan for such reconfiguration. To the extent Lessee notifies Lessor prior to the Building #13 Commencement Date of its intention not to use any item(s) of such furniture, Lessor

shall remove any such item(s) of furniture from the Building #13 Premises at Lessor's expense. An inventory of such furniture to be used by Lessee, including a mutually agreed upon replacement value for such furniture, is attached hereto as Exhibit "D."

All of the furniture located on the Building #13 Premises and the Building #16 Premises and provided by Lessor pursuant to this subparagraph (d) shall remain the property of Lessor and shall be returned by Lessee to Lessor upon the expiration or sooner termination of the term of this Lease in good condition and repair, ordinary wear and tear excepted. Lessee shall, at Lessee's expense, repair and maintain the furniture on the Building #13 Premises during the term of this Lease. Lessee shall also insure such furniture under Lessee's property insurance and shall pay any personal property taxes assessed against such furniture during the term of this Lease.

2. Initial Term.

(a) Building #16. The initial term of the Building #16 Lease commenced on June 1, 2004, is currently in effect on the Effective Date hereof, and the expiration date of the initial term of the Building #16 Lease, as amended and restated by this Lease, is hereby extended for thirty-six (36) calendar months with such extension period commencing on June 1, 2008 and expiring, unless sooner terminated in accordance with the provisions hereof, on May 31, 2011.

(b) Building #13. Subject to Paragraph 2(c), the initial term of this Lease of Building #13 shall commence on January 1, 2008 (the "Building #13 Commencement Date"). The Building #13 Commencement Date shall be confirmed in writing by Lessor and Lessee by the execution and delivery of the 1525 O'Brien Drive Commencement Memorandum in the form attached hereto as "Exhibit "E." Subject to the initial term of the Building #13 Premises commencing on January 15, 2008, the initial term of this Lease of Building #13 shall expire, unless sooner terminated in accordance with the provisions hereof, on May 31, 2011.

(c) Notwithstanding the Building #13 Commencement Date specified in Paragraph 2(b), the initial term of this Lease of Building #13 shall not commence until (1) Lessor and Lessee have executed and delivered this Lease; and (2) Lessee shall have paid to Lessor concurrently with the execution and delivery of this Lease the sum of Fifty-six Thousand Eight Hundred Eight Dollars ($56,808.00) representing the Monthly Base Rent for the Building #13 Premises for the second month of the initial term of this Lease of Building #13; the sum of Sixteen Thousand Six Hundred Forty-six Dollars ($16,646.00) representing the increase in the Security Deposit for the Building #16 Premises from the present sum of Forty-two Thousand Twenty-seven Dollars ($42,027.00) to Fifty-eight Thousand Six Hundred Seventy-three Dollars ($58,673.00); and the sum of Sixty-two Thousand Nine Hundred Eighty-four Dollars ($62,984.00) representing the Security Deposit for the Building #13 Premises, for a total of One Hundred Thirty-six Thousand Four Hundred Thirty-eight Dollars ($136,438.00).

(d) Lessor shall deliver the Building #13 Premises to Lessee on the Building #13 Commencement Date in a structurally sound condition, in compliance with all applicable laws including the Americans With Disabilities Act, and leak free condition with all building operating systems, electrical, power grid in the clean room, HVAC, fire suppression, life safety (to the extent currently existing), roof, lights and plumbing in good working order, and Lessor hereby warrants that, for a period of ninety (90) days from the Commencement Date, the foregoing building operating systems, electrical, power grid in the clean room, HVAC, fire suppression, life safety (to the extent currently existing), roof, lights and plumbing shall remain in good working order, or such systems shall be repaired or replaced, at Lessor's sole expense which shall not be allocated to Lessee as an Operating Expense.

Lessee shall engage the services of certified vendors, subject to Lessor's approval, which approval shall not be unreasonably witheld, to complete a roof and HVAC survey describing the current condition of these elements of the Building #13 Premises, which will be completed by December 10, 2007. Lessor and Lessee will split the cost of the surveys 50/50, the total for which shall not exceed Four Thousand Dollars ($4,000).

Lessor shall also remove all of Lessor's personal property currently located in the clean room/lab area of the Building #13 Premises within thirty (30) days of a verbal commitment by Lessee that it intends (subject to approval of Lessee's Board of Directors) to execute this Lease by December 19, 2007, and provided that Lessee hereby agrees that in the event that Lessee does not execute this Lease by such date, Lessee shall reimburse Lessor for all costs of: (1) moving such personal property out of and back into the Building #13 Premises; and (2) storage of all such personal property for up to three (3) months. Lessor and Lessee each acknowledge that the aforementioned verbal commitment was delivered by Lessee to Lessor on November 13, 2007.

(e) If for any reason Lessor cannot deliver possession of the Building #13 Premises to Lessee in the condition referred to in Paragraph 2(d) above by the Building #13 Commencement Date specified in Paragraph 2(b), Lessor shall not be subject to any liability therefore, nor shall such failure affect the validity of this Lease of the Building #13 Premises, or the obligations of Lessee hereunder, but in such case, Lessee shall not, except as otherwise provided herein, be obligated to pay rent or perform any other obligation of Lessee under the terms of this Lease of the Building #13 Premises until Lessor delivers possession of the Building #13 Premises to Lessee. If possession of the Building #13 Premises is not delivered to Lessee by February 15, 2008, Lessee may, at its option, by notice in writing received by Lessor after February 15, 2008 and on or before the date possession is so delivered, cancel this Lease of the Building #13 Premises in which event the parties shall be discharged from all further obligations of this Lease with respect to the Building #13 Premises. If such written notice is not received by Lessor on or before the date possession of the Building #13 Premises is so delivered, Lessee's right to cancel this Lease with respect to the Building #13 Premises pursuant to this Paragraph 2(e) shall terminate and be of no further force or effect.

(f) If for any reason the condition referred to in Paragraphs 2(d) above have not been satisfied by January 15, 2008, but such conditions are satisfied thereafter and prior to June 1, 2008 (and prior to the receipt by Lessor of a written notice from Lessee exercising Lessee's right to cancel this Lease pursuant to Paragraph 2(e)), the expiration date of the initial term of this Lease of Building #13 shall be adjusted so that such expiration date occurs concurrently with the expiration date of the initial term of this Lease of Building #16 (May 31, 2011), as extended pursuant to Paragraph 2(a) hereof.

(g) Subject to the prior execution and delivery of this Lease by the parties, and subject to Lessee having delivered to Lessor written evidence that Lessee's insurance coverages required by Paragraph 11(a) are in effect, Lessee and Lessee's vendors and contractors shall have access to the Building #13 Premises after the Effective Date and prior to the Building #13 Commencement Date for the purpose of performing Tenant Improvement work approved by Lessor in writing, installing Lessee's telephone system, data communications equipment, fixtures, and other equipment. Monthly Base Rent and Additional Rent with respect to the Building #13 Premises shall not be payable by Lessee during such period of early access.

(h) Upon receipt by Lessor of a written request from Lessee following the execution and delivery by the parties of this Lease and the payment by Lessee to Lessor of the total sum referred to in Paragraph 2(c), Lessor shall grant access to the Building #13 Premises prior to the Building #13 Commencement Date, rent free, by Lessee's vendors and representatives for the purpose of architectural review and inspection of Building #13 and the Building #13 Premises.

3. Option to Extend.

(a) Lessor hereby grants to Lessee one (1) option, at Lessee's election, either (1) to extend the term of this Lease with respect to the Building #16 Premises only, or (2) to extend the term of this Lease with respect to the Building #13 Premises only, or (3) to extend the term of this Lease of both the Building #16 Premises and the Building #13 Premises (whichever Lessee elects is referred to hereafter as the "Option Premises"), for one period of thirty-six (36) calendar months immediately following the expiration of the initial term of this Lease of the Building #16 Premises and the Building #13 Premises. Lessee may exercise the foregoing option to extend by giving written notice of exercise to Lessor at least five (5) months, but not more than twelve (12) months, prior to the expiration of the initial term of this Lease of Building #16 Premises and the Building #13 Premises ("the option exercise period"), time being of the essence; provided that if Lessee is currently in a state of uncured default after the expiration of notice and cure periods, if applicable (referred to herein as "in default"), under this Lease at the time of exercise of the option or on the commencement date of the option extension period, such notice shall be void and of no force or effect. Subject to Lessee's election with respect to the Option Premises, said option extension period, if exercised, shall be upon the same terms and conditions with respect to the Option Premises as the initial term of this Lease, including the payment by Lessee of the Operating Expenses pursuant to Paragraph 5, except that (i)

the Monthly Base Rent for the Option Premises during the option period shall be determined as set forth in Paragraph 3(c) hereof, (ii) there shall be no additional option to extend, and (iii) Lessee shall accept the Option Premises in their then "as is" condition and Paragraph 13, Tenant Improvement Allowance, shall not apply to the option period. If Lessee does not exercise the option in a timely manner, the option shall lapse, time being of the essence.

(b) The option to extend granted to Lessee by this Paragraph 3 is granted for the personal benefit of Pac Bio, Inc. only, and shall be exercisable only by Pac Bio, Inc. or by a "permitted transferee" under Paragraph 18(f) below. Said option may not be assigned or transferred by Pac Bio, Inc. to any assignee or sublessee other than a permitted transferee.

(c) The initial Monthly Base Rent for the Option Premises during the option extension period shall be determined pursuant to the provisions of this subparagraph (c) and, subject to subparagraph (e) below, shall equal ninety-five percent (95%) of the then current fair market rental for the Option Premises on the commencement date of the option extension period as determined by agreement between Lessor and Lessee reached prior to the expiration of the option exercise period, if possible, and by the process of appraisal if the parties cannot reach agreement.

Upon the written request by Lessee to Lessor received by Lessor at any time during the 30 day period prior to the expiration of the option exercise period (e.g., between December 1, 2010 and December 30, 2010 if the expiration date of the term of this Lease is May 31, 2011) and prior to the exercise by Lessee of the option to extend, Lessor shall give Lessee written notice of Lessor's good faith opinion of the amount equal to ninety-five percent (95%) of the fair market rental value of the Option Premises as of the commencement of the option extension period. Thereafter, upon the request of Lessee, Lessor and Lessee shall enter into good faith negotiations during the remainder of the thirty (30) days prior to the expiration of the option exercise period in an effort to reach agreement on ninety-five percent (95%) of the initial Monthly Base Rent for the Option Premises.

If Lessor and Lessee are unable to agree upon the amount equal to ninety-five percent (95%) of the then current fair market rent for the Option Premises as of the commencement date of the option extension period, and thereafter, prior to the expiration of the option exercise period, Lessee exercises the option to extend, said amount shall be determined by appraisal. The appraisal shall be performed by one appraiser if the parties are able to agree upon one appraiser. If the parties are unable to agree upon one appraiser, each party shall appoint an appraiser and the two appraisers shall select a third appraiser. Each appraiser selected shall be a member of the American Institute of Real Estate Appraisers (AIREA) with at least five (5) years of full-time commercial real estate appraisal experience in the Menlo Park office/R&D/manufacturing rental market.

If only one appraiser is selected, that appraiser shall notify the parties in simple letter form within fifteen (15) days following its selection of its determination of the amount equal to ninety-five percent (95%) of the fair market Monthly Base Rent for the Option Premises on the commencement date of the option extension period. Said appraisal shall be binding on the parties as the appraised current ninety-five percent (95%) of the "fair market rental" for the Option Premises which shall be based upon what a willing new lessee would pay and a willing lessor would accept at arm's length for comparable premises in the vicinity of the Option Premises of similar age, size, quality of construction and specifications (excluding the value of any improvements to the Option Premises made at Lessee's cost) for a lease similar to this Lease and taking into consideration that there will be no free rent, improvement allowance, or other concessions. If multiple appraisers are selected, each appraiser shall within ten (10) days of being selected make its determination of the amount equal to ninety-five percent (95%) of the current fair market Monthly Base Rent for the Option Premises as of the commencement date of the option extension period in simple letter form. If two (2) or more of the appraisers agree on said amount, such agreement shall be binding upon the parties. If multiple appraisers are selected and at least two (2) appraisers are unable to agree on said amount, the amount equal to ninety-five percent (95%) of the fair market Monthly Base Rent for the Option Premises shall be determined by taking the mean average of the appraisals; provided, that any high or low appraisal, differing from the middle appraisal by more than ten percent (10%) of the middle appraisal, shall be disregarded in calculating the average. Said initial Monthly Base Rent shall be adjusted annually on the anniversary of the commencement of the option term in the manner determined by the appraisers to be consistent with the then prevailing market practice for comparable space in the Menlo Park office/R&D/manufacturing rental market.

If only one appraiser is selected, each party shall pay one-half of the fees and expenses of that appraiser. If three appraisers are selected, each party shall bear the fees and expenses of the appraiser it selects and one-half of the fees and expenses of the third appraiser.

(d) Thereafter, provided that Lessee has previously given timely notice to Lessor of the exercise by Lessee of the option to extend the term of the Option Premises, Lessor and Lessee shall execute an amendment to this Lease stating that the initial Monthly Base Rent for the Option Premises during the option extension period shall be equal to ninety-five percent (95%) of the current fair market Monthly Base Rent for the Option Premises as of the commencement date of the option extension period, and adjusted thereafter if applicable, as agreed upon by Lessor and Lessee, or if the parties did not agree, as determined by the foregoing appraisal process.

(e) Notwithstanding anything to the contrary contained in subparagraph (c) above, in no event shall the Monthly Base Rent at the commencement of the option extension period be less than the Monthly Base Rent for the Option Premises in effect immediately prior to the commencement of the option extension period.

(f) As used in this Lease "term" or "term of this Lease" shall include the initial term and the option extension period, if exercised.

4. Monthly Base Rent.

(a) Building #16. Commencing on the Commencement Date of the initial term of this Lease with respect to the Building #13 Premises referred to in Paragraph 2(b), and continuing on the first day of each calendar month thereafter during the initial term of this Lease with respect to the Building #16 Premises, Lessee shall pay to Lessor in monthly installments in advance Monthly Base Rent for Building #16, based on the Building #16 Premises consisting of 30,240 rentable square feet, in lawful money of the United States as follows:

Period	Rent/sf/Mo./NNN	Amount
Effective Date – May 31, 2008	$ 1.3898	$42,028.00
June 1, 2008 – May 31, 2009	$ 1.75	$52,920.00
June 1, 2009 – May 31, 2010	$ 1.8112	$54,772.00
June 1, 2010 – May 31, 2011	$ 1.8746	$56,689.00

(b) Building #13. Commencing on the Commencement Date of the initial term of this Lease with respect to the Building #13 Premises referred to in Paragraph 2(b) (subject to Paragraphs 2(c) and 2(d)), and continuing on the first day of each calendar month thereafter during the initial term of this Lease with respect to the Building #13 Premises, Lessee shall pay to Lessor in monthly installments in advance Monthly Base Rent for Building #13, based on the Building #13 Premises consisting of 31,560 rentable square feet, in lawful money of the United States as follows:

Period	Rent/sf/Mo./NNN	Amount
January 15, 2008 – February 14, 2008	$ 0.00(NNN expenses only)	
February 15, 2008 – February 14, 2009	$ 1.80	$56,808.00
February 15, 2009 – February 14, 2010	$ 1.8629	$58,796.00
February 15, 2010 – February 14, 2011	$ 1.9282	$60,854.00
February 15, 2011 – May 31, 2011	$ 1.9957	$62,984.00

(c) Upon the execution and delivery of this Lease by Lessor and Lessee, Lessee shall pay to Lessor the sum of Fifty-six Thousand Eight Hundred Eight Dollars ($56,808.00) representing the Monthly Base Rent for the second month of the initial term of this Lease with respect to the Building #13 Premises.

5. Additional Rent; Operating Expenses and Taxes.

(a) In addition to the Monthly Base Rent payable by Lessee to Lessor pursuant to Paragraph 4, commencing on the Effective Date of this Lease with respect to the Building #16 Premises, and commencing on the Commencement Date of this Lease

with respect to the Building #13 Premises, respectively, Lessee shall pay to Lessor, as "Additional Rent," (i) one hundred percent (100%) of the monthly Operating Expenses of the Building #16 Premises, (ii) Lessee's pro rata share of the monthly Operating Expenses of the Building #13 Premises, (iii) Lessee's pro rata share of the monthly Operating Expenses of Menlo Business Park of which the Building #16 Premises and the Building #13 Premises are a part, in accordance with Paragraph 5(b) hereof, and (iv) Lessee's pro rata share of the real property taxes and assessments levied or assessed against the Building #16 Premises and the Building #13 Premises in accordance with Paragraph 5(c) hereof, apportioned as monthly installments. Lessee's share of the monthly Operating Expenses of Menlo Business Park with respect to the Building #16 Premises (30,240 rentable square feet) is 3.42% calculated by multiplying Lessee's Share of the Building #16 Premises (100.00%) by the percentage of the Building #16 Land to the total of land area in Menlo Business Park (3.42%) (100.00% × 3.42% = 3.42%). Lessee's share of the monthly Operating Expenses of Menlo Business Park with respect to the Building #13 Premises (31,560 rentable square feet) is 3.3046% calculated by multiplying Lessee's Share of the Building #13 Premises (42.4764%) by the percentage of the Building #13 Land to the total of land area in Menlo Business Park (7.78%) (42.4764% × 7.78%= 3.3046%). The Operating Expenses of Menlo Business Park currently include maintenance of the common areas of Menlo Business Park, parking lot lighting (cost of electricity and maintenance of the fixtures), maintenance of the network conduit, all landscape maintenance and irrigation of Menlo Business Park, Lessor's insurance coverages of Menlo Business Park, and security patrol. The operating expenses of Menlo Business Park may include other reasonable items from time to time during the term of this Lease. Monthly Base Rent and Additional Rent are referred to herein collectively as "rent."

(b) "Operating Expenses," as used herein, shall include all reasonable direct costs actually incurred by Lessor in the of management, operation, maintenance, repair and replacement of the Building #16 Premises and the Building #13 Premises, including the cost of all maintenance, repairs, and restoration of the Building #16 Premises and the Building #13 Premises performed by Lessor pursuant to Paragraphs 15(b) and 15(c) hereof, as determined by generally accepted accounting principles (unless excluded by this Lease), including, but not limited to:

Personal property taxes related to the Building #16 Premises and the Building #13 Premises; any parking taxes or parking levies imposed on the Building #16 Premises and the Building #13 Premises in the future by any governmental agency; a pro rata portion of the management fee charged for the management and operation of Menlo Business Park, Lessee's share of which shall not exceed four percent (4%) of the total gross income received by Lessor from the operation of the Building #16 Premises and the Building #13 Premises (including Monthly Base Rent and Additional Rent); water and sewer charges; waste disposal; insurance premiums for insurance coverages maintained by Lessor pursuant to Paragraph 11(b) hereof; license, permit, and inspection fees; charges for electricity, heating, air conditioning, gas, and any other utilities (including, without limitation, any temporary or permanent utility surcharge or other exaction); security;

maintenance, repair, and replacement of the roof membrane; painting and repairing, interior and exterior; maintenance and replacement of floor and window coverings; repair, maintenance, and replacement of air-conditioning, heating, mechanical and electrical systems, elevators, plumbing and sewage systems; janitorial service (which may exclude internal janitorial service to the extent that Lessee has separately contracted therefore); landscaping, gardening, and tree trimming; glazing; repair, maintenance, cleaning, sweeping, striping, and resurfacing of the parking area; exterior Building lighting and parking lot lighting; supplies, materials, equipment and tools in the maintenance of the Building #16 Premises and the Building #13 Premises; costs for accounting services incurred in the calculation of Operating Expenses and Taxes as defined herein; and the cost of any other capital expenditures for any improvements or changes to Building #16 or Building #13 which are required by laws, ordinances, or other governmental regulations adopted after the Effective Date with respect to the Building #16 Premises and commencing with the Commencement Date with respect to the Building #13 Premises, or for any items or capital expenditures voluntarily made by Lessor which are intended to and have the effect of reducing Operating Expenses; provided, however, that except for capital improvements required because of Lessee's specific use of the Building #16 Premises and the Building #13 Premises, if Lessor is required to or voluntarily makes such capital improvements, Lessor shall amortize the cost of said improvements over the useful life of said improvements (together with interest on the unamortized balance at the rate equal to the effective rate of interest on Lessor's bank line of credit at the time of completion of said improvements, but in no event in excess of twelve percent (12%) per annum) as an Operating Expense in accordance with generally accepted accounting principles, except that with respect to capital improvements made to save Operating Expenses such amortization shall not be at a rate greater than the actual savings in Operating Expenses. To the extent any of the foregoing capital improvements are applicable to Building #13 as a whole and not solely to the Building #13 Premises, then any resulting Operating Expenses for such Capital Improvement shall be apportioned pro rata to Lessee based upon the percentage of Building #13 occupied by the Building #13 Premises. Operating Expenses shall also include any other expense or charge, whether or not described herein not specifically excluded by other provisions of this Lease, which in accordance with generally accepted accounting principles would be considered an expense of managing, operating, maintaining, and repairing the Building #16 Premises and the Building #13 Premises.

(c) Real property taxes and assessments upon the Building #16 Premises and the Building #13 Premises, during each lease year or partial lease year commencing with the Effective Date with respect to the Building #16 Premises, and commencing with the Commencement Date with respect to the Building #13 Premises, are referred to herein as "Taxes."

As used herein, “Taxes” shall mean:

(1) all real estate taxes, assessments and any other taxes levied or assessed against the Building #16 Property and the Building #13 Property apportioned pro rata to the Building #13 Premises, including the Land, the Buildings, and all Improvements located thereon, including any increase in Taxes resulting from a reassessment following any transfer of ownership of the Building #16 Property or the Building #13 Property or any interest therein or following any improvements to the Building #16 Property or the Building #13 Property or to Menlo Business Park which are for the benefit of all occupants of Menlo Business Park; and

(2) all other taxes which may be levied in lieu of real estate taxes, assessments, and other fees, charges, and levies, general and special, ordinary and extraordinary, unforeseen as well as foreseen, of any kind and nature by any authority having the direct or indirect power to tax, including without limitation any governmental authority or any improvement or other district or division thereof, for public improvements, services, or benefits which are assessed, levied, confirmed, imposed, or become a lien (i) upon the Building #16 Property or the Building #13 Property, and/or any legal or equitable interest of Lessor in any part thereof; or (ii) upon this transaction or any document to which Lessee is a party creating or transferring any interest in the Building #16 Property or the Building #13 Property; and (iii) any tax or excise, however described, imposed in addition to, or in substitution partially or totally of, any tax previously included within the definition of “Taxes” or any tax the nature of which was previously included in the definition “Taxes.”

Not included within the definition of “Taxes” are any net income, profits, transfer, franchise, estate, gift, rental income, or inheritance taxes imposed by any governmental authority. “Taxes” also shall not include penalties or interest charges assessed on delinquent Taxes so long as Lessee is not in default in the payment of Monthly Base Rent or Additional Rent.

With respect to any assessments which may be levied against or upon the Land or the Improvements, which under the laws then in force may be evidenced by improvement or other bonds, or may be paid in annual installments, only the amount of such annual installment (with appropriate proration of any partial year) and statutory interest shall be included within the computation of the annual Taxes levied against the Land or the Improvements.

(d) The following costs (“Costs”) shall be excluded from the definition of Operating Expenses:

(1) Costs occasioned by the act, omission or violation of law by Lessor, any other occupant of Menlo Business Park, or their respective agents, employees or contractors;

(2) Costs for which Lessor receives reimbursement from others, including reimbursement from insurance; Lessor shall exercise commercially reasonable efforts to collect such amounts;

(3) Interest, charges and fees incurred on debt or payments on any deed of trust or ground lease on the Building #16 Property, the Building #13 Property, or Menlo Business Park;

(4) Advertising or promotional costs or other costs incurred by Lessor in procuring tenants for the Building #16 Property or the Building #13 Property, or other portions of Menlo Business Park;

(5) Costs incurred in repairing, maintaining or replacing any structural elements of Building #16 or Building #13 for which Lessor is responsible pursuant to Paragraph 15(a) hereof or incurred in repairing, maintaining, or replacing any structural elements of other buildings in Menlo Business Park;

(6) Any wages, bonuses or other compensation of employees above the grade of building manager and any executive salary of any officer or employee of Lessor or for employees to the extent not stationed at Menlo Business Park, including fringe benefits other than insurance plans and tax-qualified benefit plans, or any fee, profit or compensation retained by Lessor or its affiliates for management and administration of the Building #16 Property or the Building #13 Property in excess of the management fee referred to in Paragraph 5(b) of this Lease; if any building manager stationed at Menlo Business Park is less than full-time, only Lessee's pro rata share of the pro rata portion of the compensation paid to such employee shall be included in Operating Expenses;

(7) General office overhead and general and administrative expenses of Lessor, except as specifically provided in Paragraph 5(b);

(8) Leasing expenses and broker commissions payable by Lessor;

(9) Costs occasioned by casualties or by the exercise of the power of eminent domain;

(10) Costs to correct any construction defect in Building #16, Building #13, or the Building #13 Premises existing on the Effective Date with respect to Building #16 or on the Commencement Date with respect to Building #13, or to comply with any covenant, condition, restriction, underwriter's requirement or law applicable on the either of said dates;

(11) Costs of any renovation, improvement, painting or redecorating of any portion of the Building #16 Property, the Building #13 Property, or the Menlo Business Park not made available for Lessee's use;

(12) Costs incurred in connection with negotiations or disputes with any other occupant of the Menlo Business Park and Costs arising from the violation by Lessor or any other occupant of the Menlo Business Park of the terms and conditions of any lease or other agreement;

(13) Insurance costs for coverage not customarily paid by tenants of similar properties in the Menlo Park office/R&D/manufacturing rental market, insurance cost increases caused by the activities of another occupant of Menlo Business Park, and co-insurance payments, except that Lessor currently carries and may continue to carry earthquake insurance as an Operating Expense of the Building #16 Property and the Building #13 Property;

(14) Costs incurred in connection with the presence of any Hazardous Material, except to the extent caused by the release or emission of the Hazardous Material in question by Lessee or its employees, agents, contractors, invitees, sublessees, successors or assigns;

(15) Expense reserves; and

(16) Costs which could properly be capitalized under generally accepted accounting principles, except to the extent amortized over the useful life of the capital item in question as set forth in Paragraph 5(b) above.

Lessor shall at all times use its best efforts to operate the Building #16 Property and the Building #13 Property in an economically reasonable manner at costs not disproportionately higher than those experienced by other comparable property in the market area in which the Property are located (Menlo Park).

(e) As of the Effective Date with respect to the Building #16 Property and as of the Commencement Date with respect to Lessee's pro rata portion of the Building #13 Property, and as close as reasonably possible to the end of each calendar year thereafter with respect to the Building #16 Property and Lessee's pro rata portion of the Building #13 Property, Lessor shall notify Lessee of the Operating Expenses estimated by Lessor for the calendar year 2008, and for each following calendar year. Concurrently with such notice, Lessor shall provide a description of such Operating Expenses and Taxes. Commencing on the Effective Date with respect to the Building #16 Premises and commencing on the Commencement Date with respect to the Building #13 Premises, and on the first (1st) day of each calendar month thereafter, Lessee shall pay to Lessor, as Additional Rent, one-twelfth (1/12th) of Lessee's Share of the estimated Operating Expenses and Taxes for the Building #16 Property and Lessee's pro rata portion of the Building #13 Property, respectively. If at any time during any such calendar year, it appears to Lessor that the Operating Expenses or Taxes for such year will vary from Lessor's estimate, Lessor may, by written notice to Lessee, revise Lessor's estimate for such year and the Additional Rent and Taxes payments by Lessee for such year shall thereafter be based upon such revised estimate. Lessor shall furnish to Lessee with such revised

estimate written verification showing that the actual Operating Expenses or Taxes are greater than Lessor's estimate. The increase in the monthly installments of Additional Rent and Taxes resulting from Lessor's revised estimate shall not be retroactive, but the Additional Rent and Taxes for each calendar year shall be subject to adjustment between Lessor and Lessee after the close of the calendar year, as provided below.

Within approximately ninety (90) days after the expiration of each calendar year of the term, Lessor shall furnish Lessee statements certified by a responsible employee or agent of Lessor (the "Operating Statement") for the Building #16 Property and Lessee's pro rata portion of the Building #13 Property with respect to such year, prepared by an employee or agent of Lessor, showing Operating Expenses and Taxes broken down by component expenses, Base Taxes and Base Operating Expenses of the Building #16 Property and Lessee's pro rata portion of the Building #13 Property broken down by component expenses, and the total payments made by Lessee on the basis of any previous estimates of such Operating Expenses and Taxes, all in sufficient detail for verification by Lessee. Unless Lessee raises any objections to the Operating Statement within ninety (90) days after receipt of the same, such statement shall conclusively be deemed correct and Lessee shall have no right thereafter to dispute such statement or any item therein or the computation of Operating Expenses and/or Taxes. Lessee or its accountants shall have the right to inspect and audit Lessor's books and records with respect to this Lease once each Lease Year to verify actual Operating Expenses and/or Taxes. Lessor's books and records shall be kept in accord with generally accepted accounting principles. If Lessee's audit of the Operating Expenses and/or Taxes for any year reveals a net overcharge of more than five percent (5%), Lessor promptly shall reimburse Lessee for the cost of the audit; otherwise, Lessee shall bear the cost of Lessee's audit. If Lessee objects to any of Lessor's Operating Statements, Lessee shall continue to pay on a monthly basis the Operating Expenses and/or Taxes based upon the prior year's Operating Statement until the dispute is resolved.

If the Operating Expenses and Taxes for the Building #16 Property or Lessee's pro rata portion of the Building #13 Property for the year as finally determined exceed the total payments made by Lessee based on Lessor's estimates, Lessee shall pay to Lessor the deficiency, within thirty (30) days after the receipt of Lessor's Operating Statements. If the total payments made by Lessee based on Lessor's estimate of the Operating Expenses and/or Taxes exceed the Operating Expenses and/or Taxes, Lessee's extra payment, plus the cost of the audit if charged to Lessor, shall be credited against payments of Monthly Base Rent and Additional Rent next due hereunder.

Notwithstanding the termination of this Lease, within thirty (30) days after Lessee's receipt of Lessor's Operating Statements or the completion of Lessee's audit regarding the Operating Expenses and/or Taxes for the Building #16 Property and Lessee's pro rata portion of the Building #13 Property for the calendar year in which this Lease terminates, Lessee shall pay to Lessor or shall receive from Lessor, as the case may be, an amount equal to the difference between the Operating Expenses and/or Taxes for such year, as finally determined, and the amount previously paid by Lessee on account thereof (prorated to the expiration date or the termination date of this Lease).

6. Payment of Rent.

(a) All rent shall be due and payable in lawful money of the United States of America at the address of Lessor set forth in Paragraph 25, "Notices," without deduction or offset and without prior demand or notice, unless otherwise specified herein. Monthly Base Rent and Additional Rent shall be payable monthly, in advance, on the first day of each calendar month. Lessee's obligation to pay rent for any partial month at the commencement of the initial term, for the partial month immediately prior to the any rental adjustment date (if the rental adjustment date is other than the first day of the calendar month), and for any partial month at the expiration or termination of the term of this Lease shall be prorated on the basis of a thirty (30) day month.

(b) If any installment of Monthly Base Rent, Additional Rent or any other sum due from Lessee is not received by Lessor within five (5) days after the same is due, Lessee shall pay to Lessor an additional sum equal to five percent (5%) of the amount overdue as a late charge. Notwithstanding the foregoing, before assessing a late charge the first time in any calendar year, Lessor shall provide Lessee written notice of the delinquency, and shall waive such late charge if Lessee pays such delinquency within five (5) days thereafter. The parties agree that this late charge represents a fair and reasonable estimate of the costs that Lessor will incur by reason of the late payment by Lessee. Acceptance of any late charge shall not constitute a waiver of Lessee's default with respect to the overdue amount. Any amount not paid within ten (10) days after Lessee's receipt of written notice that such amount is due shall bear interest from the date due until paid at the lesser rate of (1) the prime rate of interest as published in the "Wall Street Journal," plus five percent (5%) or (2) the maximum rate allowed by law (the "Interest Rate"), in addition to the late payment charge.

Initials: Lessor JO Lessee HM

7. Security Deposit.

(a) Lessee shall deposit with Lessor upon execution hereof (1) the sum of Sixteen Thousand Six Hundred Forty-six Dollars ($16,646.00), increasing the security deposit of Forty-Two Thousand Twenty-seven Dollars ($42,027.00) currently held by Lessor with respect to the Building #16 Lease to Fifty-eight Thousand Six Hundred Seventy Three Dollars ($58,673.00) with respect to the Building #16 Premises, plus (2) the sum of Sixty-two Thousand Nine Hundred Eighty-four Dollars ($62,984.00) with respect to the Building #13 Premises, for a total security deposit of One Hundred Twenty-One Thousand Six Hundred Fifty-seven Dollars ($121,657.00) (the "Security Deposit"), as security for Lessee's faithful performance of Lessee's obligations under this Lease with respect to the Building #16 Premises and the Building #13 Premises. If Lessee fails to pay Monthly Base Rent or Additional Rent or charges due hereunder within applicable notice

and cure periods, or otherwise defaults under this Lease (as defined in Paragraph 23) with respect to the Building #16 Premises and/or the Building #13 Premises, Lessor may use, apply or retain all or any portion of the Security Deposit to the extent reasonably necessary to cure the default, for the payment of any amount due Lessor, and to reimburse or compensate Lessor for any liability, cost, expense, loss or damage (including attorneys' fees) which Lessor may suffer or incur by reason of a default with respect to the Building #16 Premises and/or the Building #13 Premises. If Lessor uses or applies all or any portion of the Security Deposit, Lessee shall within ten (10) days after written request therefor deposit with Lessor an amount sufficient to restore the Security Deposit to the original total amount required by this Lease. Lessor shall not be required to keep all or any part of the Security Deposit separate from its general accounts.

(b) Lessor shall, at the expiration or earlier termination of the term hereof and after Lessee has vacated the Premises, return to Lessee (or, at Lessor's option, to the last assignee, if any, of Lessee's interest herein), that portion of the Security Deposit not used or applied by Lessor. No part of the Security Deposit shall be considered to be held in trust, to bear interest or other increment for its use, or to be prepayment for any moneys to be paid by Lessee under this Lease.

8. Use. Lessee may only use and occupy the Building #16 Premises and the Building #13 Premises for general office uses, research and development and manufacturing, and for such other uses which are permitted by applicable zoning ordinances and the covenants, conditions, and restrictions for Menlo Business Park and which are reasonably approved by Lessor in writing, and for no other use or purpose without Lessor's prior written consent. Use of the Building #16 Premises or the Building #13 Premises for the manufacture of integrated circuits is expressly prohibited. Any use of the Building #16 Premises or the Building #13 Premises by Lessee or by any sublessee or assignee approved by Lessor pursuant to Paragraph 18 shall comply with the provisions of this Paragraph 8.

9. Hazardous Materials.

(a) The term "Hazardous Materials" as used in this Lease shall include any substance defined as a "hazardous substance," "toxic substance," "industrial process waste," or "special waste" in any Environmental Laws as hereafter defined. Hazardous Materials shall include, but not be limited to, petroleum, gasoline, natural gas, natural gas liquids, liquefied natural gas, synthetic gas, and/or crude oil or any products, by-products or fractions thereof.

(b) Lessee shall not engage in any activity in or on the Building #16 Property or the Building #13 Property which constitutes a Reportable Use of Hazardous Materials without the express prior written consent of Lessor and timely compliance (at Lessee's expense) with all Environmental Laws. "Reportable Use" shall mean (i) the installation or use of any above or below ground storage tank, (ii) the generation, possession, storage, use, transportation, or disposal of Hazardous Materials that require a

permit from, or with respect to which a report, notice, registration or business plan is required to be filed with, any governmental authority, and/or (iii) the presence at the Premises of Hazardous Materials with respect to which any Environmental Law requires that a notice be given to persons entering or occupying the Building #16 Property or the Building #13 Property or neighboring properties. Notwithstanding the foregoing, subject to Lessee maintaining in effect the permit(s) required by the City of Menlo Park (including the Conditional Use Permit), and previously issued to Lessee by the City of Menlo Park permitting the use on the Building #16 Property of the Hazardous Materials that are listed on Exhibit "F" attached hereto and incorporated by reference herein, Lessee may store, maintain and use such Hazardous -Materials listed on Exhibit "F" on the Building #16 Property provided that Lessee complies with the terms and conditions of such permit(s). Lessee shall not maintain on the Building #13 Property five gallons (5) or more of any Hazardous Materials unless and until Lessee has obtained any and all necessary permits, including a Conditional Use Permit if required by the City of Menlo Park, for use of such Hazardous Materials on the Building #13 Premises. Lessee shall list separately on Exhibit "F" attached hereto, or an addendum thereto as approved in writing by Lessor, which approval shall not be unreasonably witheld, withheld any such Hazardous Materials maintained on the Building #13 Property. Subject to the foregoing restriction, Lessee may maintain on the Building #16 Property and the Building #13 Property any ordinary and customary materials reasonably required to be used in the normal course of Lessee's agreed use of the Premises, so long as any such use is in compliance with all Environmental Laws, and does not expose the Building #16 Property or the Building #13 Property or neighboring property to any unusual or atypical risk of contamination or damage or expose Lessor to any unusual or atypical liability therefor. In addition, Lessor may condition its consent to any Reportable Use upon receiving such additional assurances as Lessor reasonably deems necessary to protect itself, the public, the Building #16 Property and the Building #13 Property and/or the environment against damage, contamination, injury and/or liability, including, but not limited to, the installation (and removal on or before Lease expiration or termination) of any protective modifications installed by Lessee (such as concrete encasements).

(c) "Environmental Laws" shall mean and include any Federal, State, or local statute, law, ordinance, code, rule, regulation, order, or decree regulating, relating to, or imposing liability or standards of conduct concerning, any hazardous, toxic, or dangerous waste, substance, element, compound, mixture or material, as now or at any time hereafter in effect including, without limitation, California Health and Safety Code §§25100 et seq., §§25300 et seq., Sections 25281(f) and 25501 of the California Health and Safety Code, Section 13050 of the Water Code, the Federal Comprehensive Environmental Response, Compensation and Liability Act, as amended, 42 U.S.C. §§9601 et seq. ("CERCLA"), the Superfund Amendments and Reauthorization Act, 42 U.S.C. §§9601 et seq., the Federal Toxic Substances Control Act, 15 U.S.C. §§2601 et seq., the Federal Resource Conservation and Recovery Act as amended, 42 U.S.C. §§6901 et seq., the Federal Hazardous Material Transportation Act, 49 U.S.C. §§1801 et seq., the Federal Clean Air Act, 42 U.S.C. §7401 et seq., the Federal Water Pollution Control Act, 33 U.S.C.

§1251 et seq., the River and Harbors Act of 1899, 33 U.S.C. §§401 et seq., and all rules and regulations of the EPA, the California Environmental Protection Agency, or any other state or federal department, board or any other agency or governmental board or entity having jurisdiction over the environment, as any of the foregoing have been, or are hereafter amended.

(d) If Lessee knows, or has reasonable cause to believe, that Hazardous Materials have come to be located in, on, under or about the Building #16 Property or the Building #13 Property, other than as previously consented to by Lessor, Lessee shall immediately give written notice of such fact to Lessor and provide Lessor with a copy of any report, notice, claim or other documentation which it has concerning the presence of such Hazardous Materials.

(e) Lessee and Lessee's agents, employees, and contractors shall not cause any Hazardous Materials to be discharged into the plumbing or sewage system of Building #16 or Building #13 or into or onto the Land underlying or adjacent to either of said Buildings in violation of any Environmental Laws. Lessee shall promptly, at Lessee's expense, take all investigatory and/or remedial action reasonably recommended, whether or not formally ordered or required, for the cleanup of any contamination in violation of Environmental Laws or the terms of this Lease caused by Lessee or caused by any of Lessee's employees, agents, or contractors, and for the maintenance, security and/or monitoring of the Building #16 Property or the Building #13 Property or neighboring properties if such contamination is caused by a release or emission of any Hazardous Materials by Lessee or by any of Lessee's employees, agents, or contractors.

(f) Lessee shall indemnify, defend and hold Lessor and its agents, employees, and lenders and the Property harmless from any and all claims, damages, fines, judgments, penalties, costs, liabilities or losses (including, without limitation, any and all sums paid for settlement of claims, attorneys' fees, consultant and expert fees) arising during or after the term of this Lease out of or involving any Hazardous Materials brought on to the Building #16 Property or the Building #13 Property, or Menlo Business Park by or for Lessee or by anyone under Lessee's control in violation of Environmental Laws or the terms of this Lease. Lessee's obligations under this Paragraph 9(f) shall include, but not be limited to, the effects of any contamination or injury to person, property or the environment created or suffered by Lessee, and the cost of investigation (including consultants' and attorneys' fees and testing), removal, remediation, restoration and/or abatement thereof, or of any contamination therein involved, as required by Environmental Laws, and shall survive the expiration or earlier termination of this Lease. No termination, cancellation or release agreement entered into by Lessor and Lessee shall release Lessee from its obligations under this Lease with respect to Hazardous Materials, unless specifically so agreed by Lessor in writing at the time of such agreement.

(g) To the current actual knowledge of John C. Tarlton, President of Tarlton Properties, Inc., Lessor's property manager, except as disclosed to Lessee in writing by Lessor or as contained in any environmental site assessment report delivered

by Lessor to Lessee prior to the execution of this Lease, (1) no Hazardous Materials are present on the Building #16 Property or the Building #13 Property, or the soil, surface water or groundwater thereof, (2) no underground storage tanks are present on the Building #16 Property or the Building #13 Property, and (3) no action, proceeding or claim is pending or threatened regarding the Building #16 Property or the Building #13 Property concerning any Hazardous Materials or pursuant to any environmental law. Lessor shall be responsible (at no cost to Lessee) for Hazardous Materials present on the Building #16 Property prior to June 1, 2004, the Commencement Date of the Building #16 Lease, or prior to the Commencement Date of this Lease with respect to the Building #13 Property, and for Hazardous Materials present at any time on the Menlo Business Park due to any acts or omissions of Lessor or its employees, agents, and contractors. Lessee shall not be responsible under this Lease, and Lessor hereby releases Lessee for any Hazardous Materials present on the Menlo Business Park that were not released by Lessee or its agents, contractors, or employees.

10. Personal Property Taxes. Lessee shall pay before delinquency any and all taxes, assessments, license fees, and public charges levied, assessed, or imposed and which become payable during the term of this Lease upon Lessee's equipment, fixtures, furniture, and personal property installed or located in Building #16 or in Building #13, or the existing FF&E owned by Lessor located in the Building #13 Premises that Lessee has the right to use free of charge during the term of this Lease pursuant to Paragraph 1(d).

11. Insurance.

(a) Lessee shall, at Lessee's sole cost and expense, provide and keep in force commencing with the Effective Date with respect to the Building #16 Premises and commencing with the Commencement Date of the initial lease term of this Lease with respect to the Building #13 Premises, and continuing during the initial term of this Lease and the option extension period if exercised, a general commercial liability insurance policy with a recognized casualty insurance company qualified to do business in California, insuring against liability occasioned by occurrences in, on, about, or related to the Building #16 Premises or the Building #13 Premises, or arising out of the condition, use, occupancy, alteration or maintenance of the Building #16 Premises or the Building #13 Premises, and covering the contractual liability of Lessee referred to in Paragraph 12(a) of this Lease, having a combined single limit for both bodily injury and property damage in an amount not less than Five Million Dollars ($5,000,000). All such insurance carried by Lessee shall be in a form reasonably satisfactory to Lessor and its mortgage lender and shall be carried with companies that have a general policyholder's rating of not less than "A" and a financial rating of not less than Class "X" in the most current edition of Best's Insurance Reports; shall provide that such policies shall not be subject to reduction or cancellation except after at least thirty (30) days' prior written notice to Lessor; and shall be written as primary policies, not excess or contributing with or secondary to any other insurance that may be available to the additional insureds primary as to Lessor. Prior to the Commencement Date and upon renewal of such policies not less than fifteen (15) days prior to the expiration of the term of such coverage, Lessee shall deliver to Lessor

certificates of insurance confirming such coverage naming Lessor and its managers, members, agents and employees and Lessor's property manager as additional insureds. If Lessee fails to procure and maintain the insurance required hereunder, Lessor may, but shall not be required to, order such insurance at Lessee's expense and Lessee shall reimburse Lessor for all costs incurred by Lessor with respect thereto. Lessee's reimbursement to Lessor for such amounts shall be deemed Additional Rent, and shall include all sums disbursed, incurred or deposited by Lessor, including Lessor's costs, expenses and reasonable attorneys' fees with interest thereon at the Interest Rate.

(b) Lessor shall obtain and carry in Lessor's name, as insured, as an Operating Expense of the Building # 16 Property and the Building #13 Property to the extent provided in Paragraph 5(b), during the lease term, "all risk" property insurance coverage (with rental loss insurance coverage for a period of one year), flood insurance, public liability and property damage insurance, and insurance against such other risks or casualties as Lessor shall reasonably determine, including, but not limited to, insurance coverages required of Lessor by the beneficiary of any deed of trust which encumbers the Building #16 Property or the Building #13 Property, or Menlo Business Park, including earthquake insurance coverage insuring Lessor's interest in the property (including any leasehold improvements to Building #16 or to Building #13 constructed by Lessor or by Lessee with Lessor's prior written approval) in an amount not less than the full replacement cost of Building #16 and Building #13, and all other Improvements from time to time. The proceeds of any such insurance shall be payable solely to Lessor and Lessee shall have no right or interest therein. Lessor shall have no obligation to insure against loss by Lessee to Lessee's furniture, fixtures, or equipment, or other personal property of Lessee in or about the Building #16 Premises or the Building #13 Premises occurring from any cause whatsoever. Lessor's public liability insurance shall provide for contractual liability referred to in Paragraph 12(b) of this Lease.

(c) Notwithstanding anything to the contrary contained in this Lease, the parties release each other, and their respective authorized representatives, employees, officers, directors, shareholders, managers, members, assignees, subtenants, successors, agents, and property managers, from any claims for damage to any person or to the Building #16 Property or the Building #13 Property and to the fixtures, personal property, leasehold improvements and alterations of either Lessor or Lessee in or on the Building #16 Property or the Building #13 Property that are caused by or result from risks required by this Lease to be insured against or actually insured against under any property insurance policies carried by the parties and in force at the time of any such damage, whichever is greater. This waiver applies whether or not the loss is due to the negligent acts or omissions of Lessor or Lessee or their respective authorized representatives, shareholders, managers, members, assignees, subtenants, successors, officers, directors, employees, agents, contractors, or invitees. All of Lessor's and Lessee's repair and indemnity obligations under this Lease shall be subject to the waiver contained in this Paragraph 11(c).

(d) Each party shall cause each property insurance policy obtained by it to provide that the insurance company waives all right of recovery by way of subrogation against either party in connection with the above waiver and any damage covered by any policy; provided, however, that such provision or endorsement shall not be required if the applicable policy of insurance permits the named insured to waive rights of subrogation on a blanket basis, in which case the blanket waiver shall be acceptable. Neither party shall be liable to the other for any damage caused by fire or any of the risks insured against under any insurance policy required by this Lease.

12. Indemnification.

(a) Lessee shall indemnify, defend, and hold harmless Lessor from claims, suits, actions, or liabilities for personal injury, death or for loss or damage to property (1) for bodily injury or damage to property which arises in or about the Building #16 Premises or the Building #13 Premises to the extent the injury or damage to property results from the negligent acts or omissions of Lessee, its employees, agents or contractors, and (2) based on any event of default by Lessee in the performance of any obligation on Lessee's part to be performed under this Lease. Except as set forth in Section 9(g), Lessee also waives all claims against Lessor for damages to property, or to goods, wares, and merchandise stored in, upon, or about the Building #16 Premises or the Building #13 Premises, and for injuries to persons in, upon, or about the Building #16 Premises or the Building #13 Premises from any cause arising at any time, except as may be caused by the negligence or willful misconduct of Lessor or its employees, agents or contractors.

(b) Lessor shall indemnify, defend, and hold harmless Lessee from claims, suits, actions, or liabilities for personal injury, death or for loss or damage to property (1) for bodily injury or damage to property which arises in, upon, or about the Building #16 Premises or the Building #13 Premises to the extent the injury or damage to property results from the negligent acts or omissions of Lessor, its employees, agents or contractors, and (2) based on any breach or default by Lessor in the performance of any obligation on Lessor's part to be performed under this Lease.

(c) In the absence of comparative or concurrent negligence on the part of Lessee or Lessor, their respective agents, affiliates, and subsidiaries, or their respective officers, directors, employees, managers, members, or contractors, the foregoing indemnities by Lessee and Lessor shall also include reasonable costs, expenses and attorneys' fees incurred in connection with any indemnified claim or incurred by the indemnitee in successfully establishing the right to indemnity. The indemnitor shall have the right to assume the defense of any claim subject to the foregoing indemnities with counsel reasonably satisfactory to the indemnitee. The indemnitee agrees to cooperate fully with the indemnitor and its counsel in any matter where the indemnitor elects to defend, provided the indemnitor shall promptly reimburse the indemnitee for reasonable costs and expenses incurred in connection with its duty to cooperate.

The foregoing indemnities are conditioned upon the indemnitee providing prompt notice to the indemnitor of any claim or occurrence that is likely to give rise to a claim, suit, action or liability that will fall within the scope of the foregoing indemnities, along with sufficient details that will enable the indemnitor to make a reasonable investigation of the claim.

When the claim is caused by the joint negligence or willful misconduct of Lessee and Lessor or by the indemnitor party and a third party unrelated to the indemnitor party (other than indemnitor's officers, directors, employees, agents, managers, members, or invitees), the indemnitor's duty to indemnify and defend shall be proportionate to the indemnitor's allocable share of joint negligence or willful misconduct.

(d) Lessor shall not be liable to Lessee for any damage because of any act or negligence of any other owner or occupant of adjoining or contiguous property, nor for overflow, breakage, or leakage of water, steam, gas, or electricity from pipes, wires, or otherwise in the Building #16 Premises or in the Building #13 Premises, except to the extent caused by the gross negligence or willful misconduct of Lessor or Lessor's employees, agents, or contractors. Except as otherwise provided herein, Lessee will pay for damage to the Building #16 Premises and the Building #13 Premises caused by the misuse or neglect by Lessee or its employees, agents, or contractors, including, but not limited to, the breakage of glass in Building #16 or in the Building #13 Premises.

13. Tenant Improvement Allowance.

(a) Lessor shall provide Lessee with a tenant improvement allowance of Two Hundred Seventy-two Thousand One Hundred Sixty Dollars ($272,160.00) ($9.00 per rentable square foot) for the Building #16 Premises (the "Building #16 Tenant Improvement Allowance"), and Three Hundred Seventy-eight Thousand Seven Hundred Twenty Dollars ($378,720.00) ($12.00 per rentable square foot) for the Building #13 Premises (the "Building #13 Tenant Improvement Allowance") to defray a portion of the cost of the tenant improvements to the Building #16 Premises and the Building #13 Premises, respectively. The foregoing Building #16 Tenant Improvement Allowance shall be in addition to any Tenant Improvement Allowance provided in the Building #16 Lease. Lessor shall provide a reasonable number of space planning sessions with DES Architects and Engineers, at Lessor's expense, for the preparation of preliminary plans for the modification of the Building #16 Premises and the preparation of a preliminary space plan for the Building #13 Premises. Lessor and Lessee shall jointly determine whether the architect who prepared the space plans for the Building #16 Premises currently occupied by Lessee was satisfactory, or whether to retain Susan Eschweiler of DES Architects and Engineers to perform the space planning and to prepare the construction documents for the tenant improvements to the Building #16 Premises and the Building #13 Premises. Upon approval by Lessor and Lessee of a space plan for the modification of the Building #16 Premises and the tenant improvements to the Building #13 Premises, Lessor and Lessee shall jointly designate the general contractor or general contractors to price the project from a list of general contractors approved by Lessor. After the Building #16

Tenant Improvement Allowance and the Building #13 Tenant Improvement Allowance have been exhausted, the balance of the cost of all tenant improvement work performed in the Building #16 Premises or the Building #13 Premises shall be paid by Lessee; provided, however if the total cost of the tenant improvement work in the Building #16 Premises and the Building #13 Premises is less than the total tenant improvement allowance, the remaining portion of the tenant improvement allowance may be used by Lessee in performing future alterations to the Building #16 Premises and/or the Building #13 Premises, subject to compliance by Lessee with the requirements of Paragraphs 15(d) and 15(e).

(b) Lessor shall enter into a contract with the licensed general contractor jointly selected by Lessor and Lessee for the construction of the tenant improvement work. The tenant improvement work shall be performed pursuant to the plans and specifications approved in writing by Lessor and Lessee.

(c) The tenant improvement work shall be constructed under the direct supervision of Tarlton Properties, Inc., as construction manager, at a fee of five percent (5%) of hard construction costs (i.e., the amounts paid to the general contractor, subcontractors, vendors, and suppliers for labor and materials for the construction of the Tenant Improvements) as a cost of the tenant improvement work. The general contractor shall perform the work pursuant to a negotiated fixed fee guaranteed maximum price contract. The work shall be performed on an "open book" basis with a post-job audit of all costs by a representative from both Lessee and Tarlton Properties, Inc.

(d) Lessor shall cause to be prepared as a cost of the tenant improvement work, as quickly as possible, final plans, specifications and working drawings of the tenant improvement work ("Final Plans"), as well as an estimate of the total cost for the tenant improvement work ("Final Cost Estimate"), all of which conform to or represent logical evolutions of or developments from the work described in Exhibit "G", or amendments thereto, reasonably approved by Lessor and Lessee in writing, and which costs (except for changes requested by Lessee in the Final Plans from the plans upon which the Estimates were based) shall not exceed the Estimates. The Final Plans and Final Cost Estimate shall be delivered to Lessee immediately upon completion. Within ten (10) days after receipt thereof, at its election (a) Lessee may approve the Final Plans and Final Cost Estimate, or (b) Lessee may deliver to Lessor the specific written changes to such plans that are necessary, in Lessee's opinion, to conform such plans to the work described in Exhibit "G" or to reduce costs. If Lessee desires changes, Lessor shall not unreasonably withhold its approval of such changes and the parties shall confer and negotiate in good faith to reach agreement on modifications to the Final Plans and the Final Cost Estimate, as a consequence of such change, and the extension of the scheduled substantial completion date for the Building #16 Work and the Building #13 Work as a consequence of such change. As soon as all such matters are approved by Lessor and Lessee, Lessor shall submit the Final Plans to all appropriate governmental agencies and thereafter the Lessor shall use its best efforts to obtain required governmental approvals as soon as practicable. After the Final Plans

have been approved by Lessor and Lessee, neither party shall have the right to require extra work or change orders with respect to the construction of the tenant improvement work without the prior written consent of the other, which consent shall not be unreasonably withheld or delayed. All change orders shall specify any change in the Final Cost Estimate and any change in the scheduled completion dates as a consequence of the change order.

(e) The cost of the tenant improvement work shall not include (and Lessee shall have no responsibility for and the Tenant Improvement Allowance shall not be used for) the following: (i) costs attributable to improvements installed outside the demising walls of the Building #13 Premises unless the Final Plans for the work or any change in the work requested by Lessee necessitates such improvements; (ii) costs for improvements which are not shown on or described in the Final Plans unless otherwise approved by Lessee; (iii) costs in connection with the presence of Hazardous Materials in, on, or about Building #13 existing on or prior to the Building #13 Commencement Date; (iv) attorneys' fees incurred in connection with negotiation of construction contracts, and attorneys' fees, experts' fees and other costs in connection with disputes with third parties; (v) interest and other costs of financing construction costs; (vi) costs to bring the Building #13 Premises into compliance with Applicable Requirements unless provided for in the Final Plans approved by Lessee and included in the contractor's estimates approved by Lessee or required as a result of any change in the work requested by Lessee; (vii) construction management, profit and overhead charges in excess of the amount set forth in Paragraph 13(c); and (viii) costs in excess of the Final Cost Estimate, unless as a result of any change in the work requested by Lessee (and then in the amount set forth in the applicable change order).

(f) The tenant improvement work shall be constructed in accordance with all applicable laws, in a good and workmanlike manner, free of defects and using new materials and equipment of good quality. Lessee shall have the right to submit a written "punch list" to Lessor, setting forth any defective item of construction, and Lessor shall promptly cause such items to be corrected. Lessee's acceptance of the work performed in the Building #16 Premises and in the Building #13 Premises or the submission of a "punch list" for any such work shall not be deemed a waiver of Lessee's rights to have defects in the tenant improvement work or in the Building #13 Premises repaired at no cost to Lessee, provided that Lessee gives written notice to Lessor of any defects in the work within one year after the substantial completion of the work. Lessor shall cause the general contractor to repair any such defects as soon as possible.

(g) Lessor and Lessee acknowledge and agree that performance of the tenant improvement work in the Building #16 Premises and in the Building #13 Premises shall not be a condition to this Lease being effective as to the Building #16 Premises as of the Effective Date, or to the Commencement Date of this Lease with respect to the Building #13 Premises. It is the intention of the parties that the schedule for the commencement and completion of the tenant improvement work to be performed in the Building #16 Premises and in the Building #13 Premises shall be

subject to the mutual agreement of Lessor and Lessee, that all or significant portions of the tenant improvement work shall be performed after the Effective Date of this Lease with respect to the Building #16 Premises and after the Commencement Date of this Lease with respect to the Building #13 Premises, and that completion of any portion of the tenant improvement work shall not be a condition to the occurrence of either the Effective Date with respect to the Building #16 Premises or the Commencement Date of this Lease with respect to the Building #13 Premises.

(h) Subject to completion of the tenant improvement work in accordance with the provisions of this Paragraph 13, Lessee waives all right to make repairs at the expense of Lessor, or to deduct the costs thereof from the rent, and Lessee waives all rights under Sections 1941 and 1942 of the Civil Code of the State of California. At the expiration or sooner termination of this Lease, Lessee shall surrender the Building #16 Premises and the Building #13 Premises in a clean and as good condition as received (including tenant improvement work upon completion thereof), except for ordinary wear and tear and except for damage caused by casualty, the elements, acts of God, a taking by eminent domain, maintenance that is Lessor's responsibility hereunder, Hazardous Materials not released or emitted in violation of laws by Lessee or its agents, employees or contractors, and alterations or other improvements made by Lessee with Lessor's prior written consent which Lessee is not required to remove as a condition to Lessor's approval of such alterations or improvements.

14. Existing Fixtures.

(a) Building #16. Lessee shall have the right during the term of this Lease to use the existing equipment and fixtures installed in Building #16, including the CDA compressor located in Suite C according to the manufacturer's specifications and the Nortel telephone system owned by Lessor which was relocated from 1330 O'Brien Drive to Building #16 at Lessee's expense. Pursuant to the existing Building #16 Lease, Lessor has provided and shall continue to provide during the term of this Lease twenty-five (25) cubicles from Lessor's current inventory for use by Lessee in Building #16. Lessor has also provided to Lessee twenty-five (25) additional cubicles for use by Lessee in Building #16. Lessor and Lessee acknowledge and agree that the aforementioned cubicles may have been reconfigured from their original 8' X 8' configuration, and are being used and will be returned to Lessor in their current configuration as of the date of termination of this Lease.

(b) Building #13.

(1) *DI Water, Compressed Air*. Lessor shall assist in coordinating the sharing by Lessee with the tenant occupying the premises adjacent to the Building #13 Premises of the existing DI water system and the compressed air system currently maintained by Lessor.

(2) *HVAC*. Lessor shall coordinate the separation of the HVAC system serving Building #13 as part of the tenant improvement work, as feasible and as required.

(3) *Cost of Shared Systems*. The HVAC system, compressed air system, and DI water system in Building #13 shall be shared utilities by Lessee and the other current and future tenants of Building #13 that use such systems. The cost of operating, maintaining, repairing and replacing such systems shall be an Operating Expense of Building #13 which shall be allocated to Lessee and to the other tenants of Building #13 that use such systems either (1) pro rata based on the number of rentable square feet of the Building #13 Premises and the rentable square feet in the premises of the other tenants in Building #13 who use such systems, or (2) by such other methods deemed appropriate by Lessor in its reasonable judgment, to allocate costs for such shared utilities based upon relative use of such shared utilities.

(4) *Wiring*. Lessor shall describe how the existing wiring network (phone and data) is currently installed in Building #13 and split between the Building #13 Premises and the other tenants of Building 13 as part of a walk through of Building #13 with Lessor's data cabling vendor. Notwithstanding the foregoing, Lessee may use a data cabling vendor of Lessee's choice for its data cabling requirements, subject to Lessor's approval, which approval shall not be unreasonably withheld. Lessor shall provide as-built drawings to the extent available for all power drops, including any parts thereof. Lessee shall provide as-built drawings of the location of any data cable installed in Building #13 by any data cabling vendor used by Lessee. In installing data cabling, Lessee shall remove any existing unused data cabling reasonably accessible to Lessee's data cabling contractor within the Building #13 Premises. If requested by Lessor in writing, Lessee shall remove any such cable at Lessee's expense upon the expiration or termination of this Lease with respect to the Building #13 Premises.

(5) *Electronic Monitoring and Alarm System*. For both the Building #16 Premises and the Building #13 Premises, Lessee shall be entitled to use the Electronic Monitoring and/or Alarm Service provider of Lessee's choice. Lessee's choice of Electronic Monitoring and/or Alarm Service provider and the scope of any proposed wiring, including service loops, to be subject to Lessor's written approval, which approval shall not be unreasonably withheld.

15. Maintenance and Repairs; Alterations; Surrender and Restoration.

(a) Lessor shall, at Lessor's sole expense, keep in good order, condition, and repair and replace when necessary, the structural elements of the roof (excluding the roof membrane), and the structural elements of the foundation and exterior walls (except the interior faces thereof), of Building #16 and Building #13, and other structural elements of Building #16 and Building #13 as "structural elements" are defined in building codes applicable to Building #16 and Building #13, excluding any alterations, structural or otherwise, made by Lessee to Building #16 or Building #13 which are not approved in

writing by Lessor prior to the construction or installation thereof by Lessee. Lessor shall perform and construct, and Lessee shall not be responsible for performing or constructing, any repairs, maintenance, or improvements (1) required as a result of any casualty damage (not caused by the willful or negligent acts or omissions of Lessee) or as a result of any taking pursuant to the exercise of the power of eminent domain, or (2) for which Lessor has a right of reimbursement from third parties based on construction or other warranties, contractor guarantees, or insurance claims.

(b) Lessor shall provide or cause to be provided and shall supervise the performance of, as an Operating Expense of the Building #16 Property and the Building #13 Property as permitted under Paragraph 5(b) hereof, all services and work relating to the operation, maintenance, repair, and replacement, as needed, of the Building #16 Property and the Building #13 Property, including the HVAC, mechanical, electrical, and plumbing systems in Building #16 and Building #13; the interiors of said buildings; the roof membrane; the outside areas of the Property; the janitorial service for the Buildings; landscaping, tree trimming, resurfacing and restriping of the parking lot, repairing and maintaining the walkways; exterior building painting, exterior building lighting, parking lot lighting, and exterior security patrol. In the event Lessee provides Lessor with written notice of the need for any repairs, Lessor shall commence any such repairs promptly following receipt by Lessor of such notice and Lessor shall diligently prosecute such repairs to completion. Notwithstanding the foregoing, Lessee shall have the option, at its discretion, to operate, maintain, and repair, as needed, the HVAC system in Building #16, and to provide janitorial services to the Building #16 Premises and the Building #13 Premises, at Lessee's expense and under its discretion, provided, that Lessee shall engage contractors for the maintenance, repair and replacement of the HVAC system in Building #16 from a list of not less than three contractors that shall have been reasonably approved by Lessor. To the extent that Lessee has contracted for the provision of internal janitorial services for either or both of the Building #16 and Building #13 Premises, then costs for such internal janitorial services for such Building #16 Premises and Building #13 Premises shall not be allocated to Lessee as an Operating Expense. Lessor shall select and engage the contractors for the maintenance, repair, and replacement of the HVAC system for Building #13, the cost of which shall be an Operating Expense of Building #13 pursuant to Paragraph 5(b). Lessee may contact the foregoing HVAC contractors directly to conduct repairs on such portions of the HVAC system for Building #13 that solely impact the Building #13 Premises, necessary to maintain operation of such portions of the HVAC system. Notwithstanding the foregoing, any costs associated with Lessee's directly contacting of such HVAC contractor or repairs resulting therefrom, which costs have not been approved in writing by Lessor, shall be invoiced to and paid by Lessee.

(c) Subject to the foregoing and except as provided elsewhere in this Lease, Lessee shall at all times use and occupy the Building #16 Premises and the Building #13 Premises in a manner which keeps them in good and safe order, condition, and repair. Lessor shall execute and maintain in full force and effect throughout the term as an Operating Expense of Building #16 and Building #13 pursuant to Paragraph 5(b) a service

contract with a recognized air conditioning service company. Lessor may, if Lessor determines that it is necessary to do so, obtain on a semi-annual basis an inspection report of the HVAC system in Building #16 and in Building #13 from a separate HVAC service firm designated by Lessor for the purpose of monitoring the performance of the HVAC maintenance and repair work performed by the HVAC service firm which performs the regular repair and maintenance. The cost of such inspection reports shall be an Operating Expense of Building #16 and Building #13 pursuant to Paragraph 5. Subject to the release of claims and waiver of subrogation contained in Paragraphs 11(c) and 11(d), if Lessor is required to make any repairs to the Building #16 Property or to the Building #13 Property by reason of Lessee's negligent acts or omissions, Lessor may add the cost of such repairs to the next installment of rent which shall thereafter become due, and Lessee shall promptly pay the same upon receipt of an invoice therefor.

(d) Lessee may, from time to time, at its own cost and expense and without the consent of Lessor make nonstructural alterations to the interior of Building #16 or to the Building #13 Premises the cost of which in any one instance is Fifty Thousand Dollars ($50,000) or less, and the aggregate cost of all such work in either Building #16 or the Building #13 Premises during the term of this Lease does not exceed One Hundred Thousand Dollars ($100,000), provided Lessee first notifies Lessor in writing of any such nonstructural alterations. Otherwise, Lessee shall not make any additional alterations, improvements, or additions to Building #16 or the Building #13 Premises without delivering to Lessor a complete set of plans and specifications for such work and obtaining Lessor's prior written consent thereto. If any nonstructural alterations to the interior of either Building #16 or to the Building #13 Premises exceed Fifty Thousand Dollars ($50,000) in cost in any one instance, or exceed the aggregate cost of One Hundred Thousand Dollars ($100,000) in either the interior of Building #16 or the Building #13 Premises during the term of this Lease, Lessee shall employ, at Lessee's expense, Tarlton Properties, Inc. as construction manager for such alterations at a fee equal to five percent (5%) of hard construction costs. Lessor may condition its consent to Lessee agreeing in writing to remove any such alterations prior to the expiration of the lease term and Lessee agreeing to restore the interior of Building #16 or the Building #13 Premises to its condition prior to such alterations at Lessee's expense. Lessor shall advise Lessee in writing at the time consent is granted whether Lessor reserves the right to require Lessee to remove any alterations from the interior of Building #16 or the Building #13 Premises prior to the expiration or sooner termination of this Lease.

All alterations, trade fixtures and personal property installed in the interior of Building #16 or the Building #13 Premises solely at Lessee's expense ("Lessee's Property) shall during the term of this Lease remain Lessee's property and Lessee shall be entitled to all depreciation, amortization and other tax benefits with respect thereto. Upon the expiration or sooner termination of this Lease all alterations, fixtures and improvements to the interior of Building #16 or the Building #13 Premises, whether made by Lessor or installed by Lessee at Lessee's expense, shall be surrendered by Lessee with Building #16 or the Building #13 Premises and shall become the property of Lessor;

provided, however, that Lessee's furniture and other personal property not permanently affixed to Building #16 or to the Building #13 Premises which can be removed without damaging the premises may be removed by Lessee. In addition to the foregoing, cubicle systems installed by Lessee and at Lessee's expense, as described in Exhibit "D" hereto, shall be surrendered to Lessor upon termination of this Lease in substantially the configuration shown in Exhibit "C-2", and Lessee hereby assigns to Lessor all right, title and interest in and to such cubicle systems as of the date of such termination.

(e) Lessee, at Lessee's sole cost and expense, shall promptly and properly observe and comply with all present and future orders, regulations, rules, laws, and ordinances of all governmental agencies or authorities, and the Board of Fire Underwriters. Any structural changes or repairs or other repairs or changes of any nature which would be considered a capital expenditure under generally accepted accounting principles to the Building #16 Property or to the Building #13 Property shall be made by Lessor at Lessee's expense if such structural repairs or changes are required by reason of the specific nature of the use of the premises by Lessee. If such changes or repairs are not required by reason of the specific nature of Lessee's use of the premises and are capital expenditures, the cost of such changes or repairs shall be treated as an Operating Expense and amortized in accordance with the provisions of Paragraph 5(b).

(f) Lessee shall surrender the Building #16 Property and the Building #13 Premises by the last day of the lease term or any earlier termination date, in accordance with Paragraph 14(b) and this Paragraph 15(f), with all of the improvements to the premises, parts, and surfaces thereof clean and free of debris and in good operating order, condition, and state of repair, ordinary wear and tear excepted and otherwise in the condition described in Paragraph 13(h). "Ordinary wear and tear" shall not include any damage or deterioration that would have been prevented by good maintenance practice or by Lessee performing all of its obligations under this Lease. The obligations of Lessee shall include the repair of any damage occasioned by the installation, maintenance, or removal of Lessee's trade fixtures, furnishings, equipment, and alterations, and the restoration by Lessee of the applicable premises to its condition upon completion of the tenant improvement work (1) if any required Lessor's consent thereto was conditioned upon such removal and restoration upon expiration or sooner termination of the term of this Lease pursuant to Paragraph 15(d), or (2) if Lessee made any such alterations, additions, or improvements without obtaining Lessor's prior written consent in breach of Paragraph 15(d) and within a reasonable time after the expiration or sooner termination of the Lease term Lessor gives written notice to Lessee requiring Lessee to perform such removal and restoration. Prior to the expiration of the term of the this Lease or any earlier termination date, Lessee shall, at Lessee's expense, obtain a closure report from the San Mateo County Health Department with respect to any Hazardous Materials used, stored, or released by Lessee on or about Building #16 or Building #13. Any removal and remediation of Hazardous Materials by Lessee shall be certified by the San Mateo County Health Department and a copy of such certification shall be delivered to Lessor.

16. Utilities and Services.

(a) Lessor shall contract for and pay for, and Lessee shall reimburse Lessor therefor pursuant to Paragraph 5(e) as an Operating Expense, all electricity, gas, water, heat and air conditioning service, janitorial service except to the extent Lessee has separately contracted for such internal janitorial service, refuse pick-up except to the extent Lessee has separately contracted for such refuse pick-up, sewer charges, and all other utilities or services supplied to or consumed by Lessee, its agents, employees, contractors, and invitees on or about the Building #16 Premises and the Building #13 Premises, excluding telephone service to the buildings for which Lessee shall contract and pay directly. Furthermore, Lessee shall have the option to contract directly for janitorial services to the Building #16 Premises and the Building #13 Premises pursuant to Paragraph 15(b).

(b) Lessor shall not be liable to Lessee for any interruption or failure of any utility services to Building #16, Building #13, or to the Building #13 Premises which is not caused by the negligence or willful acts of Lessor, or Lessor's employees, agents, or contractors. Lessee shall not be relieved from the performance of any covenant or agreement in this Lease because of any such failure. Unless such failure is caused by the negligence or willful acts or omissions of Lessor or Lessor's employees, agents, or contractors, or by Lessor's breach in the performance of Lessor's express obligations hereunder, Lessor shall make all repairs required to restore such services to Building #16, Building #13, or to the Building #13 Premises and the cost thereof shall be payable by Lessee pursuant to Paragraph 5(e) as a current Operating Expense, or as a capital improvement which is amortized over its useful life (together with interest thereon) as an Operating Expense in accordance with generally accepted accounting principles as described in Paragraph 5(b). If the Building #16 Premises or the Building #13 Premises should become not reasonably suitable for Lessee's use as a consequence of cessation of utilities or other services, interference with access to the Building #16 Premises or the Building #13 Premises, legal restrictions or the presence of any Hazardous Material which does not result from Lessee's release or emission of such Hazardous Material, and in any of the foregoing cases the interference with Lessee's use of the Building #16 Premises or the Building #13 Premises persists for thirty (30) days, then Lessee shall be entitled to an equitable abatement of rent to the extent of the interference with Lessee's use of the Building #16 Premises or the Building #13 Premises, as the case may be, is caused thereby. If the interference persists and the Building #16 Premises or the Building #13 Premises are not reasonably suitable for Lessee's use for more than ninety (90) consecutive days, Lessee shall have the right to terminate this Lease with respect to the Building #16 Premises or the Building #13 Premises, whichever or both is affected thereby, excluding damage or destruction of the buildings or the Building #16 Premises or the Building #13 Premises which shall be governed by Paragraph 21.

17. Liens. Lessee agrees to keep the Building #16 Premises and the Building #13 Premises free from all liens arising out of any work performed, materials furnished, or obligations incurred by Lessee. Lessee shall give Lessor at least ten (10) calendar days

prior written notice before commencing any work of improvement thereon, the contract price for which exceeds Twenty-five Thousand Dollars ($25,000). Lessor shall have the right to post notices of non-responsibility with respect to any such work. If Lessee shall, in good faith, contest the validity of any such lien, claim or demand, then Lessee shall, at its sole expense, defend and protect itself, Lessor and the premises affected against the same, and shall pay and satisfy any such adverse judgment that may be rendered thereon before the enforcement thereof against the Lessor or the premises affected. If Lessor shall require, Lessee shall furnish to Lessor a surety bond satisfactory to Lessor in an amount equal to one and one-half times the amount of such contested claim or demand, indemnifying Lessor against liability for the same, as required by law for the holding of the premises affected free from the effect of such lien or claim.

18. Assignment and Subletting.

(a) Except as otherwise provided in this Paragraph 18, Lessee shall not assign this Lease, or any interest, voluntarily or involuntarily, and shall not sublet the Building #16 Premises or the Building #13 Premises or any part thereof, or any right or privilege appurtenant thereto, or suffer any other person (the agents and servants of Lessee excepted) to occupy or use the Building #16 Premises or the Building #13 Premises, or any portion thereof, without the prior written consent of Lessor in each instance pursuant to the terms and conditions set forth below, which consent shall not be unreasonably withheld or delayed, subject to the following provisions.

(b) Prior to any assignment or sublease which Lessee desires to make, Lessee shall provide to Lessor the name and address of the proposed assignee or sublessee, and true and complete copies of all documents relating to Lessee's prospective agreement to assign or sublease, a copy of a current financial statement for such proposed assignee or sublessee, and Lessee shall specify all consideration to be received by Lessee for such assignment or sublease in the form of lump sum payments, installments of rent, or otherwise. For purposes of this Paragraph 18, the term "consideration" shall include all money or other consideration to be received by Lessee for such assignment or sublease. Within ten (10) days after the receipt of such documentation and other information, Lessor (1) shall notify Lessee in writing that Lessor elects to consent to the proposed assignment or sublease subject to the terms and conditions hereinafter set forth; (2) shall notify Lessee in writing that Lessor refuses such consent, specifying reasonable grounds for such refusal; or (3) except with respect to "permitted transferees," if at the time Lessee requests that Lessor consent to an assignment or sublease Lessee has vacated the premises involved and is not conducting on-going operations in the building in which the premises are located, may notify Lessee that Lessor elects to terminate this Lease with respect to the building involved; provided that with respect to a proposed sublease of a portion of the premises involved, Lessor's termination right shall apply only to the proposed sublease space, and specifying the effective date of termination which shall be the same as the commencement date of the proposed sublease. If Lessor elects to terminate this Lease with respect to the building involved pursuant to the foregoing provision, upon the effective date of termination, Lessor and Lessee shall each be released and discharged

from any liability or obligation to the other under this Lease accruing thereafter with respect to the premises or the portion thereof to which the termination applies, except for any obligations then outstanding and except for any indemnity obligations which survive the expiration or termination of this Lease by the express terms hereof, and Lessee agrees that Lessor may enter into a direct lease with such proposed assignee or sublessee without any obligation or liability to Lessee.

In deciding whether to consent to any proposed assignment or sublease, Lessor may take into account whether reasonable conditions, including, but not limited to, the following, have been satisfied:

(1) In Lessor's reasonable judgment, the proposed assignee or subtenant is engaged in such a business, that the premises involved, or the relevant part thereof, will be used in such a manner which complies with Paragraph 8 hereof entitled "Use" and Lessee or the proposed assignee or sublessee submits to Lessor documentary evidence reasonably satisfactory to Lessor that such proposed use constitutes a permitted use of the premises involved pursuant to the ordinances and regulations of the City of Menlo Park;

(2) The proposed assignee or subtenant is a reputable entity or individual with sufficient financial net worth so as to reasonably indicate that it will be able to meet its obligations under this Lease or the sublease with respect to the premises involved in a timely manner; and

(3) The proposed assignment or sublease is approved by Lessor's mortgage lender if such lender has the right to approve or disapprove proposed assignments or subleases. Lessor shall use its good faith efforts to obtain such approval from its lender within ten (10) days after Lessor is requested to do so.

(c) As a condition to Lessor's granting its consent to any assignment or sublease, except with respect to permitted transferees, (1) Lessor may require that Lessee pay to Lessor, as and when received by Lessee, fifty percent (50%) of the amount of any excess of the consideration to be received by Lessee in connection with said assignment or sublease over and above the rental amount fixed by this Lease and payable by Lessee to Lessor, after deducting only (i) the unamortized cost of the tenant improvement work paid for by Lessee which remains on the premises involved at the effective date of the assignment or on the commencement date of the sublease which are then in a serviceable condition and useable by the assignee or sublessee and not demolished or removed by the assignee or sublessee, (ii) a standard leasing commission payable by Lessee in consummating such assignment or sublease, and (iii) reasonable attorneys' fees incurred by Lessee and Lessor in negotiating and reviewing the assignment or sublease documentation; and (iv) the cost of reasonable alterations that are specific to the sublease and are required to be made to the sublease premises to effectuate the sublease, provided that the provisions of Paragraph 15(d) shall apply with respect to such alterations; and (2) Lessee and the proposed assignee or sublessee shall demonstrate to Lessor's reasonable satisfaction that each of the criteria referred to in subparagraph (b) above is satisfied.

(d) Each assignment or sublease agreement to which Lessor has consented shall be an instrument in writing in form satisfactory to Lessor, and shall be executed by both Lessee and the assignee or sublessee, as the case may be. Each such assignment or sublease agreement shall recite that it is and shall be subject and subordinate to the provisions of this Lease, that the assignee or sublessee accepts such assignment or sublease, that Lessor's consent thereto shall not constitute a consent to any subsequent assignment or subletting by Lessee or the assignee or sublessee, and, except as otherwise set forth in a sublease approved by Lessor, the assignee or sublessee agrees to perform all of the obligations of Lessee hereunder (to the extent such obligations relate to the portion of the premises assigned or subleased), and that the termination of this Lease shall, at Lessor's sole election, constitute a termination of every such assignment or sublease.

(e) In the event Lessor shall consent to an assignment or sublease, Lessee shall nonetheless remain primarily liable for all obligations and liabilities of Lessee under this Lease, including but not limited to the payment of rent with respect to the premises involved.

(f) Notwithstanding the foregoing, Lessee may, without Lessor's prior written consent and without any participation by Lessor in assignment and subletting proceeds, sublet a portion or the entire Building #16 Premises or a portion or the entire Building #13 Premises or assign this Lease to a subsidiary, affiliate, division or corporation controlled or under common control with Lessee ("affiliate"), or to a successor corporation related to Lessee by merger, consolidation or reorganization, or to a purchaser of substantially all of Lessee's business operations conducted on the premises involved (each of the foregoing referred to herein as a "permitted transferee"), provided that any such assignee or sublessee (other than an affiliate) shall have a current verifiable net worth at least equal to that of Lessee immediately prior to the effective date of the sublease or assignment, or, if less, financial resources sufficient, in Lessor's reasonable good faith judgment, to perform the obligations under the assignment or sublease, as applicable. Lessee's foregoing rights in this subparagraph (f) to assign this Lease or to sublease a portion or the entire Building #16 Premises or a portion or the entire Building #13 Premises shall be subject to the following conditions: (1) Lessee shall not be in default hereunder past any applicable cure period; (2) in the case of an assignment or subletting to an affiliate, Lessee shall remain liable to Lessor hereunder; and (3) the transferee or successor entity shall expressly assume in writing Lessee's obligations hereunder with respect to the premises involved.

(g) Neither the sale nor transfer of Lessee's capital stock shall be deemed an assignment, subletting, or other transfer of this Lease or the Building #16 Premises or the Building #13 Premises, provided, that in the event of the sale, transfer or issuance of Lessee's securities to an affiliate or in connection with a transaction described in Paragraph 18(f), the conditions set forth in Paragraph 18(f) shall apply.

(h) Subject to the provisions of this Paragraph 18 any assignment or sublease without Lessor's prior written consent shall at Lessor's election be void. The consent by Lessor to any assignment or sublease shall not constitute a waiver of the provisions of this Paragraph 18, including the requirement of Lessor's prior written consent, with respect to any subsequent assignment or sublease. If Lessee shall purport to assign this Lease, or sublease all or any portion of the Building #16 Premises or the Building #13 Premises, or permit any person or persons other than Lessee to occupy the premises, without Lessor's prior written consent (if such consent is required hereunder), Lessor may collect rent from the person or persons then or thereafter occupying the premises and apply the net amount collected to the rent reserved herein, but no such collection shall be deemed a waiver of Lessor's rights and remedies under this Paragraph 18, or the acceptance of any such purported assignee, sublessee, or occupant, or a release of Lessee from the further performance by Lessee of covenants on the part of Lessee herein contained.

(i) Lessee shall not hypothecate or encumber its interest under this Lease or any rights of Lessee hereunder, or enter into any license or concession agreement respecting all or any portion of the Building #16 Premises or all or any portion of the Building #13 Premises, without Lessor's prior written consent which consent Lessor may grant or withhold in Lessor's absolute discretion without any liability to Lessee. Lessee's granting of any such encumbrance, license, or concession agreement shall constitute an assignment for purposes of this Paragraph 18.

(j) In the event of any sale or exchange of the Building #16 Property and/or the Building #13 Property by Lessor and assignment of this Lease by Lessor, Lessor shall, upon providing Lessee with written confirmation that Lessor has delivered any Security Deposit held by Lessor to Lessor's successor in interest, be and hereby is entirely relieved of all liability under any and all of Lessor's covenants and obligations contained in or derived from this Lease with respect to the period commencing with the consummation of the sale or exchange and assignment.

(k) Lessee hereby acknowledges that the foregoing terms and conditions are reasonable and, therefore, that Lessor has the remedy described in California Civil Code Section 1951.4 (Lessor may continue the Lease in effect after Lessee's breach and abandonment and recover rent as it becomes due, if Lessee has the right to sublet or assign, subject only to reasonable limitations).

19. Non-Waiver.

(a) No waiver of any provision of this Lease shall be implied by any failure of Lessor to enforce any remedy for the violation of that provision, even if that violation continues or is repeated. Any waiver by Lessor of any provision of this Lease must be in writing.

(b) No receipt of Lessor of a lesser payment than the rent required under this Lease shall be considered to be other than on account of the earliest rent due, and no endorsement or statement on any check or letter accompanying a payment or check shall be considered an accord and satisfaction. Lessor may accept checks or payments without prejudice to Lessor's right to recover all amounts due and pursue all other remedies provided for in this Lease.

Lessor's receipt of money from Lessee after giving notice to Lessee terminating this Lease shall in no way reinstate, continue, or extend the Lease term or affect the termination notice given by Lessor before the receipt of the money. After serving notice terminating this Lease, filing an action, or obtaining final judgment for possession of the Building #16 Premises or the Building #13 premises, Lessor may receive and collect any rent, and the payment of that rent shall not waive or affect such prior notice, action, or judgment.

20. Holding Over. Lessee shall vacate the Building #16 Premises and the Building #13 Premises and deliver the same to Lessor upon the expiration or sooner termination of this Lease. In the event of holding over by Lessee after the expiration or termination of this Lease, such holding over shall be on a month-to-month tenancy and all of the terms and provisions of this Lease shall be applicable during such period, except that Lessee shall pay Lessor as Monthly Base Rent during such holdover an amount equal to the greater of (i) one hundred fifty percent (150%) of the Monthly Base Rent in effect at the expiration of the term, or (ii) the then market rent for comparable research and development/office space. If such holdover is without Lessor's written consent, Lessee shall be liable to Lessor for all costs, expenses, and consequential damages incurred by Lessor as a result of such holdover. The rental payable during such holdover period shall be payable to Lessor on demand.

21. Damage or Destruction.

(a) In the event of a total destruction of Building #16 and the Building #16 Improvements, or the Building #13 Premises and the Building #13 Improvements during the lease term from any cause, either party may elect to terminate this Lease with respect to either or both of the buildings affected by giving written notice of termination to the other party within thirty (30) days after the casualty occurs. A total destruction shall be deemed to have occurred for this purpose if the building or the premises involved are destroyed to the extent of seventy-five percent (75%) or more of the replacement cost thereof. If the Lease is not terminated, Lessor shall repair and restore the building or the premises involved in a diligent manner and this Lease shall continue in full force and effect, except that Monthly Base Rent and Additional Rent shall be abated in accordance with Paragraph 21(d) below.

(b) In the event of a partial destruction of Building #16 or Building #13 or any of the premises which are the subject of this Lease to an extent less than seventy-five percent (75%) of the replacement cost thereof and subject to Lessee's right to terminate the Lease under Paragraph 21(c) below, if the damage thereto can be repaired, reconstructed, or restored within a period of two hundred seventy (270) days from the date of such casualty, and if the casualty is from a cause which is insured under Lessor's "all risk" property insurance, or is insured under any other coverage then carried by Lessor, Lessor shall forthwith repair the same, and this Lease shall continue in full force and effect, except that Monthly Base Rent and Additional Rent shall be abated in accordance with Paragraph 21(d) below. If any of the foregoing conditions is not met, Lessor shall have the option of either repairing and restoring the building and the improvements affected, or terminating this Lease with respect to the building involved by giving written notice of termination to Lessee within thirty (30) days after the casualty, subject to the provisions of Paragraph 21(c). Notwithstanding anything to the contrary contained in this Paragraph 21, Lessor shall not have the right to terminate this Lease if the cost to repair the damage or to restore Building #16 or Building #13 or the Building #13 Premises would cost less than five percent (5%) of the replacement cost of the building involved, regardless of whether or not the casualty is insured. Notwithstanding anything to the contrary contained in this Paragraph 21, if the cost to restore the building damaged exceeds five percent (5%) of the replacement cost, and Lessor elects to terminate this Lease, Lessee may nullify the effect of such termination by giving Lessor written notice within ten (10) days after receipt by Lessee of Lessor's notice of termination that Lessee elects to restore the building damaged at Lessee's sole cost (to the extent the costs exceed Lessor's insurance proceeds), in which event this Lease shall remain in effect, provided that rent abatement shall not extend beyond the date that the restoration is completed, or two hundred seventy (270) days after the casualty, whichever occurs first.

(c) In the event of a partial destruction of Building #16 or the Building #13 Premises to an extent equal to or exceeding twenty-five percent (25%) but less than seventy-five percent (75%) of the replacement cost thereof, or if the damage thereto cannot be repaired, reconstructed, or restored within a period of one hundred twenty (120) days from the date of such casualty, Lessee may terminate this Lease with respect to the building involved by giving written notice of termination to Lessor within thirty (30) days after the casualty. The foregoing shall not affect Lessor's termination rights under subparagraph (b) above.

Furthermore, if such casualty is from a cause which is not insured under Lessor's "all risk" property insurance, or is not insured under any other insurance carried by Lessor, Lessor may elect to repair and restore the building involved and related improvements (provided that Lessee has not elected to terminate this Lease pursuant to the first sentence of this Paragraph 21(c)), or Lessor may terminate this Lease with respect to the building involved by giving written notice of termination to Lessee, subject to the limitations of Paragraph 21(b). Lessor's election to repair and restore the building involved and related improvements or to terminate this Lease with respect thereto, shall

be made and written notice thereof shall be given to Lessee within thirty (30) days after the casualty. Notwithstanding the foregoing, to the extent that Lessee and Lessor have not previously terminated the Lease, (1) if Lessor has not obtained all necessary governmental permits for the restoration and commenced construction of the restoration within one hundred twenty (120) days after the casualty, Lessee may terminate this Lease by written notice to Lessor given at any time prior to the actual commencement of construction of the restoration; or (2) if Lessor elects to repair and restore the building involved and related improvements under subparagraph (b) or (c) above, but the repairs and restoration are not substantially completed within one hundred eighty (180) days after the casualty, Lessee may terminate this Lease with respect to the building involved by written notice to Lessor given within thirty (30) days after the expiration of said period of one hundred eighty (180) days after the casualty.

If this Lease is not terminated by Lessor or Lessee pursuant to the foregoing provisions, Lessor shall complete the repairs in a diligent manner and this Lease shall continue in full force and effect, except that Monthly Base Rent and Additional Rent shall be abated in accordance with Paragraph 21(d) below.

(d) Subject to the limitation in Paragraph 21(b) above which applies if Lessee elects to restore the building or the premises involved at Lessee's expense, in the event of repair, reconstruction, or restoration as provided herein, the Monthly Base Rent and Additional Rent shall be abated proportionally in the ratio which the Lessee's use of the premises involved is impaired during the period of such repair, reconstruction, or restoration, from the date of the casualty until such repair, reconstruction or restoration is completed.

(e) With respect to any destruction of the Building #16 Premises or the Building #13 Premises which Lessor is obligated to repair, or may elect to repair, under the terms of this Paragraph 21, the provisions of Section 1932, Subdivision 2, and of Section 1933, Subdivision 4, of the Civil Code of the State of California are waived by the parties. Lessor's obligation to repair and restore such premises shall include the tenant improvement work referred to in Paragraph 13. Lessor shall also repair and restore any other leasehold improvements constructed thereafter by Lessor or by Lessee with Lessor's prior written consent. Lessor's time for completion of the repairs and restoration of the premises referred to above shall be extended by a period equal to any delays caused by strikes, labor disputes, unavailability of materials, inclement weather, or acts of God, but not by more than forty-five (45) days.

(f) In the event of termination of this Lease with respect to the Building #16 Premises or the Building #13 Premises pursuant to any of the provisions of this Paragraph 21, the Monthly Base Rent and Additional Rent shall be apportioned on a per diem basis and shall be paid to the date of the casualty. In no event shall Lessor be liable to Lessee for any damages resulting to Lessee from the occurrence of such casualty, or from the repairing or restoration of the building involved, or from the termination of this Lease as provided herein, nor shall Lessee be relieved thereby from any of Lessee's obligations hereunder, except to the extent and upon the conditions expressly set forth in this Paragraph 21.

22. Eminent Domain.

(a) If the whole or any substantial part of the Building #16 Property or the Building #13 Property shall be taken or condemned by any competent public authority for any public use or purpose, the term of this Lease with respect to the building or buildings involved shall end upon the earlier to occur of the date when the possession of the part so taken shall be required for such use or purpose or the vesting of title in such public authority. Rent shall be apportioned as of the date of such termination. Lessee shall be entitled to receive any damages awarded by the court for (i) leasehold improvements installed at Lessee's expense or other property owned by Lessee, and (ii) reasonable costs of moving by Lessee to another location in San Mateo County or surrounding areas within the San Francisco Bay Area. The entire balance of the award shall be the property of Lessor.

(b) If there is a partial taking of the Building #16 Property or the Building #13 Premises by eminent domain which is not a substantial part of the property involved and the property or the balance of the property remains reasonably suitable for continued use and occupancy by Lessee in Lessee's reasonable judgment for the purposes referred to in Paragraph 8, Lessor shall complete any necessary repairs in a diligent manner and this Lease shall remain in full force and effect with a just and proportionate abatement of the Monthly Base Rent and Additional Rent, based on the extent to which Lessee's use of the property remaining is impaired thereafter. If after a partial taking, the Building #16 Premises or the Building #13 Premises and the parking are not reasonably suitable for Lessee's continued use and occupancy for the uses permitted herein, Lessee may terminate this Lease with respect to the premises involved effective on the earlier of the date title vests in the public authority or the date possession is taken. Subject to the provisions of Paragraph 22(a), the entire award for such taking shall be the property of Lessor.

23. Remedies. If Lessee fails to make any payment of rent or any other sum due under this Lease for ten (10) days after receipt by Lessee of written notice from Lessor; or if Lessee breaches any other term of this Lease for thirty (30) days after receipt by Lessee of written notice from Lessor (unless such default is incapable of cure within thirty (30) days and Lessee commences cure within thirty (30) days and diligently prosecutes the cure to completion within a reasonable time); or if Lessee's interest herein, or any part thereof, is assigned or transferred, either voluntarily or by operation of law (except as expressly permitted by other provisions of this Lease); or if Lessee makes a general assignment for the benefit of its creditors; or if this Lease is rejected (i) by a bankruptcy trustee for Lessee, (ii) by Lessee as debtor in possession, or (iii) by failure of Lessee as a bankrupt debtor to act timely in assuming or rejecting this Lease; then any of such events shall constitute an event of default and breach of this Lease by Lessee and Lessor may, at its option, elect the remedies specified in either subparagraph (a) or (b) below. Any such rejection of this Lease referred to above shall not cause an automatic termination of this Lease. Whenever in this Lease reference is made to a default by Lessee, such reference shall refer to an event of default as defined in this Paragraph 23.

(a) Lessor may repossess the Building #16 Premises and the Building #13 Premises (notwithstanding the fact that the default may apply only to the Building #16 Premises or the Building #13 Premises), and remove all persons and property therefrom. If Lessor repossesses the Building #16 Premises and the Building #13 Premises because of a breach of this Lease, this Lease shall terminate with respect to the entire premises which are the subject of this Lease and Lessor may recover from Lessee:

(1) the worth at the time of award of the unpaid rent which had been earned at the time of termination including interest thereon at a rate equal to the discount rate established by the Federal Reserve Bank of San Francisco for member banks, plus one percent (1%), or the maximum legal rate of interest, whichever is less, from the time of termination until paid;

(2) the worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Lessee proves could have been reasonably avoided, including interest thereon at a rate equal to the Federal discount rate plus one percent (1%) per annum, or the maximum legal rate of interest, whichever is less, from the time of termination until paid;

(3) the worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss for the same period that Lessee proves could be reasonably avoided, discounted at the discount rate established by the Federal Reserve Bank of San Francisco for member banks at the time of the award plus one percent (1%); and

(4) any other amount necessary to compensate Lessor for all the detriment proximately caused by Lessee’s breach or by Lessee’s failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom.

(b) If Lessor does not repossess the Building #16 Premises and the Building #13 Premises, then this Lease shall continue in effect for so long as Lessor does not terminate Lessee’s right to possession and Lessor may enforce all of its rights and remedies under this Lease, including the right to recover the rent and other sums due from Lessee hereunder. For the purposes of this Paragraph 23, the following do not constitute a repossession of the premises by Lessor or a termination of the Lease by Lessor:

(1) Acts of maintenance or preservation by Lessor or efforts by Lessor to relet the Building #16 Premises and/or the Building #13 Premises; or

(2) The appointment of a receiver by Lessor to protect Lessor's interests under this Lease.

(c) Lessor's failure to perform or observe any of its obligations under this Lease or to correct a breach of any warranty or representation made in this Lease within thirty (30) days after receipt of written notice from Lessee setting forth in reasonable detail the nature and extent of the failure referencing pertinent Lease provisions or if more than thirty (30) days is required to cure the breach, Lessor's failure to begin curing within the thirty (30) day period and diligently prosecute the cure to completion, shall constitute a default by Lessor. If Lessor commits a default, Lessee's remedy shall be to institute an action against Lessor for damages or for equitable or injunctive relief, but Lessee shall not have the right to rent abatement, to offset against rent, or to terminate this Lease in the event of any default by Lessor.

(d) Lessor shall have no security interest or lien on any item of Lessee's furniture, equipment and other personal property which is not permanently affixed to the Building #16 Premises or the Building #13 Premises ("Lessee's Personal Property"). Within ten (10) days following Lessee's request, Lessor shall execute documents reasonably acceptable to Lessee to evidence Lessor's waiver of any right, title, lien or interest in Lessee's Personal Property and giving any lender holding a security interest or lien on Lessee's Personal Property reasonable rights of access to the Building #16 Premises and the Building #13 Premises to remove such Lessee's Personal Property, provided that such lender expressly agrees in such document for the benefit of Lessor to repair at such lender's expense any damage caused by such removal.

24. Lessee's Personal Property. If any personal property of Lessee remains on the Building #16 Premises or the Building #13 Premises after (1) Lessor terminates this Lease pursuant to Paragraph 23 above following an event of default by Lessee, or (2) after the expiration of the Lease term or after the termination of this Lease pursuant to any other provisions hereof, Lessor shall give written notice thereof to Lessee pursuant to applicable law. Lessor shall thereafter release, store, and dispose of any such personal property of Lessee in accordance with the provisions of applicable law.

25. Notices. All notices, statements, demands, requests, or consents given hereunder by either party to the other shall be in writing and shall be personally delivered or sent by United States mail, registered or certified, return receipt requested, postage prepaid, and addressed to the parties as follows:

Lessor: Menlo Business Park, LLC
c/o Tarlton Properties, Inc.
955 Alma Street
Palo Alto, California 94301

Lessee: Pacific Biosciences, Inc.
1505 Adams Drive
Menlo Park, California 94025

Attention: Hugh Martin
Chairman and CEO

or to such other address as either party may have furnished to the other as a place for the service of notice. Notices shall be deemed given upon receipt or attempted delivery where delivery is not accepted.

26. Estoppel Certificates. Lessee and Lessor shall within fifteen (15) days following request by the other party (the "Requesting Party"), execute and deliver to the Requesting Party an estoppel certificate (1) certifying that this Lease has not been modified and certifying that this Lease is in full force and effect, or, if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect; (2) stating the date to which the rent and other charges are paid in advance, if at all; (3) stating the amount of any Security Deposit held by Lessor; (4) acknowledging that there are not, to the responding party's knowledge, any uncured defaults on the part of the Requesting Party hereunder, or if there is any uncured default on the part of the Requesting Party, stating the nature of such uncured default; and (5) any other provisions reasonably requested by either party.

27. Signage. Lessee shall have the use of the entire monument sign for the Building #16 Premises for Lessee's sign, and Lessee's pro rata share of the space on the monument sign for Building #13 for Lessee's sign. Lessee may also place Lessee's vinyl lettering signage on the glass near the front door entrance to the Building #16 Premises and to the Building #13 Premises. All of Lessee's signage shall comply with the Menlo Park sign ordinances and regulations and shall be subject to Lessor's approval as to the location, size and design thereof. The cost of the installation of Lessee's sign on the monument signs for Building #16 and Building #13 and on the glass at the front door entrances shall be paid by Lessee. Any additional signage shall be subject to Lessor's prior approval and, if approved, shall be installed at Lessee's expense.

28. Real Estate Brokers. Lessor shall pay a leasing commission to Tarlton Properties, Inc., Lessor's broker, and to Cornish & Carey Commercial, Lessee's broker, pursuant to separate agreements between Lessor and said brokers. Each party represents and warrants to the other party that it has not had any dealings with any real estate broker, finder, or other person with respect to this Lease other than Tarlton Properties, Inc. who has acted as exclusive leasing agent for Lessor, and Cornish & Carey Commercial, who has acted as the sole agent for Lessee, and each party shall hold harmless the other party from all damages, expenses, and liabilities resulting from any claims that may be asserted against the other party by any broker, finder, or other person with whom the other party has or purportedly has dealt, other than the above named brokers.

29. Parking. Lessee shall have the right to use all of the one hundred three (103) unreserved on-site vehicular parking spaces on the Building #16 Land in the parking area for Building #16. Lessee shall have the right to use one hundred (100) unreserved on-site vehicular parking spaces on the Building #13 Land in the parking area for Building #13. Such use shall be subject to such rules and regulations for such parking facilities which may be established or altered by Lessor at any time from time to time during the Lease term, provided that such rules and regulations shall not unreasonably interfere with Lessee's parking rights. Lessee may mark a reasonable number of the parking spaces in the Building #16 parking lot and a reasonable number of the one hundred (100) parking spaces on the Building #13 parking lot as visitor spaces, subject to the approval by Lessor and the City of Menlo Park. Vehicles of Lessee or its employees shall not park in driveways or occupy parking spaces or other areas reserved for deliveries, or loading or unloading.

30. Subordination; Attornment.

(a) This Lease, without any further instrument, shall at all times be subject and subordinate to any and all mortgages and deeds of trust which may now or hereafter affect Lessor's estate in the Building #16 Property and the Building #13 Property, and to all advances made or hereafter to be made upon the security thereof, and to all renewals, modifications, consolidations, replacements and extensions thereof. Lessor shall use reasonable efforts to cause the beneficiary of any deed of trust executed by Lessor as trustor after the date hereof to execute a recognition and non-disturbance agreement in commercially reasonable form which provides that so long as Lessee is not in default hereunder beyond any applicable cure period (i) this Lease shall not be terminated, and (ii) that upon acquiring title to the Building #16 Property and/or the Building #13 Property by foreclosure or otherwise such holder shall recognize all of Lessee's rights hereunder which accrue thereafter. Lessor shall obtain a recognition and non-disturbance agreement from Lessor's current lender prior to the Commencement Date in substantially the form submitted by Lessor to Lessee prior to the execution of this Lease; provided, however, Lessor's failure to do so shall not permit Lessee to terminate this Lease. The subordination of this Lease by Lessee to a future deed of trust is conditioned upon the execution by the lender of a subordination, recognition and non-disturbance agreement in commercially reasonable form.

(b) In confirmation of such subordination, Lessee shall promptly execute any certificate or other instrument which is in commercially reasonable form and Lessor deems proper to evidence such subordination, without expense to Lessor; provided, however, that if any person or persons purchasing or otherwise acquiring the Building #16 Property and/or the Building #13 Property by any sale, sales and/or other proceedings under such mortgages and/or deeds of trust, shall elect to continue this Lease in full force and effect in the same manner and with like effect as if such person or persons had been named as Lessor herein, then this Lease shall continue in full force and effect as aforesaid, and Lessee hereby attorns and agrees to attorn to such person or persons.

31. No Termination Right. Lessee shall not have the right to terminate this Lease as a result of any default by Lessor and Lessee's remedies in the event of a default by Lessor shall be limited to the remedy set forth in Paragraph 23(c). Lessee expressly waives the defense of constructive eviction.

32. Lessor's Entry. Except in the case of an emergency and except for permitted entry in the Building #16 Premises and the Building #13 Premises during Lessee's normal working hours for regularly scheduled maintenance, both of which may occur without prior notice to Lessee, Lessor and Lessor's agents shall provide Lessee with at least twenty-four (24) hours notice prior to entry of the Building #16 Premises or the Building #13 Premises. Lessor may enter the Building #16 Premises and the Building #13 Premises for any reasonable purpose related to Lessor's ownership of the property. Such entry by Lessor and Lessor's agents shall not impair Lessee's operations more than reasonably necessary and shall comply with Lessee's reasonable security measures. Lessor and Lessor's agents shall at all times be accompanied by an employee of Lessee during any such entry except in case of emergency and except for janitorial work. Lessor may enter the Building #16 Premises and the Building #13 Premises without prior notice to Lessee if the Premises are vacant.

33. Attorneys' Fees. If any action at law or in equity shall be brought to recover any rent under this Lease, or for or on account of any breach of or to enforce or interpret any of the provisions of this Lease or for recovery of the possession of the Building #16 Premises and/or the Building #13 Premises, the prevailing party shall be entitled to recover from the other party costs of suit and reasonable attorneys' fees, the amount of which shall be fixed by the court and shall be made a part of any judgment rendered.

34. Compliance with Applicable Requirements.

(a) Lessee shall, at Lessee's sole cost and expense, fully, diligently and in a timely manner, comply with all "Applicable Requirements," which term is used in this Lease to mean all laws, rules, regulations, ordinances, directives, covenants, easements and restrictions of record, permits, the requirements of any applicable fire insurance underwriter or rating bureau, relating in any manner to the Building #16 Premises and the Building #13 Premises (including but not limited to matters pertaining to industrial hygiene, environmental conditions on, in, under or about the premises, including soil and groundwater conditions, subject to the provisions of Paragraph 9 hereof, and the use, generation, manufacture, production, installation, maintenance, removal, transportation, storage, spill, or release of any Hazardous Materials (which are addressed in Paragraph 9 hereof)), now in effect or which may hereafter come into effect. Lessee shall, within five (5) days after receipt of Lessor's written request, provide Lessor with copies of all documents and information, including but not limited to permits, registrations, manifests, applications, reports and certificates, evidencing Lessee's compliance with any Applicable Requirements specified by Lessor, and shall immediately upon receipt, notify Lessor in writing (with copies of any documents involved) of any threatened or actual claim, notice, citation, warning, complaint or

report pertaining to or involving failure by Lessee or the Building #16 Premises and/or the Building #13 Premises to comply with any Applicable Requirements. Notwithstanding the foregoing, Lessee shall not be required to cause the premises to comply with any Applicable Requirements requiring alterations or improvements to the building unless such compliance is necessitated solely due to Lessee's particular use of the premises; provided, that if Lessor makes capital improvements to the premises to comply with such Applicable Requirements, the cost thereof shall be amortized as an Operating Expense pursuant to Paragraph 5(b).

(b) Subject to Paragraph 32, Lessor, Lessor's agents, employees, contractors and designated representatives, and the holders of any mortgages, deeds of trust or ground leases on the premises ("Lenders") shall have the right to enter the premises at any time in the case of an emergency, and otherwise at reasonable times, for the purpose of inspecting the condition of the premises and for verifying compliance by Lessee with this Lease and all Applicable Requirements (as defined in Paragraph 34(a)), and Lessor shall be entitled to employ experts and/or consultants in connection therewith to advise Lessor with respect to Lessee's activities, including but not limited to Lessee's installation, operation, use, monitoring, maintenance, or removal of any Hazardous Materials on or from the premises. The costs and expenses of any such inspections shall be paid by the party requesting same, unless an event of default or a breach of this Lease by Lessee or a violation of Applicable Requirements or a contamination, caused or materially contributed to by Lessee, is found to exist or to be imminent, or unless the inspection is requested or ordered by. a governmental authority as the result of any such existing or imminent violation or contamination. In such case, Lessee shall upon request reimburse Lessor or Lessor's Lender, as the case may be, for the costs and expenses of such inspections. Lessor and Lessee acknowledge and agree that to the extent additional egress is required from the upper floor of the Building #13 Premises, such additional egress shall be deemed an Applicable Requirement hereunder, and shall consist of the stairway set forth in the plan shown in Exhibit C-2, and that Lessee shall be responsible for no more than $100,000 of the costs associated with the design and construction of such stairway, such costs being allocated in accordance with the foregoing provisions relating to the allocation of costs for capital improvements to the Building #13 Premises (and not to Building #13 as a whole) to comply with Applicable Requirements not necessitated by Lessee's use of the premises.

(c) During the term of this Lease, Lessee shall comply, at Lessee's expense, with all of the covenants, conditions, and restrictions affecting the premises which are recorded in the Official Records of San Mateo County, California, and which are in effect as of the date of this Lease.

35. Quiet Enjoyment. Upon payment by Lessee of the rent for the Building #16 Premises and the Building #13 Premises and the observance and performance of all of the covenants, conditions, and provisions on Lessee's part to be observed and performed under this Lease within applicable notice and cure periods, Lessee shall have quiet enjoyment and possession of the Building #16 Premises and the Building #13 Premises for the entire term hereof subject to all of the provisions of this Lease.

36. Lessee's Right of First Offer.

(a) During the initial term of this Lease, Lessor hereby grants to Lessee the continuing right of first offer to lease all or a portion of the following space in Menlo Business Park: Buildings 13, 17, and 18 of Menlo Business Park described on Exhibit "H" hereto (the "Right of First Offer Space"). Said right of first offer shall be upon the following terms and conditions:

upon the receipt by Lessor of a letter of intent or other written proposal ("First Offer Space Lease Proposal") from a third party to lease any of the Right of First Offer Space, before entering into a lease of any of the Right of First Offer Space described in the First Offer Space Lease Proposal with any other tenant, Lessor shall deliver to Lessee a written offer ("First Offer") to lease to Lessee the space described in the First Offer Space Lease Proposal that is currently available for lease, identifying the location of the space by building number and floor, the minimum number of rentable square feet available for lease, the Monthly Base Rent at which the Right of First Offer Space is offered for lease, and the approximate date(s) that the Right of First Offer Space will be available for occupancy. Lessor shall also specify the amount, if any, of any tenant improvement allowance that Lessor is offering for the Right of First Offer Space, or for any portion thereof, and the portion of the Right of First Offer Space, if any, that is offered for lease "as is," without any tenant improvement allowance. Lessee shall have five (5) business days after receipt of the First Offer within which to give written notice to Lessor of Lessee's acceptance of Lessor's First Offer with respect to any or all of the Right of First Offer Space, time being of the essence. Failure of Lessee to deliver such written acceptance within said period of five (5) business days shall be deemed a rejection of the First Offer with respect to all of the Right of First Offer Space.

(b) If Lessee accepts Lessor's First Offer with respect to any or all of the Right of First Offer Space within the time specified, Lessor and Lessee shall execute and deliver an amendment to this Lease stating that (1) the Right of First Offer Space shall be added to the premises leased by Lessee, and Lessee shall pay the Monthly Base Rent for the Right of First Offer Space specified by Lessor in the First Offer, with increases, if any, specified in the First Offer; (2) Lessee's Share of the Additional Rent (Operating Expenses and Taxes), as defined in Paragraph 5 hereof, to be paid by Lessee with respect to the Right of First Offer Space leased by Lessee; (3) the Right of First Offer Space shall be leased by Lessee for a term equal to the lesser of thirty six (36) months or the term set forth in the first offer, or for such longer term as to which Lessor and Lessee may mutually agree; (4) the Right of First Offer Space shall be leased to Lessee subject to all of the other terms and provisions of this Lease, except as otherwise specified in Lessor's First Offer; and (5) if Lessee exercises the option to extend contained in Paragraph 3 of this Lease, the premises leased by Lessee during the option period(s) referred to in this Lease shall include the Right of First Offer Space accepted by Lessee.

(c) If Lessee rejects the First Offer with respect to any or all of the Right of First Offer Space (the "Rejected Space"), Lessor shall have the right, within ninety (90) days after the expiration of said period of five (5) business days referred to in subparagraph (a) above, to lease any or all of the Rejected Space to a third party tenant, but not for a rent or on terms and conditions substantially more favorable to the tenant than those specified in the First Offer. For purposes of the foregoing, and Paragraph 36(d), below, terms for such third party tenant that include materially more favorable Monthly Base Rent or Tenant Improvement Allowances shall be deemed to be substantially more favorable. If Lessor is not successful in so leasing all of the Rejected Space, Lessee's right of first offer to lease shall again apply with respect to the Rejected Space that Lessor does not so lease.

(d) If Lessee rejects the First Offer with respect to any or all of the Right of First Offer Space and Lessor succeeds in leasing any or all of the Rejected Space within ninety (90) days after the expiration of said period of five (5) business days referred to above, for a rent and upon terms and conditions not substantially more favorable to the tenant than those specified in the First Offer, for a term not less than the lesser of thirty-six (36) months or the term set forth in the first offer, Lessee's right of first offer with respect to the Rejected Space that Lessor has leased to the third party shall terminate and shall be of no further force or effect thereafter.

37. General Provisions.

(a) Nothing contained in this Lease shall be deemed or construed by the parties hereto or by any third person to create the relationship of principal and agent or of partnership or of joint venture of any association between Lessor and Lessee, and neither the method of computation of rent nor any other provisions contained in this Lease nor any acts of the parties hereto shall be deemed to create any relationship between Lessor and Lessee other than the relationship of landlord and tenant.

(b) Each and all of the provisions of this Lease shall be binding upon and inure to the benefit of the parties hereto, and except as otherwise specifically provided elsewhere in this Lease, their respective heirs, executors, administrators, successors, and assigns, subject at all times, nevertheless, to all agreements and restrictions contained elsewhere in this Lease with respect to the assignment, transfer, encumbering, or subletting of all or any part of Lessee's interest in this Lease.

(c) The captions of the paragraphs of this Lease are for convenience only and shall not be considered or referred to in resolving questions of interpretation or construction.

(d) This Lease is and shall be considered to be the only and entire agreement between the parties hereto and their representatives and agents. All proposals, letters of intent, negotiations, and oral agreements acceptable to both parties have been merged into and are included herein. There are no other representations or warranties between the parties and all reliance with respect to representations is solely upon the representations and agreements contained in this instrument.

(e) The laws of the State of California shall govern the validity, performance, and enforcement of this Lease. Notwithstanding which of the parties may be deemed to have prepared this Lease, this Lease shall not be interpreted either for or against Lessor or Lessee, but this Lease shall be interpreted in accordance with the general tenor of the language in an effort to reach an equitable result.

(f) Time is of the essence with respect to the performance of each of the covenants and agreements contained in this Lease.

(g) Recourse by Lessee for breach of this Lease by Lessor shall be expressly limited to the amount of Lessor's interest in the premises which are the subject of this Lease and the rents, issues, insurance, condemnation, and sales proceeds actually received by Lessor, and profits therefrom, and in the event of any such breach or default by Lessor Lessee hereby waives the right to proceed against any other assets of Lessor or against any other assets of any manager or member of Lessor.

(h) Any provision or provisions of this Lease which shall be found to be invalid, void or illegal by a court of competent jurisdiction, shall in no way affect, impair, or invalidate any other provisions hereof, and the remaining provisions hereof shall nevertheless remain in full force and effect.

(i) This Lease may be modified in writing only, signed by the parties in interest at the time of such modification.

(j) Each party represents to the other that the person signing this Lease on its behalf is properly authorized to do so, and in the event this Lease is signed by an agent or other third party on behalf of either Lessor or Lessee, written authority to sign on behalf of such party in favor of the agent or third party shall be provided to the other party hereto either prior to or simultaneously with the return to such other party of a fully executed copy of this Lease.

(k) No binding agreement between the parties with respect to the premises which are the subject of this Lease shall arise or become effective until this Lease has been duly executed by both Lessee and Lessor and a fully executed copy of this Lease has been delivered to both Lessee and Lessor.

(l) Lessor and Lessee acknowledge that the terms and conditions of this Lease constitute confidential information of Lessor and Lessee. Each party shall use its reasonable good faith efforts to prevent the dissemination orally or in written form, of this Lease, lease proposals, lease drafts, or other documentation containing the terms, details or conditions contained herein to any third party without obtaining the prior written consent of the other party, except to the attorneys, accountants, lenders, investors,

potential investors, potential business or merger partners, potential subtenants and assignees, or other authorized business representatives or agents of the parties, or except to the extent required to comply with applicable laws, including any filings by Lessee pursuant to state or federal securities laws. Neither Lessor nor Lessee shall make any public announcement of the consummation of this Lease transaction without the prior approval of the other party. A violation of this subparagraph (l) shall not permit either party to terminate this Lease.

(m) Except as otherwise provided in Paragraph 23(c) and Paragraph 31 hereof, the rights and remedies that either party may have under this Lease or at law or in equity, upon any breach, are distinct, separate and cumulative and shall not be deemed inconsistent with each other, and no one of them shall be deemed to be exclusive of any other.

(n) Except as provided in Paragraph 20, Lessor and Lessee waive any claim for consequential damages which one may have against the other for breach of or failure to perform or observe the requirements and obligations created by this Lease.

(o) Lessor and Lessee each agree to and they hereby do waive trial by jury in any action, proceeding or counterclaim brought by either of the parties hereto against the other on any matters whatsoever arising out of or in any way connected with this Lease, the relationship of Lessor and Lessee, Lessee's use or occupancy of the premises which are the subject of this Lease and/or any claim of injury or damage, and any statutory remedy.

(p) This Lease shall not be recorded.

(q) Whenever this Lease requires an approval, consent, determination, selection or judgment by either Lessor or Lessee, unless another standard is expressly set forth, such approval, consent, determination, selection or judgment and any conditions imposed thereby shall be reasonable and shall not be unreasonably withheld or delayed and, in exercising any right or remedy hereunder, each party shall at all times act reasonably and in good faith.

(r) Any expenditure by a party permitted or required under this Lease, for which such party demands reimbursement from the other party, shall be limited to the fair market value of the goods and services involved, shall be reasonably incurred, and shall be substantiated by documentary evidence available for inspection and review by the other party.

(s) Lessee shall have the unimpeded access and right to do shipping and receiving using the roll-up doors in Building #16 and Building #13.

(t) Lessor shall investigate the feasibility of relocating or removing the trailers located across from the Building #16 Premises (if not already removed).

(u) Lessor shall provide as an Operating Expense of Menlo Business Park a roving security patrol in Menlo Business Park, 24 hours per day, 7 days per week, 365 days per year.

IN WITNESS WHEREOF, the Lessor and Lessee have duly executed this Lease as of the date first set forth herein.

"Lessor"

MENLO BUSINESS PARK, LLC
a California limited liability company

By: /s/ J. O. Oltmans, II
J. O. Oltmans, II, Manager

By: /s/ James R. Swartz
James R. Swartz, Manager

"Lessee"

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.,
a Delaware corporation

By: /s/ Hugh Martin
Its Chairman and CEO

By: _____
Its

LEGAL DESCRIPTION
1505 Adams Drive (Existing Premises)

Lot 16, as shown on that certain map entitled “MELO BUSINESS PARK, MENLO PARK, SAN MATEO COUNTY, CALIFORNIA” filed April 9, 1984 in Book 111 of Maps at pages 50, 51 and 52 of Official Records of the County of San Mateo, State of California.

A.P. No.: 055-474-060 JPN 111 050 000 16 T
055-474-050

EXHIBIT “A-1”

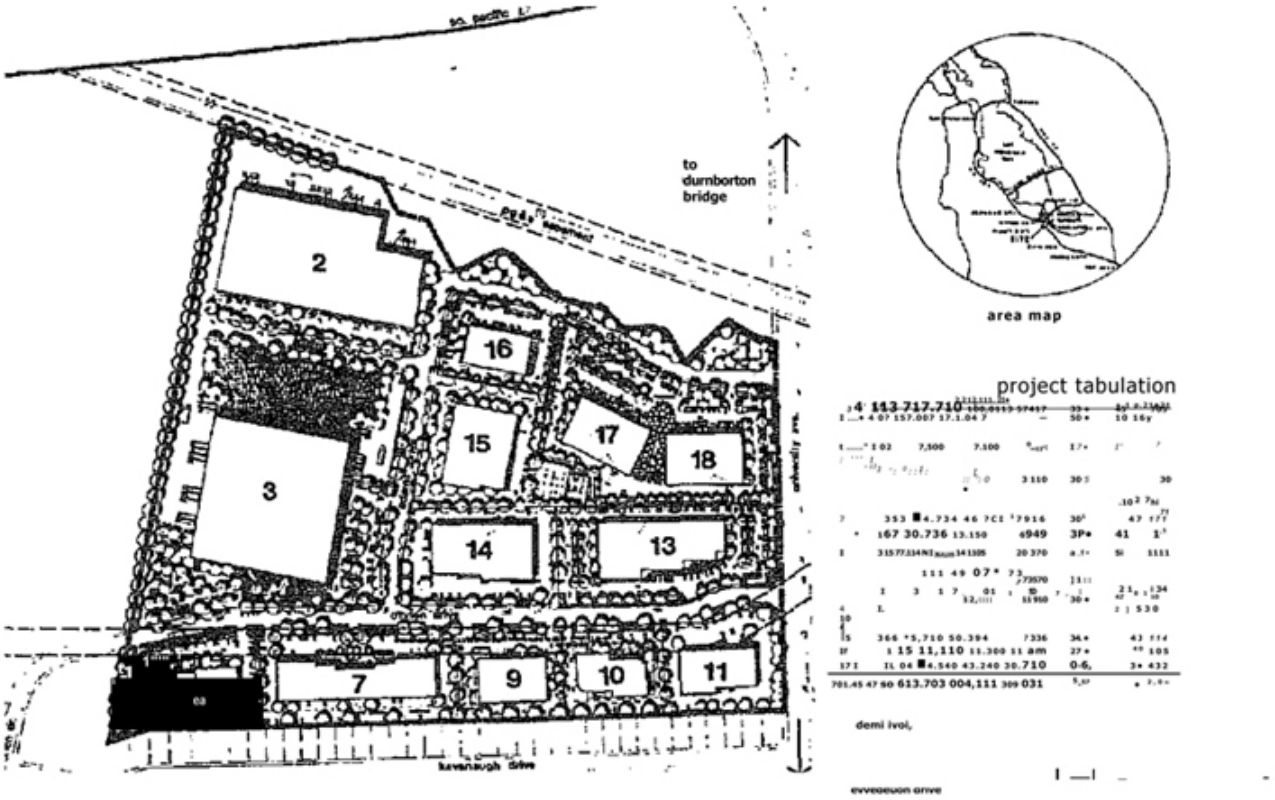
LEGAL DESCRIPTION

1525 O'Brien Drive (Expansion Premises)

Parcel 2 as shown on that certain map entitled "MENLO BUSINESS PARK PARCEL MAP FOR MERGER OF PARCELS B AND C AS SHOWN ON MAP FILED AUGUST 19, 1986 IN VOLUME 57 OF PARCEL MAPS AT PAGES 86-87 AND LOTS 17 AN 18 OF THE TRACT OF MENLO BUSINESS PARK FILED APRIL 9, 1984 IN VOLUME 111 OF MAPS AT PAGES 50-52, SAN MATEO COUNTY RECORDS MENLO PARK SAN MATEO COUNTY CALIFORNIA", filed February 28, 1990 in Book 61 of Parcel Maps at Pages 94 and 95, Records of San Mateo County, State of California.

A.P. No.: 055-474-150 JPN 111 050 000 0012 T
111 050 000 0013T
111 050 000 0022T
111 050 000 0023T

EXHIBIT "A-2"



MENLO BUSINESS PARK

THE LEWIS Ape TARLTON COWART • E/CLUSlyE AGENTS - FAISt
0413.0295 A DEVELOPMENT SY MENLO OLTSENESS PARA JOWT VEHTuRE
DESIGN & ENGINEERING SYSTEMS • ARCHITECTS ENGFEERS PLANNERS

master plan

EXHIBIT “B”

FLOOR PLAN
1505 ADAMS DRIVE (EXISTING PREMISES)

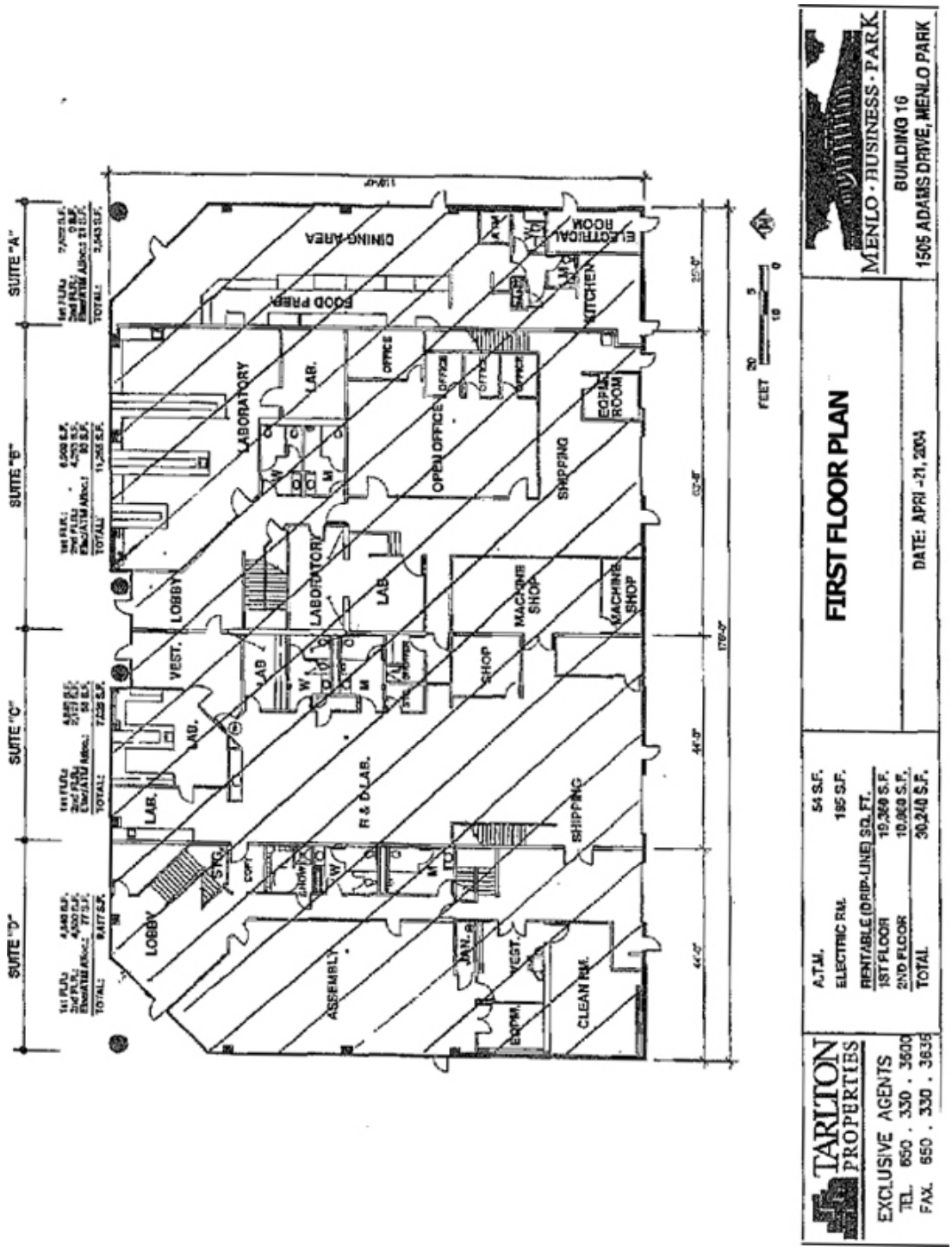


EXHIBIT "C-1"

FLOOR PLAN
1505 ADAMS DRIVE (EXISTING PREMISES)

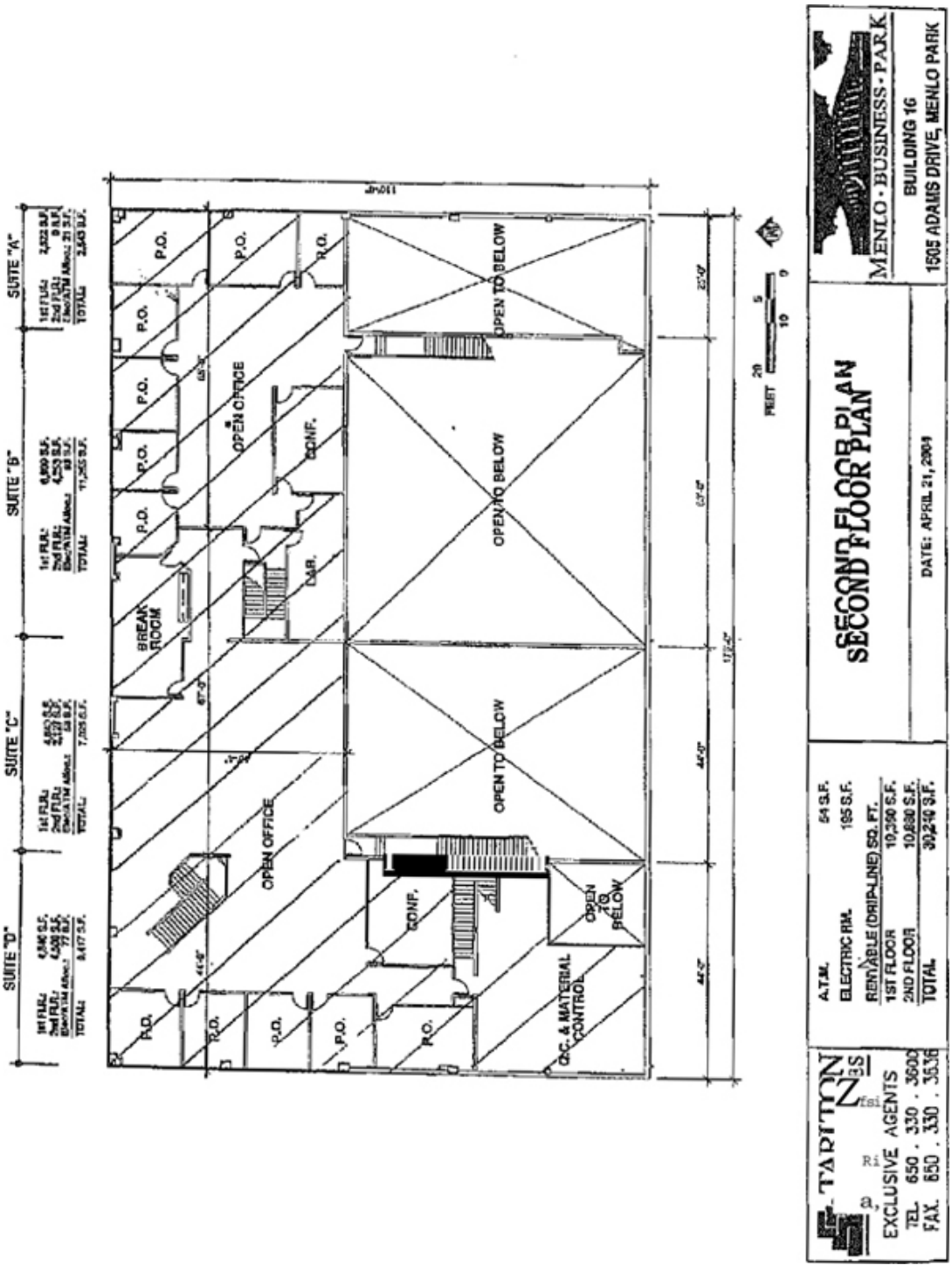


EXHIBIT "C-1"

FLOOR PLAN
1525 O'BRIEN DRIVE (EXPANSION PREMISES)

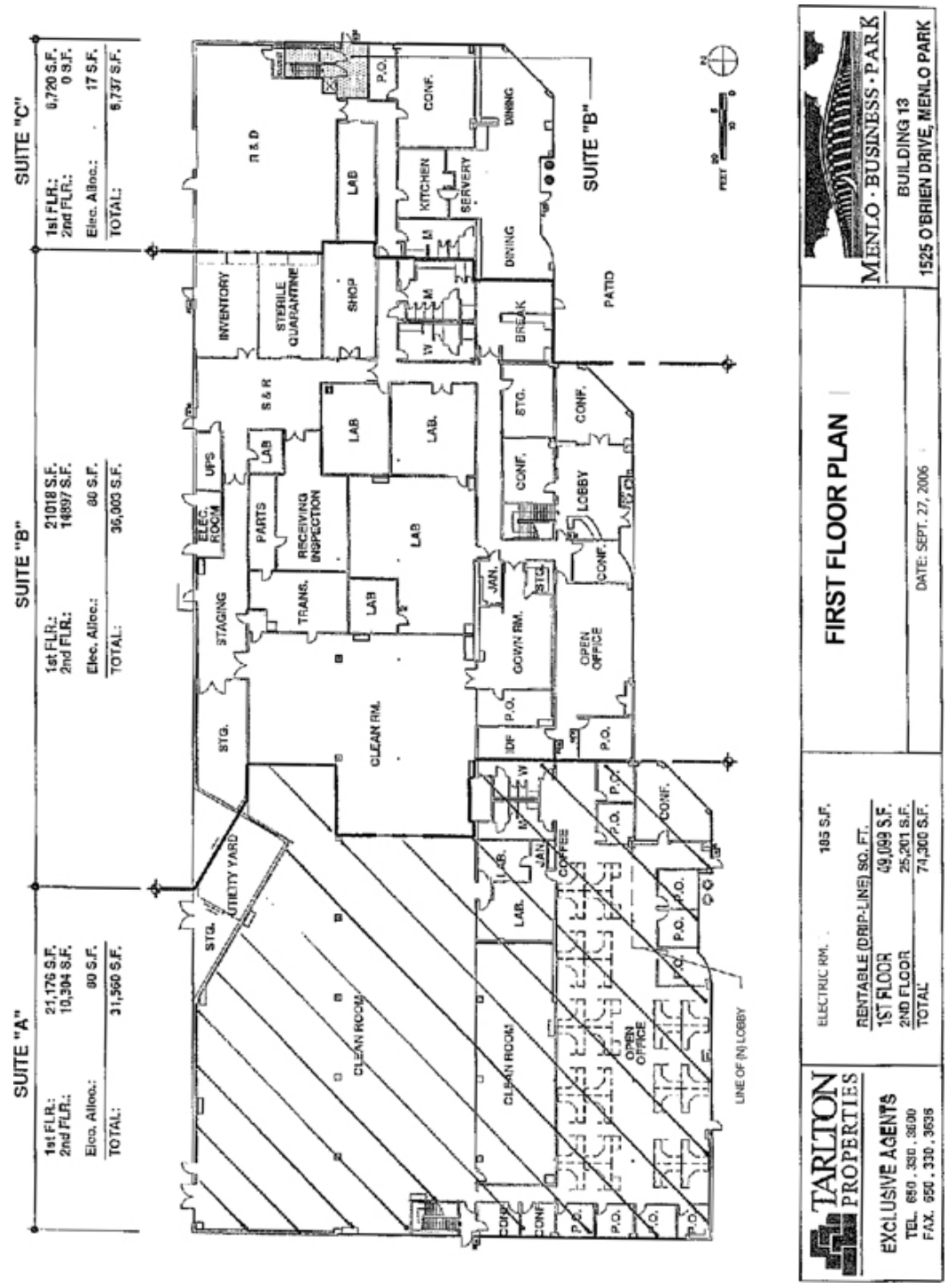


EXHIBIT "C-2"

FLOOR PLAN
1525 O'BRIEN DRIVE (EXPANSION PREMISES)

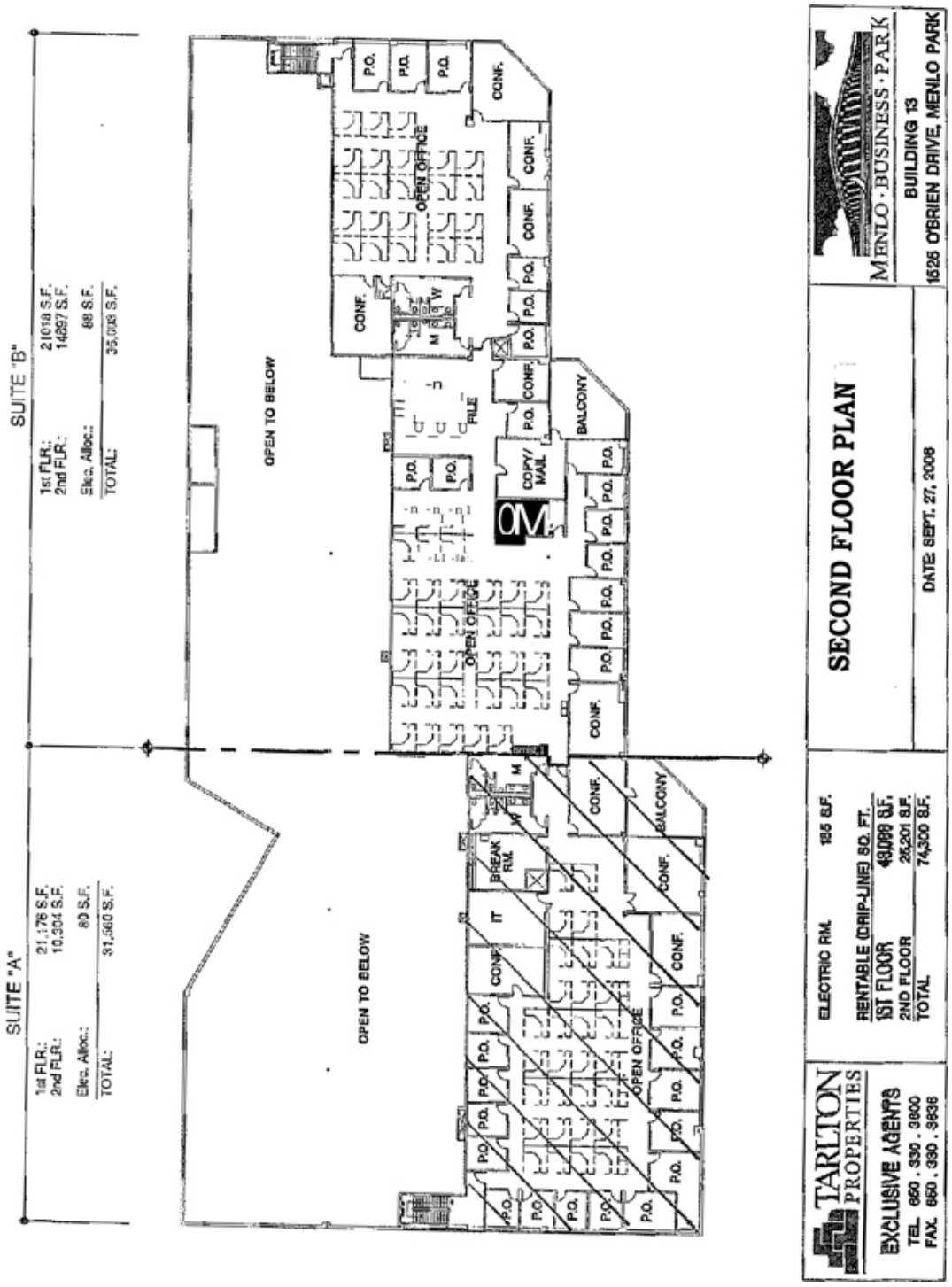


EXHIBIT "C-2"

DESCRIPTION OF CUBICLE SYSTEMS TO BE INSTALLED, AND EXISTING FURNITURE REMAINING IN BUILDING #13 PREMISES

I. Cubicle Systems to be installed in Building #13 Premises by Lessee Approximately 100, 6’ X 8’ used cubicles, each including 1 pedestal and 1 shelf.

II. Lessor Furniture Remaining in Building #13 Premises as of Commencement Date

A. Qty 5 - wood desks approx 7 ft

B. 1 maple wood conference room table approx. 14 ft with 13 black chairs

C. 4 gray café tables

D. 2 cork boards hanging in the kitchen

EXHIBIT “D”

1525 O'BRIEN DRIVE COMMENCEMENT MEMORANDUM

Re: Amended and Restated Lease dated December 17, 2007 between MENLO BUSINESS PARK, LLC, a California limited liability company, Lessor, and PACIFIC BIOSCIENCES OF CALIFORNIA, INC., a Delaware corporation, Lessee (the "Lease"), concerning the premises consisting of the building commonly known as Building #16, 1505 Adams Drive, Menlo Park, California (the "1505 Adams Drive Premises"), and the premises consisting of 31,560 rentable square feet in the building commonly known as Building #13, 1525 O'Brien Drive, Menlo Park, California (the "1525 O'Brien Drive Premises").

In accordance with the subject Lease, Lessor and lessee confirm and agree as follows:

1. That Lessee is currently in possession of the 1505 Adams Drive Premises.

2. That the 1525 O'Brien Drive Premises have been accepted herewith by the Lessee, except as noted on the attached.

3. That the Lessee has possession of the 1525 O'Brien Drive Premises and acknowledges that under the provisions of the subject Lease, the Term of the Lease of the 1525 O'Brien Drive Premises commenced on _____, 2008 (the "Commencement Date"), and shall expire on last day of the forty-first (41st) full calendar month after the Commencement Date.

4. That in accordance with the provisions of the Lease, rent commences to accrue with respect to the 1525 O'Brien Drive Premises on _____, 2008, which is the Commencement Date.

5. Rent is due and payable in advance on the first day of each and every month during the term of said Lease. Rent checks shall be made payable to Menlo Business Park, LLC, c/o Tarlton Properties, Inc., 955 Alma Street, Palo Alto, California 94301.

AGREED AND ACCEPTED

LESSEE:

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.,
a Delaware corporation

By: _____
Name: _____
Its: _____

Date: _____, 2008

LESSOR:

MENLO BUSINESS PARK, LLC,
a California limited liability company

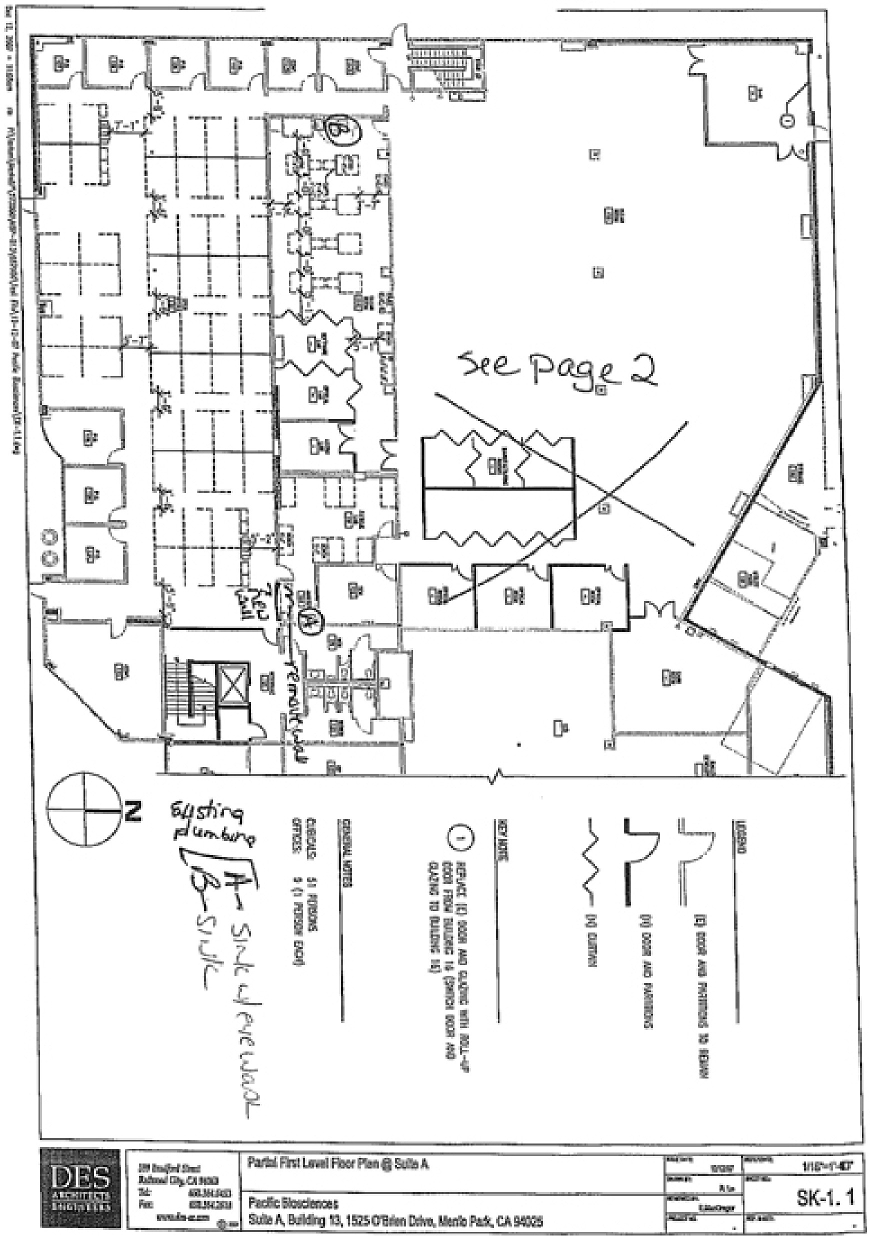
By: _____
, Manager

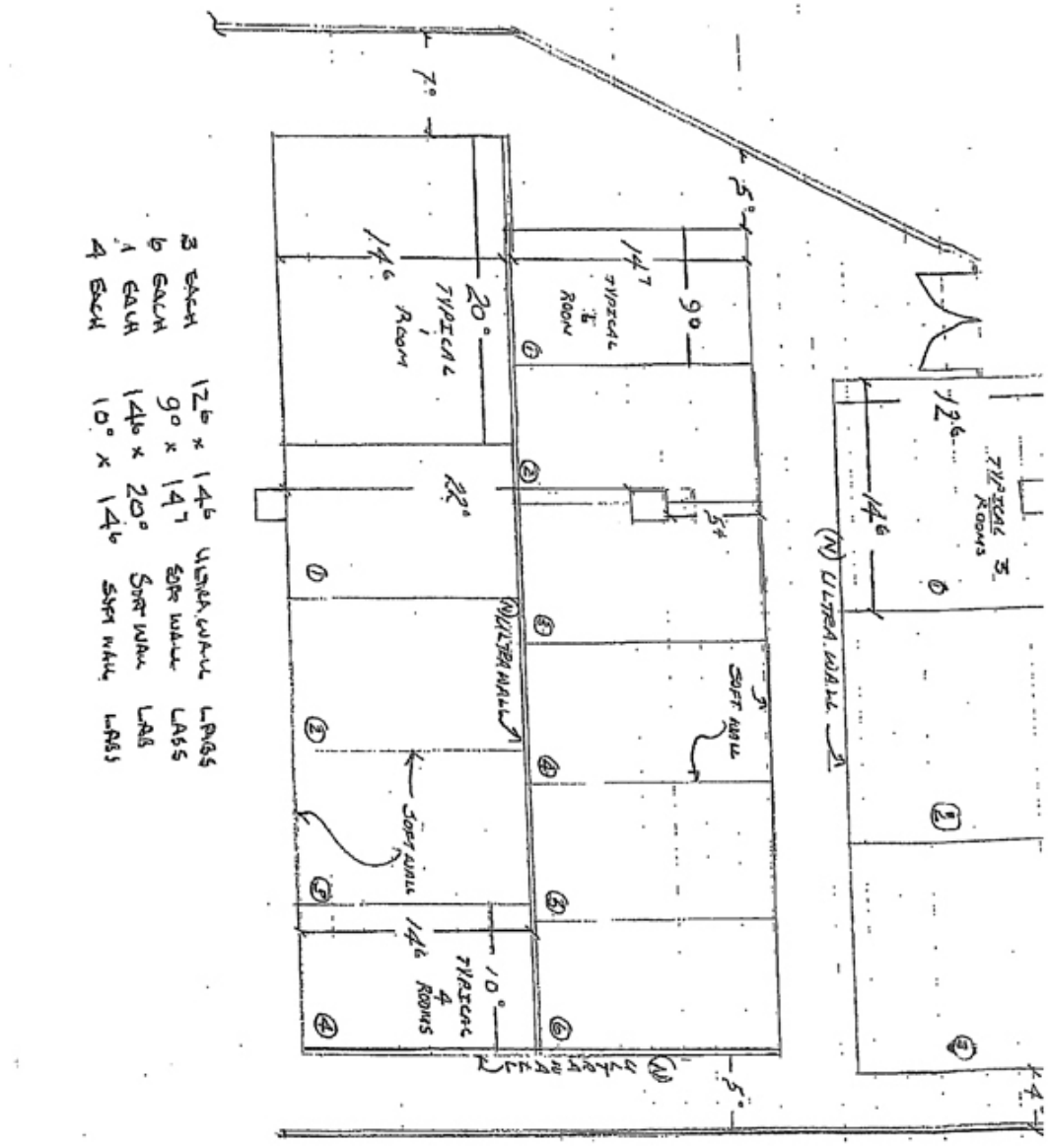
By: _____
, Manager

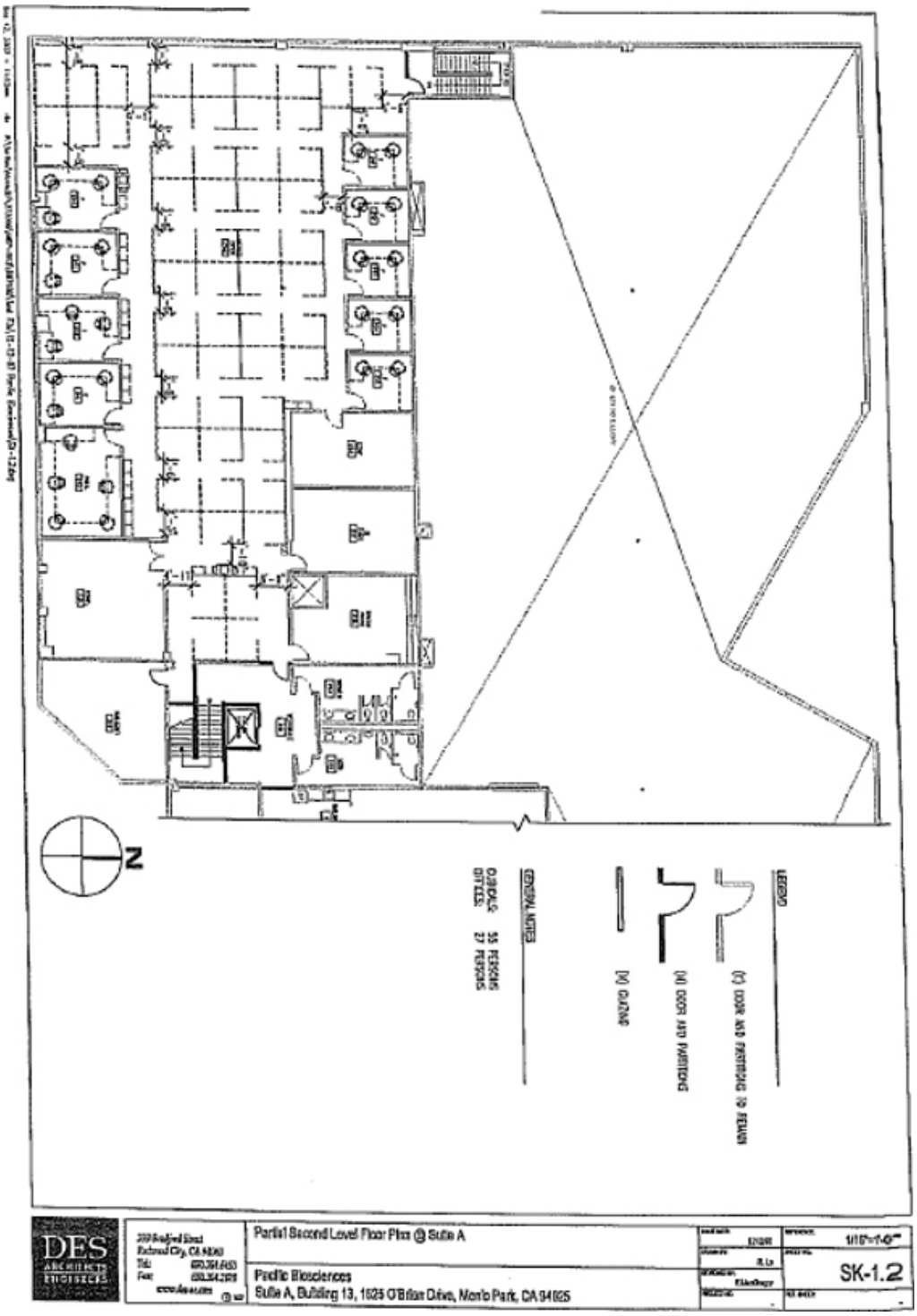
Date: _____, 2008

EXHIBIT "E"

EXHIBIT G


See page 2
N
Partial First Level Floor Plan @ Suite A
Pacific Biosciences
Suite A, Building 13, 1525 O'Brien Drive, Menlo Park, CA 94025
SK-1. 1
DES
ARCHITECTS
ENGINEERS


3 EACH 12' x 14' ULTRA WIDE LPGS
6 EACH 9' x 14' EXP WIDE LAGS
1 EACH 14' x 20' SUPR WIDE LAG
4 EACH 10' x 14' STD WIDE LPGS
7' TYPICAL 1 ROOM
14' TYPICAL 2 ROOM
9'
14' TYPICAL 4 ROOMS
12'
14'
7' TYPICAL 3 ROOMS
(N) ULTRA WIDE
SOFT WALL
ULTRA WIDE


N
LEGEND
(X) DOOR AND PARTITION TO REMAIN
(N) DOOR AND PARTITION
(N) GLAZING
GENERAL NOTES
OCCUPANT LOAD
OFFICES 55 PERSONS
27 PERSONS
DES
ARCHITECTS
ENGINEERS
Partial Second Level Floor Plan @ Suite A
Pacific Biosciences
Suite A, Building 13, 1505 O'Brien Drive, Menlo Park, CA 94025
SK-1.2

RIGHT OF FIRST OFFER SPACE

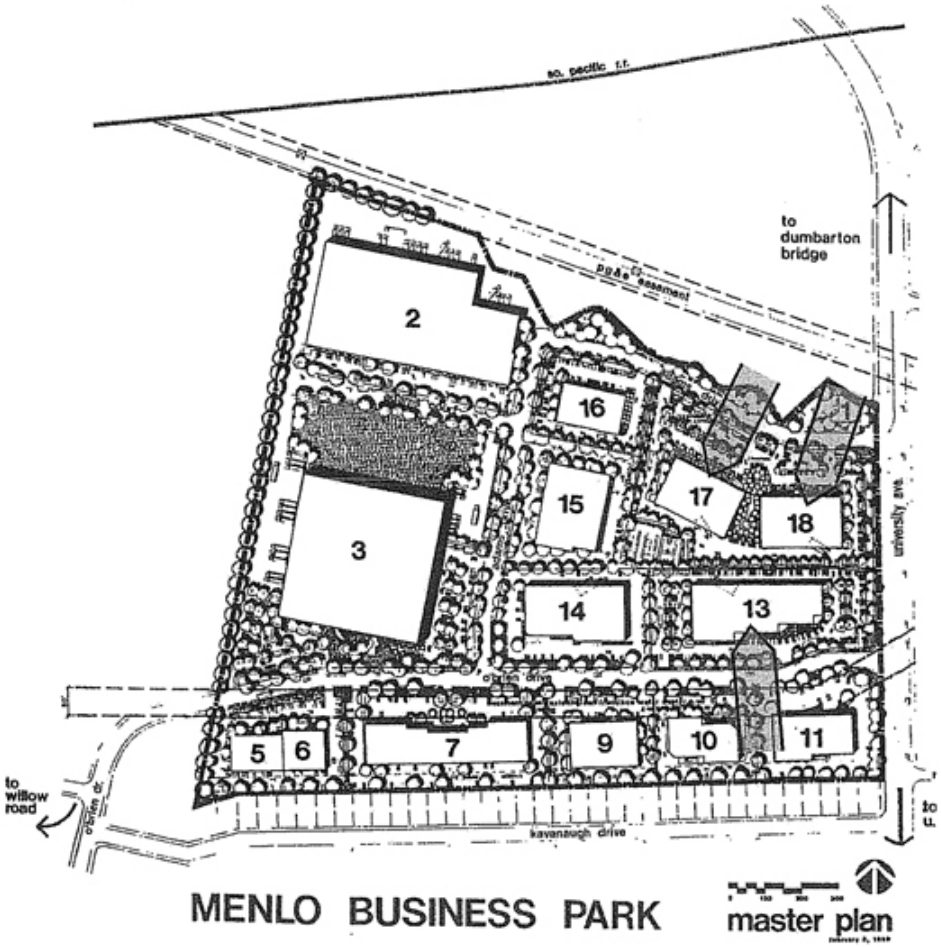


EXHIBIT "H"

LEASE

BY AND BETWEEN

MENLO BUSINESS PARK, LLC, LESSOR

AND

PACIFIC BIOSCIENCES OF CALIFORNIA, INC., LESSEE

Menlo Business Park
1605 Adams Drive, Suites A and C
Menlo Park, California 94025

August 14, 2009

TABLE OF CONTENTS

SCHEDULE OF EXHIBITS

LEASE

Building #18
1605 Adams Drive, Suites A and C
Menlo Park, California 94025

THIS LEASE, referred to herein as the "Lease," is made and entered into as of August 14, 2009 (the "Effective Date") by and between MENLO BUSINESS PARK, LLC, a California limited liability company, hereafter referred to as "Lessor," and PACIFIC BIOSCIENCES OF CALIFORNIA, INC., a Delaware corporation, hereafter referred to as "Lessee" or "Pac Bio, Inc."

RECITALS:

A. Lessor is the owner of the real property located in Menlo Business Park, Menlo Park, California, commonly referred to as 1605 Adams Drive, more particularly described on Exhibit "A" attached hereto and incorporated by reference herein, consisting of a parcel of land containing approximately 2.815 acres, together with all easements and appurtenances thereto (the "Land") and the existing building thereon containing approximately 47,547 rentable square feet ("Building #18"), and all other improvements located thereon (collectively, the "Improvements"). The Land and the Improvements are referred to herein collectively as the "Property." The Menlo Business Park Master Plan is attached hereto as Exhibit "B" and incorporated by reference herein. The floor plan of Building #18 is attached hereto as Exhibit "C-1" and incorporated by reference herein.

B. Lessor and Lessee entered into a Month to Month Tenancy Agreement with respect to 1605 Adams Drive, Suite C, Menlo Business Park, Menlo Park, California, dated November 18, 2008 (the "Month to Month Lease"). Lessor and Lessee entered into a First Amendment to Lease dated March 16, 2009, and a Second Amendment to Lease dated June 5, 2009, amending the Month to Month Lease (the "Month to Month Lease, as amended").

C. Lessor and Lessee wish to cancel and terminate the Month to Month Lease, as amended, and enter into this Lease to provide for the lease by Lessor to Lessee of a portion of Building #18 referenced as Suites A and C and consisting of approximately 16,594 rentable square feet as shown on the floor plan of Building #18 attached hereto as Exhibit "C-2" (the "Premises").

NOW, THEREFORE, the parties agree as follows:

1. Lease.

(a) As of the Commencement Date (defined below in Paragraph 2(a)), Lessor and Lessee hereby agree that the Month to Month Lease, as amended, is hereby terminated and neither party shall have any further rights or obligations under that agreement, except that Lessor shall apply the security deposit under that agreement

toward the Security Deposit in this Lease. Concurrent with the termination of the Month to Month Lease, as amended, and as of the Commencement Date, Lessor leases to Lessee, and Lessee leases from Lessor, the Premises consisting of approximately 16,594 rentable square feet at the rental rate and upon the terms and conditions set forth herein.

(b) Lessee shall have the non-excusive right to use Lessee's pro rata share of the on-site parking spaces on the Land pursuant to Paragraph 29 of this Lease, and the non-exclusive right to use the common areas of Building #18, and other Improvements on the Property, intended for use by the tenants of said Building.

(c) Lessor grants to Lessee the right to use, at no additional cost to Lessee, Lessor's existing equipment and fixtures located in the Premises in accordance with Paragraph 14(a) of this Lease.

(d) Lessor grants to Lessee the right to use, at no additional cost to Lessee, all of the furniture owned by Lessor located as of the date hereof in the Premises, including, but not limited to, cubicles, chairs, office furniture, conference room furniture and wiring network. Lessee shall have the right to reconfigure the existing furniture systems. Lessor may, within reason, require Lessee to restore the furniture systems to their original configuration, provided that Lessor gives Lessee written notice of such requirement within a reasonable time (not to exceed ten (10) business days) after the date that Lessor receives from Lessee the plan for such reconfiguration. An inventory of such furniture is attached hereto as Exhibit "D."

All of the furniture located in the Premises and provided by Lessor pursuant to this subparagraph (d) shall remain the property of Lessor and shall be returned by Lessee to Lessor upon the expiration or sooner termination of the term of this Lease in good condition and repair, ordinary wear and tear excepted. Lessee shall, at Lessee's expense, repair and maintain the furniture on the Premises during the term of this Lease. Lessee shall also insure such furniture under Lessee's property insurance and shall pay any personal property taxes assessed against such furniture during the term of this Lease.

(e) Notwithstanding the foregoing or anything else contained in this Lease to the contrary, Lessor reserves the right, subject to providing Lessee forty five (45) days written notice, to terminate Lessee's right to use approximately 400 square feet of space on the first floor in Suite A, as shown on Exhibit "C-2" and to convert such space to a ground floor lobby to serve Suite D (east half of second floor) (the "Potential Lobby Space"). In the event Lessor gives Lessee a forty five (45) day written notice to vacate the Potential Lobby Space, Lessee shall vacate the space and return it to Lessor at the end of such forty five (45) day period in the condition required by Paragraph 15(f) of this Lease. Lessor shall use its reasonable best efforts in renovating/improving the Potential Lobby Space to minimize disruption to Lessee, and Lessee shall reasonably cooperate with Lessor in connection with any such renovation/improvement of the Potential Lobby Space. Lessee shall be entitled to reduce the Monthly Rent due to Lessor on a pro rata basis

depending upon the amount of square footage of the Premises returned to Lessor pursuant to the foregoing, and the date such square footage of the Premises is so returned. Notwithstanding anything to the contrary in this Agreement, Lessor and Lessee expressly agree that Lessor shall bear any and all costs associated with any and all renovation and/or improvement of the Potential Lobby Space.

2. Initial Term.

(a) The initial term of the Lease shall commence on August 15, 2009 (the "Commencement Date") and expire, unless sooner terminated in accordance with the provisions hereof, on May 31, 2011.

(b) Notwithstanding the Commencement Date specified in Paragraph 2(a), the initial term of this Lease shall not commence until (1) Lessor and Lessee have executed and delivered this Lease; and (2) Lessee shall have paid to Lessor concurrently with the execution and delivery of this Lease the Security Deposit as described in Paragraph 7 of this Lease.

(c) Lessor shall deliver the Premises to Lessee on the Commencement Date of this Lease in a structurally sound condition, in compliance with all applicable laws including the Americans With Disabilities Act, and in a leak free condition with all building operating systems, electrical, HVAC, fire suppression, life safety (to the extent currently existing), roof, lights and plumbing in good working order.

(d) If for any reason Lessor cannot deliver possession of the Premises to Lessee by the Commencement Date specified in Paragraph 2(a), Lessor shall not be subject to any liability therefore, nor shall such failure affect the validity of this Lease or the obligations of Lessee hereunder, but in such case, Lessee shall not, except as otherwise provided herein, be obligated to pay rent or perform any other obligation of Lessee under the terms of this Lease until Lessor delivers possession of the Premises to Lessee. If possession of the Premises is not delivered to Lessee by September 1, 2009, Lessee may, at its option, by notice in writing received by Lessor after September 1, 2009, and on or before the date possession is so delivered, cancel this Lease in which event the parties shall be discharged from all further obligations of this Lease. If such written notice is not received by Lessor on or before the date possession of the Premises is so delivered, Lessee's right to cancel this Lease pursuant to this Paragraph 2(d) shall terminate and be of no further force or effect.

(e) Subject to the prior execution and delivery of this Lease by the parties, and the payment by Lessee to Lessor of the total sum referred to in Paragraph 2(b), and subject to Lessee having delivered to Lessor written evidence that Lessee's insurance coverages required by Paragraph 11(a) are in effect, Lessee and Lessee's vendors and contractors shall have access to the Premises after August 10, 2009, and prior to the Commencement Date, rent free, for the purpose of installing Lessee's telephone system, data communications equipment, fixtures, and other equipment. Monthly Rent shall not be payable by Lessee during such period of early access.

(f) Notwithstanding the term of this Lease as set forth in Paragraph 2(a), Lessee shall have a right to terminate this Lease, effective as of and following the twelve (12) month anniversary of the Commencement Date and prior to May 31, 2011, by providing notice in writing to Lessor no later than forty five (45) days prior to the date upon which Lessee is exercising its right to early termination (the "Early Termination Notice"). In the event Lessee provides the Early Termination Notice, the Lease shall terminate at 11:59 p.m. on the 14 th day of the month, which day is at least forty five (45) days after Lessee provides to Lessor the foregoing Early Termination Notice (the "Early Termination Date") and Lessee shall pay to Lessor, as additional rent, a Termination Fee no later than the Early Termination Date in the amount set forth below based upon the actual Early Termination Date.

Early Termination Date	Termination Fee
August 14, 2010	$ 72,183.90
September 14, 2010	$ 64,163.47
October 14, 2010	$ 56,143.04
November 14, 2010	$ 48,122.61
December 14, 2010	$ 40,102.18
January 14, 2011	$ 32,081.75
February 14, 2011	$ 24,061.32
March 14, 2011	$ 16,040.89
April 14, 2011 to May 30, 2011	$ 8,020.43

3. Option to Extend.

(a) Lessor hereby grants to Lessee one (1) option, at Lessee's election, to extend the term of this Lease, for one period of thirty-six (36) calendar months immediately following the expiration of the initial term of this Lease. Lessee may exercise the foregoing option to extend by giving written notice of exercise to Lessor at least five (5) months, but not more than twelve (12) months, prior to the expiration of the initial term of this Lease ("the option exercise period"), time being of the essence; provided that if Lessee is currently in a state of uncured default after the expiration of notice and cure periods, if applicable (referred to herein as "in default") under this Lease at the time of exercise of the option or on the commencement date of the option extension period, such notice shall be

void and of no force or effect. Said option extension period, if exercised, shall be upon the same terms and conditions with respect to the Premises as the initial term of this Lease, except that (i) the Monthly Rent for the Premises during the option period shall be determined as set forth in Paragraph 3(c) hereof, (ii) there shall be no additional option to extend, and (iii) Lessee shall accept the Premises in their then "as is" condition. If Lessee does not exercise the option in a timely manner, the option shall lapse, time being of the essence.

(b) The option to extend granted to Lessee by this Paragraph 3 is granted for the personal benefit of Pac Bio, Inc. only, and shall be exercisable only by Pac Bio, Inc. or by a "permitted transferee" under Paragraph 18(f) below. Said option may not be assigned or transferred by Pac Bio, Inc. to any assignee or sublessee other than a permitted transferee.

(c) The initial Monthly Rent for the Premises during the option extension period shall be determined pursuant to the provisions of this subparagraph (c) and, subject to subparagraph (e) below, shall equal ninety-five percent (95%) of the then current fair market rental for the Premises on the commencement date of the option extension period as determined by agreement between Lessor and Lessee reached prior to the expiration of the option exercise period, if possible, and by the process of appraisal if the parties cannot reach agreement.

Upon the written request by Lessee to Lessor received by Lessor at any time during the 30 day period prior to the expiration of the option exercise period (e.g., between December 1, 2010 and December 31, 2010 if the expiration date of the term of this Lease is May 31, 2011) and prior to the exercise by Lessee of the option to extend, Lessor shall give Lessee written notice of Lessor's good faith opinion of the amount equal to ninety-five percent (95%) of the fair market rental value of the Premises as of the commencement of the option extension period. Thereafter, upon the request of Lessee, Lessor and Lessee shall enter into good faith negotiations during the remainder of the thirty (30) days prior to the expiration of the option exercise period in an effort to reach agreement on ninety-five percent (95%) of the initial Monthly Rent for the Premises.

If Lessor and Lessee are unable to agree upon the amount equal to ninety-five percent (95%) of the then current fair market rent for the Premises as of the commencement date of the option extension period, and thereafter, prior to the expiration of the option exercise period, Lessee exercises the option to extend, said amount shall be determined by appraisal. The appraisal shall be performed by one appraiser if the parties are able to agree upon one appraiser. If the parties are unable to agree upon one appraiser, each party shall appoint an appraiser and the two appraisers shall select a third appraiser. Each appraiser selected shall be a member of the American Institute of Real Estate Appraisers (AIREA) with at least five (5) years of full-time commercial real estate appraisal experience in the Menlo Park office/R&D/manufacturing rental market.

If only one appraiser is selected, that appraiser shall notify the parties in simple letter form within fifteen (15) days following its selection of its determination of the amount equal to ninety-five percent (95%) of the fair market Monthly Rent for the Premises on the commencement date of the option extension period. Said appraisal shall be binding on the parties as the appraised current ninety-five percent (95%) of the "fair market rental" for the Premises which shall be based upon what a willing new lessee would pay and a willing lessor would accept at arm's length for comparable premises in the vicinity of the Premises of similar age, size, quality of construction and specifications (excluding the value of any improvements to the Premises made at Lessee's cost) for a lease similar to this Lease and taking into consideration that there will be no free rent, improvement allowance, or other concessions. If multiple appraisers are selected, each appraiser shall within ten (10) days of being selected make its determination of the amount equal to ninety-five percent (95%) of the current fair market Monthly Rent for the Premises as of the commencement date of the option extension period in simple letter form. If two (2) or more of the appraisers agree on said amount, such agreement shall be binding upon the parties. If multiple appraisers are selected and at least two (2) appraisers are unable to agree on said amount, the amount equal to ninety-five percent (95%) of the fair market Monthly Rent for the Premises shall be determined by taking the mean average of the appraisals; provided, that any high or low appraisal, differing from the middle appraisal by more than ten percent (10%) of the middle appraisal, shall be disregarded in calculating the average. Said initial Monthly Rent shall be adjusted annually on the anniversary of the commencement of the option term in the manner determined by the appraisers to be consistent with the then prevailing market practice for comparable space in the Menlo Park office/R&D/manufacturing rental market.

If only one appraiser is selected, each party shall pay one-half of the fees and expenses of that appraiser. If three appraisers are selected, each party shall bear the fees and expenses of the appraiser it selects and one-half of the fees and expenses of the third appraiser.

(d) Thereafter, provided that Lessee has previously given timely notice to Lessor of the exercise by Lessee of the option to extend the term of the Lease, Lessor and Lessee shall execute an amendment to this Lease stating that the initial Monthly Rent for the Premises during the option extension period shall be equal to ninety-five percent (95%) of the current fair market Monthly Rent for the Premises as of the commencement date of the option extension period as agreed upon by Lessor and Lessee, or if the parties did not agree, as determined by the foregoing appraisal process.

(e) Notwithstanding anything to the contrary contained in this Lease, in no event shall the Monthly Rent at the commencement of the option extension period be less than the Monthly Rent for the Premises in effect immediately prior to the commencement of the option extension period.

(f) As used in this Lease "term" or "term of this Lease" shall include the initial term and the option extension period, if exercised.

4. Monthly Rent.

Commencing on the Commencement Date of the initial term of this Lease, and continuing on the first day of each calendar month thereafter during the initial term of this Lease, Lessee shall pay to Lessor in monthly installments in advance Monthly Rent, in lawful money of the United States as follows:

Period	Rent/Mo.	Square Foot	Amount
Commencement Date – August 31, 2009	$ 2.55	10,200 sf.	$14,739.00
September 1, 2009 – January 31, 2010	$ 2.55	10,200 sf.	$26,010.00
February 1, 2010 – May 31, 2011	$ 2.55	16,594 sf.	$42,314.70

Unless otherwise instructed by Lessor, all rentals and other sums due hereunder shall be paid to Menlo Business Park, LLC, c/o Tarlton Properties, Inc., 955 Alma Street, Palo Alto, California 94301, or to such other payee or address as Lessor may designate, in writing, to Lessee. All monetary obligations of Lessee to Lessor under the terms of this Lease, including Monthly Rent and Additional Rent (except the Security Deposit), are deemed to be rent.

5. Additional Rent; Operating Expenses and Taxes.

(a) In addition to the Monthly Rent payable by Lessee to Lessor pursuant to Paragraph 4, commencing on the Commencement Date of this Lease, Lessee shall pay to Lessor within ten (10) days following Lessee's receipt of an invoice, as "Additional Rent," the cost of electricity (1) provided to the server room(s) and (2) for running the associated HVAC systems for the server room(s) in the Premises, as shown in Exhibit C-2, provided such electricity is separately metered.

(b) In addition to personal property taxes pursuant to Paragraph 10 of this Lease, Lessee shall be solely responsible for paying all taxes associated with net income paid to Lessee, Lessee's profits, transfer, franchise, estate, gift, rental income, or inheritance taxes imposed by any governmental authority.

6. Payment of Rent.

(a) All rent shall be due and payable in lawful money of the United States of America at the address of Lessor set forth in Paragraph 4, or as changed in accordance with Paragraph 25, "Notices," without deduction or offset and without prior demand or notice, unless otherwise specified herein. Monthly Rent shall be payable monthly, in advance, on the first day of each calendar month. Additional Rent shall be payable in accordance with Paragraph 5(a). Lessee's obligation to pay rent for any partial month at the commencement of the initial term, and for any partial month at the expiration or termination of the term of this Lease shall be prorated on the basis of a thirty (30) day month.

(b) If any installment of Monthly Rent, Additional Rent or any other sum due from Lessee is not received by Lessor within five (5) days after the same is due, Lessee shall pay to Lessor an additional sum equal to five percent (5%) of the amount overdue as a late charge. Notwithstanding the foregoing, before assessing a late charge the first time in any calendar year, Lessor shall provide Lessee written notice of the delinquency, and shall waive such late charge if Lessee pays such delinquency within five (5) days thereafter. The parties agree that this late charge represents a fair and reasonable estimate of the costs that Lessor will incur by reason of the late payment by Lessee. Acceptance of any late charge shall not constitute a waiver of Lessee's default with respect to the overdue amount. Any amount not paid within ten (10) days after Lessee's receipt of written notice that such amount is due shall bear interest from the date due until paid at the lesser rate of (1) the prime rate of interest as published in the "Wall Street Journal," plus five percent (5%) or (2) the maximum rate allowed by law (the "Interest Rate"), in addition to the late payment charge.

Initials: Lessor _____ Lessee _____

7. Security Deposit.

(a) Lessee shall deposit with Lessor upon execution hereof (1) the sum of Nineteen Thousand Nine Hundred Two and 90/100 Dollars ($19,902.90), increasing the security deposit of Twenty-Two Thousand Four Hundred Eleven and 80/100 Dollars ($22,411.80) currently held and to be retained by Lessor with respect to a portion of the Premises to Forty-Two Thousand Three Hundred Fourteen and 70/100 Dollars ($42,314.70) (the "Security Deposit"), as security for Lessee's faithful performance of Lessee's obligations under this Lease. If Lessee fails to pay Monthly Rent or Additional Rent or charges due hereunder within applicable notice and cure periods, or otherwise defaults under this Lease (as defined in Paragraph 23), Lessor may use, apply or retain all or any portion of the Security Deposit to the extent reasonably necessary to cure the default, for the payment of any amount due Lessor, and to reimburse or compensate Lessor for any liability, cost, expense, loss or damage (including attorneys' fees) which Lessor may suffer or incur by reason of a default. If Lessor uses or applies all or any portion of the Security Deposit, Lessee shall within ten (10) days after written request therefor deposit with Lessor an amount sufficient to restore the Security Deposit to the original total amount required by this Lease. Lessor shall not be required to keep all or any part of the Security Deposit separate from its general accounts.

(b) Lessor shall, at the expiration or earlier termination of the term hereof and after Lessee has vacated the Premises, return to Lessee (or, at Lessor's option, to the last assignee, if any, of Lessee's interest herein), that portion of the Security Deposit not used or applied by Lessor. No part of the Security Deposit shall be considered to be held in trust, to bear interest or other increment for its use, or to be prepayment for any moneys to be paid by Lessee under this Lease.

8. Use. Lessee may only use and occupy the Premises for general office uses, biotechnology research and development and manufacturing, server room(s) and for such other uses which are permitted by applicable zoning ordinances and the covenants, conditions, and restrictions for Menlo Business Park and which are reasonably approved by Lessor in writing, and for no other use or purpose without Lessor's prior written consent. Use of the Premises for the manufacture of integrated circuits is expressly prohibited. Any use of the Premises by Lessee or by any sublessee or assignee approved by Lessor pursuant to Paragraph 18 shall comply with the provisions of this Paragraph 8.

9. Hazardous Materials.

(a) The term "Hazardous Materials" as used in this Lease shall include any substance defined as a "hazardous substance," "toxic substance," "industrial process waste," or "special waste" in any Environmental Laws as hereafter defined. Hazardous Materials shall include, but not be limited to, petroleum, gasoline, natural gas, natural gas liquids, liquified natural gas, synthetic gas, and/or crude oil or any products, by-products or fractions thereof.

(b) Lessee shall not engage in any activity in or on the Premises which constitutes a Reportable Use of Hazardous Materials without the express prior written consent of Lessor and timely compliance (at Lessee's expense) with all Environmental Laws. "Reportable Use" shall mean (i) the installation or use of any above or below ground storage tank, (ii) the generation, possession, storage, use, transportation, or disposal of Hazardous Materials that require a permit from, or with respect to which a report, notice, registration or business plan is required to be filed with, any governmental authority, and/or (iii) the presence at the Premises of Hazardous Materials with respect to which any Environmental Law requires that a notice be given to persons entering or occupying the Premises or neighboring properties. Notwithstanding the foregoing, Lessee may store, maintain and use Hazardous Materials on the Premises subject to Lessee first (i) obtaining a Conditional Use Permit from the City of Menlo Park permitting the use of such Hazardous Materials on the Premises, and (ii) obtaining Lessor's approval of Lessee's list of Hazardous Materials and quantities; provided that Lessee complies with the terms and conditions of such Conditional Use Permit. Under no circumstances may Lessee maintain on the Premises five gallons (5) or more of any Hazardous Materials. Lessee shall list separately any Hazardous Materials to be maintained on the Premises. Subject to the foregoing restriction, Lessee may maintain on the Premises any ordinary and customary materials reasonably required to be used in the normal course of Lessee's agreed use of the Premises, so long as any such use is in compliance with all Environmental Laws, and does not expose the Premises or neighboring property to any unusual or atypical risk of contamination or damage or expose Lessor to any unusual or atypical liability therefor. In addition, Lessor may condition its consent to any Reportable Use upon receiving such additional assurances as Lessor reasonably deems necessary to protect itself, the public, the Premises and/or the environment against damage, contamination, injury and/or liability, including, but not limited to, the installation (and removal on or before Lease expiration or termination) of any protective modifications installed by Lessee (such as concrete encasements).

(c) “Environmental Laws” shall mean and include any Federal, State, or local statute, law, ordinance, code, rule, regulation, order, or decree regulating, relating to, or imposing liability or standards of conduct concerning, any hazardous, toxic, or dangerous waste, substance, element, compound, mixture or material, as now or at any time hereafter in effect including, without limitation, California Health and Safety Code §§25100 et seq., §§25300 et seq., Sections 25281(f) and 25501 of the California Health and Safety Code, Section 13050 of the Water Code, the Federal Comprehensive Environmental Response, Compensation and Liability Act, as amended, 42 U.S.C. §§9601 et seq. (“CERCLA”), the Superfund Amendments and Reauthorization Act, 42 U.S.C. §§9601 et seq., the Federal Toxic Substances Control Act, 15 U.S.C. §§2601 et seq., the Federal Resource Conservation and Recovery Act as amended, 42 U.S.C. §§6901 et seq., the Federal Hazardous Material Transportation Act, 49 U.S.C. §§1801 et seq., the Federal Clean Air Act, 42 U.S.C. §7401 et seq., the Federal Water Pollution Control Act, 33 U.S.C. §1251 et seq., the River and Harbors Act of 1899, 33 U.S.C. §§401 et seq., and all rules and regulations of the EPA, the California Environmental Protection Agency, or any other state or federal department, board or any other agency or governmental board or entity having jurisdiction over the environment, as any of the foregoing have been, or are hereafter amended.

(d) If Lessee knows, or has reasonable cause to believe, that Hazardous Materials have come to be located in, on, under or about the Premises, other than as previously consented to by Lessor, Lessee shall immediately give written notice of such fact to Lessor and provide Lessor with a copy of any report, notice, claim or other documentation which it has concerning the presence of such Hazardous Materials.

(e) Lessee and Lessee’s agents, employees, and contractors shall not cause any Hazardous Materials to be discharged into the plumbing or sewage system of Building #18 or into or onto the Land underlying or adjacent to said Building in violation of any Environmental Laws. Lessee shall promptly, at Lessee’s expense, take all investigatory and/or remedial action reasonably recommended, whether or not formally ordered or required, for the cleanup of any contamination in violation of Environmental Laws or the terms of this Lease caused by Lessee or caused by any of Lessee’s employees, agents, or contractors, and for the maintenance, security and/or monitoring of the Premises or neighboring properties if such contamination is caused by a release or emission of any Hazardous Materials by Lessee or by any of Lessee’s employees, agents, or contractors.

(f) Lessee shall indemnify, defend and hold Lessor and its agents, employees, and lenders and the Property harmless from any and all claims, damages, fines, judgments, penalties, costs, liabilities or losses (including, without limitation, any and all sums paid for settlement of claims, attorneys’ fees, consultant and expert fees) arising during or after the term of this Lease out of or involving any Hazardous Materials

brought on to the Premises, or Menlo Business Park, by or for Lessee or by anyone under Lessee's control in violation of Environmental Laws or the terms of this Lease. Lessee's obligations under this Paragraph 9(f) shall include, but not be limited to, the effects of any contamination or injury to person, property or the environment created or suffered by Lessee, and the cost of investigation (including consultants' and attorneys' fees and testing), removal, remediation, restoration and/or abatement thereof, or of any contamination therein involved, as required by Environmental Laws, and shall survive the expiration or earlier termination of this Lease. No termination, cancellation or release agreement entered into by Lessor and Lessee shall release Lessee from its obligations under this Lease with respect to Hazardous Materials, unless specifically so agreed by Lessor in writing at the time of such agreement.

(g) To the current actual knowledge of John C. Tarlton, President of Tarlton Properties, Inc., Lessor's property manager, except as disclosed to Lessee in writing by Lessor or as contained in any environmental site assessment report delivered by Lessor to Lessee prior to the execution of this Lease, (1) no Hazardous Materials are present on the Premises, or the soil, surface water or groundwater thereof, (2) no underground storage tanks are present on the Premises, and (3) no action, proceeding or claim is pending or threatened regarding the Premises concerning any Hazardous Materials or pursuant to any environmental law. Lessor shall be responsible (at no cost to Lessee) for Hazardous Materials present on the Premises prior to the Commencement Date of this Lease, and for Hazardous Materials present at any time on the Menlo Business Park due to any acts or omissions of Lessor or its employees, agents, and contractors. Lessee shall not be responsible under this Lease, and Lessor hereby releases Lessee for any Hazardous Materials present on the Menlo Business Park that were not released by Lessee or its agents, contractors, or employees.

10. Personal Property Taxes. Lessee shall pay before delinquency any and all taxes, assessments, license fees, and public charges levied, assessed, or imposed and which become payable during the term of this Lease upon Lessee's equipment, fixtures, furniture, and personal property installed or located in the Premises, including the existing furniture, fixtures and equipment owned by Lessor and located in the Premises that Lessee has the right to use free of charge during the term of this Lease pursuant to Paragraph 1(d).

11. Insurance.

(a) Lessee shall, at Lessee's sole cost and expense, provide and keep in force commencing with the Commencement Date of the initial lease term of this Lease, and continuing during the initial term of this Lease and the option extension period if exercised, a general commercial liability insurance policy with a recognized casualty insurance company qualified to do business in California, insuring against liability occasioned by occurrence in, on, about, or related to the Premises, or arising out of the condition, use, occupancy, alteration or maintenance of the Premises, and covering the contractual liability of Lessee referred to in Paragraph 12(a) of this Lease, having a

combined single limit for both bodily injury and property damage in an amount not less than Five Million Dollars ($5,000,000). The foregoing limits may be met through one or a combination of Lessee's commercial general liability insurance policy and/or an umbrella liability insurance policy. All such insurance carried by Lessee shall be in a form reasonably satisfactory to Lessor and its mortgage lender and shall be carried with companies that have a general policyholder's rating of not less than "A" and a financial rating of not less than Class "X" in the most current edition of Best's Insurance Reports; shall provide that such policies shall not be subject to reduction or cancellation except after at least thirty (30) days' prior written notice to Lessor; and shall be written as primary policies, not excess or contributing with or secondary to any other insurance that may be available to the additional insureds primary as to Lessor. Prior to the Commencement Date and upon renewal of such policies not less than fifteen (15) days prior to the expiration of the term of such coverage, Lessee shall deliver to Lessor certificates of insurance confirming such coverage, together with evidence of the payment of the premium therefor, naming Lessor and its managers, members, agents and employees and Lessor's property manager as additional insureds. If Lessee fails to procure and maintain the insurance required hereunder, Lessor may, but shall not be required to, order such insurance at Lessee's expense and Lessee shall reimburse Lessor for all costs incurred by Lessor with respect thereto. Lessee's reimbursement to Lessor for such amounts shall be deemed Additional Rent, and shall include all sums disbursed, incurred or deposited by Lessor, including Lessor's costs, expenses and reasonable attorneys' fees with interest thereon at the Interest Rate.

(b) Lessor shall obtain and carry in Lessor's name, as insured, during the lease term, "all risk" property insurance coverage (with rental loss insurance coverage for a period of one year), flood insurance, public liability and property damage insurance, and insurance against such other risks or casualties as Lessor shall reasonably determine, including, but not limited to, insurance coverages required of Lessor by the beneficiary of any deed of trust which encumbers the Property, or Menlo Business Park, including earthquake insurance coverage insuring Lessor's interest in the Property (including any leasehold improvements constructed by Lessor or by Lessee with Lessor's prior written approval) in an amount not less than the full replacement cost of Building #18, and all other Improvements from time to time. The proceeds of any such insurance shall be payable solely to Lessor and Lessee shall have no right or interest therein. Lessor shall have no obligation to insure against loss by Lessee to Lessee's furniture, fixtures, or equipment, or other personal property of Lessee in or about the Premises occurring from any cause whatsoever. Lessor's public liability insurance shall provide for contractual liability referred to in Paragraph 12(b) of this Lease.

(c) Notwithstanding anything to the contrary contained in this Lease, the parties release each other, and their respective authorized representatives, employees, officers, directors, shareholders, managers, members, assignees, subtenants, successors, agents, and property managers, from any claims for damage to any person or to the Premises and to the fixtures, personal property, leasehold improvements and alterations

of either Lessor or Lessee in or on the Premises that are caused by or result from risks required by this Lease to be insured against or actually insured against under any property insurance policies carried by the parties and in force at the time of any such damage, whichever is greater. This waiver applies whether or not the loss is due to the negligent acts or omissions of Lessor or Lessee or their respective authorized representatives, shareholders, managers, members, assignees, subtenants, successors, officers, directors, employees, agents, contractors, or invitees. All of Lessor's and Lessee's repair and indemnity obligations under this Lease shall be subject to the waiver contained in this Paragraph 11(c).

(d) Each party shall cause each property insurance policy obtained by it to provide that the insurance company waives all right of recovery by way of subrogation against either party in connection with the above waiver and any damage covered by any policy; provided, however, that such provision or endorsement shall not be required if the applicable policy of insurance permits the named insured to waive rights of subrogation on a blanket basis, in which case the blanket waiver shall be acceptable. Neither party shall be liable to the other for any damage caused by fire or any of the risks insured against under any insurance policy required by this Lease.

12. Indemnification.

(a) Lessee shall indemnify, defend, and hold harmless Lessor from claims, suits, actions, or liabilities for personal injury, death or for loss or damage to property (1) for bodily injury or damage to property which arises in or about the Premises to the extent the injury or damage to property results from the negligent acts or omissions of Lessee, its employees, agents or contractors, and (2) based on any event of default by Lessee in the performance of any obligation on Lessee's part to be performed under this Lease. Except as set forth in Section 9(g), Lessee also waives all claims against Lessor for damages to property, or to goods, wares, and merchandise stored in, upon, or about the Premises, and for injuries to persons in, upon, or about the Premises from any cause arising at any time, except as may be caused by the negligence or willful misconduct of Lessor or its employees, agents or contractors.

(b) Lessor shall indemnify, defend, and hold harmless Lessee from claims, suits, actions, or liabilities for personal injury, death or for loss or damage to property (1) for bodily injury or damage to property which arises in, upon, or about the Premises to the extent the injury or damage to property results from the negligent acts or omissions of Lessor, its employees, agents or contractors, and (2) based on any breach or default by Lessor in the performance of any obligation on Lessor's part to be performed under this Lease.

(c) In the absence of comparative or concurrent negligence on the part of Lessee or Lessor, their respective agents, affiliates, and subsidiaries, or their respective officers, directors, employees, managers, members, or contractors, the foregoing indemnities by Lessee and Lessor shall also include reasonable costs, expenses and

attorneys' fees incurred in connection with any indemnified claim or incurred by the indemnitee in successfully establishing the right to indemnity. The indemnitor shall have the right to assume the defense of any claim subject to the foregoing indemnities with counsel reasonably satisfactory to the indemnitee. The indemnitee agrees to cooperate fully with the indemnitor and its counsel in any matter where the indemnitor elects to defend, provided the indemnitor shall promptly reimburse the indemnitee for reasonable costs and expenses incurred in connection with its duty to cooperate.

The foregoing indemnities are conditioned upon the indemnitee providing prompt notice to the indemnitor of any claim or occurrence that is likely to give rise to a claim, suit, action or liability that will fall within the scope of the foregoing indemnities, along with sufficient details that will enable the indemnitor to make a reasonable investigation of the claim.

When the claim is caused by the joint negligence or willful misconduct of Lessee and Lessor or by the indemnitor party and a third party unrelated to the indemnitor party (other than indemnitor's officers, directors, employees, agents, managers, members, or invitees), the indemnitor's duty to indemnify and defend shall be proportionate to the indemnitor's allocable share of joint negligence or willful misconduct.

(d) Lessor shall not be liable to Lessee for any damage because of any act or negligence of any other owner or occupant of adjoining or contiguous property, nor for overflow, breakage, or leakage of water, steam, gas, or electricity from pipes, wires, or otherwise in Building #18 or the Property except to the extent caused by the gross negligence or willful misconduct of Lessor or Lessor's employees, agents, or contractors. Except as otherwise provided herein, Lessee will pay for damage to the Premises caused by the misuse or neglect by Lessee or its employees, agents, or contractors, including, but not limited to, the breakage of glass in, on or around the Premises.

13. Tenant Improvements.

(a) Lessor shall not provide Lessee with any tenant improvement allowance in connection with this Lease. Notwithstanding the foregoing, Lessor shall provide the following to Lessee at Lessor's sole cost:

(1) Lessor shall pay for fifty percent (50%) of the one-time cost of wiring and electrifying the cubicles in the Premises, subject to Lessor's prior review and approval of Lessee's proposal for doing the work, which review and approval shall not be unreasonably conditioned, withheld or delayed;

(2) Lessor shall provide twelve (12) additional cube work surfaces in the Premises for Lessee's use, if and when requested by Lessee;

(3) Lessor shall remove the two semi-truck trailers located at the rear of the Building #18 from the Property; and

(4) Lessor shall install panic hardware to both doors that provide exits from the Premises in the front and front corner of the Building #18.

(b) Lessor and Lessee acknowledge and agree that performance of the tenant improvement work in Paragraph 13(a) shall not be a condition to this Lease being effective or to the Commencement Date of this Lease. It is the intention of the parties that the schedule for the commencement and completion of the tenant improvement work shall be subject to the mutual agreement of Lessor and Lessee, that some of the tenant improvement work shall be performed after the Commencement Date of this Lease, and that completion of any portion of the tenant improvement work shall not be a condition to the occurrence of said date.

(c) Subject to completion of the tenant improvement work in accordance with the provisions of this Paragraph 13, Lessee waives all right to make repairs at the expense of Lessor, or to deduct the costs thereof from the rent, and Lessee waives all rights under Section 1941 and 1942 of the Civil Code of the State of California. At the expiration or sooner termination of this Lease, Lessee shall surrender the Premises in a clean and as good condition as received (including tenant improvement work upon completion thereof), except for ordinary wear and tear and except for damage caused by casualty, the elements, acts of God, a taking by eminent domain, maintenance that is Lessor's responsibility hereunder, Hazardous Materials not released or emitted in violation of laws by Lessee or its agents, employees or contractors, and alterations or other improvements made by Lessee with Lessor's prior written consent which Lessee is not required to remove as a condition to Lessor's approval of such alterations or improvements.

14. Existing Furniture, Fixtures and Equipment.

Lessee shall have the right during the term of this Lease, free of charge, to use the existing furniture, fixtures and equipment installed and/or located in the Premises, including the cubicles, chairs, office furniture, conference room furniture, UPS in the server room and wiring network in the Premises. Lessee shall have the right, without the Lessor's consent, to reconfigure the furniture system within the Premises. Notwithstanding the foregoing, Lessee, at Lessee's option during the first one hundred eighty (180) days of this Lease, may require Lessor to remove the existing UPS from the server room at Lessor's cost by giving Lessor thirty (30) days written notice within such one hundred eighty (180) day period.

15. Maintenance and Repairs; Alterations; Surrender and Restoration.

(a) Lessor shall, at Lessor's sole expense, keep in good order, condition, and repair and replace when necessary, the structural elements of the roof (excluding the roof membrane), and the structural elements of the foundation and exterior walls (except the interior faces thereof), of Building #18, and other structural elements of Building #18 as "structural elements" are defined in building codes applicable to Building #18, excluding any alterations, structural or otherwise, made by Lessee to Building #18 which

are not approved in writing by Lessor prior to the construction or installation thereof by Lessee. Lessor shall perform and construct, and Lessee shall not be responsible for performing or constructing, any repairs, maintenance, or improvements (1) required as a result of any casualty damage (not caused by the willful or negligent acts or omissions of Lessee) or as a result of any taking pursuant to the exercise of the power of eminent domain, or (2) for which Lessor has a right of reimbursement from third parties based on construction or other warranties, contractor guarantees, or insurance claims.

(b) Lessor shall provide or cause to be provided and shall supervise the performance of, all services and work relating to the operation, maintenance, repair, and replacement, as needed, of the Premises, including the HVAC, mechanical, electrical, and plumbing systems; the interiors of said buildings; the roof membrane; the outside areas of the Property; the janitorial service for the Premises; landscaping, tree trimming, resurfacing and restriping of the parking lot, repairing and maintaining the walkways; exterior building painting, exterior building lighting, parking lot lighting, and exterior security patrol. In the event Lessee provides Lessor with written notice of the need for any repairs, Lessor shall commence any such repairs promptly following receipt by Lessor of such notice and Lessor shall diligently prosecute such repairs to completion.

(c) Subject to the foregoing and except as provided elsewhere in this Lease, Lessee shall at all times use and occupy the Premises in a manner which keeps them in good and safe order, condition, and repair. Lessor shall execute and maintain in full force and effect throughout the term of the Lease a service contract with a recognized air conditioning service company. Lessor may, if Lessor determines that it is necessary to do so, obtain on a semi-annual basis an inspection report of the HVAC system in Building #18 from a separate HVAC service firm designated by Lessor for the purpose of monitoring the performance of the HVAC maintenance and repair work performed by the HVAC service firm which performs the regular repair and maintenance. Subject to the release of claims and waiver of subrogation contained in Paragraphs 11(c) and 11(d), if Lessor is required to make any repairs to the Premises by reason of Lessee's negligent acts or omissions, Lessor may add the cost of such repairs to the next installment of rent which shall thereafter become due, and Lessee shall promptly pay the same, as rent, upon receipt of an invoice therefor.

(d) Lessee may, from time to time, at its own cost and expense and without the consent of Lessor make nonstructural alterations to the interior of the Premises the cost of which in any one instance is Twenty-five Thousand Dollars ($25,000) or less, and the aggregate cost of all such work in the Premises during the term of this Lease does not exceed Fifty Thousand Dollars ($50,000), provided Lessee first notifies Lessor in writing of any such nonstructural alterations. Otherwise, Lessee shall not make any additional alterations, improvements, or additions to the Premises without delivering to Lessor a complete set of plans and specifications for such work and obtaining Lessor's prior written consent thereto. If any nonstructural alterations to the interior of the Premises exceed Twenty-five Thousand Dollars ($25,000) in cost in any one instance, or exceed the aggregate cost of Fifty Thousand Dollars ($50,000) during the term of this

Lease, Lessee shall employ, at Lessee's expense, Tarlton Properties, Inc. as construction manager for such alterations at a fee equal to five percent (5%) of hard construction costs. Lessor may condition its consent to Lessee agreeing in writing to remove any such alterations prior to the expiration of the lease term and Lessee agreeing to restore the Premises to its condition prior to such alterations at Lessee's expense. Lessor shall advise Lessee in writing at the time consent is granted whether Lessor reserves the right to require Lessee to remove any alterations from the Premises prior to the expiration or sooner termination of this Lease.

All alterations, trade fixtures and personal property installed in the Premises solely at Lessee's expense ("Lessee's Property") shall, during the term of this Lease, remain Lessee's property and Lessee shall be entitled to all depreciation, amortization and other tax benefits with respect thereto. Upon the expiration or sooner termination of this Lease all alterations, fixtures and improvements to the Premises, whether made by Lessor or installed by Lessee at Lessee's expense, shall be surrendered by Lessee with the Premises and shall become the property of Lessor; provided, however, that Lessee's furniture and other personal property not permanently affixed to the Premises which can be removed without damaging the premises may be removed by Lessee.

(e) Lessee, at Lessee's sole cost and expense, shall promptly and properly observe and comply with all present and future orders, regulations, rules, laws, and ordinances of all governmental agencies or authorities, and the Board of Fire Underwriters. Any structural changes or repairs or other repairs or changes of any nature which would be considered a capital expenditure under generally accepted accounting principles to the Premises shall be made by Lessor at Lessee's expense if such structural repairs or changes are required by reason of the specific nature of the use of the premises by Lessee.

(f) Lessee shall surrender the Premises by the last day of the lease term or any earlier termination date, in accordance with this Paragraph 15(f), with all of the improvements to the Premises, parts, and surfaces thereof clean and free of debris and in good operating order, condition, and state of repair, ordinary wear and tear excepted and otherwise in the condition described in Paragraph 13(c). "Ordinary wear and tear" shall not include any damage or deterioration that would have been prevented by Lessee performing all of its obligations under this Lease. The obligations of Lessee shall include the repair of any damage occasioned by the installation, maintenance, or removal of Lessee's trade fixtures, furnishings, equipment, and alterations, and the restoration by Lessee of the Premises to its condition upon completion of the tenant improvement work (1) if Lessor's consent thereto was conditioned upon such removal and restoration upon expiration or sooner termination of the term of this Lease pursuant to Paragraph 15(d), or (2) if Lessee made any such alterations, additions, or improvements without obtaining Lessor's prior written consent in breach of Paragraph 15(d) and within a reasonable time after the expiration or sooner termination of the Lease term Lessor gives written notice to Lessee requiring Lessee to perform such removal and restoration. Prior to the expiration of the term of this Lease or any earlier termination date, Lessee shall, at Lessee's expense,

obtain a closure report from the San Mateo County Health Department with respect to any Hazardous Materials used, stored, or released by Lessee on or about Building #18. Any removal and remediation of Hazardous Materials by Lessee shall be certified by the San Mateo County Health Department and a copy of such certification shall be delivered to Lessor.

16. Utilities and Services.

(a) Lessor shall contract for and pay for, all electricity, gas, water, heat and air conditioning service, janitorial service, refuse pick-up, sewer charges, and all other utilities or services supplied to or consumed by Lessee, its agents, employees, contractors, and invitees on or about the Premises, excluding telephone service to the Building for which Lessee shall contract and pay directly. Furthermore, Lessee shall have the option to contract directly for janitorial services to the Premises pursuant to Paragraph 15(b). Notwithstanding the foregoing, Lessee shall be responsible for paying the cost of electricity and associated HVAC provided to the server room(s), as provided for in Paragraph 5(d). Such costs shall be considered rent and shall be payable as provided for in Paragraph 5(d).

(b) Lessor shall not be liable to Lessee for any interruption or failure of any utility services to the Premises which is not caused by the negligence or willful acts of Lessor, or Lessor's employees, agents, or contractors. Lessee shall not be relieved from the performance of any covenant or agreement in this Lease because of any such failure. Unless such failure is caused by the negligence or willful acts or omissions of Lessor or Lessor's employees, agents, or contractors, or by Lessor's breach in the performance of Lessor's express obligations hereunder, Lessor shall make all repairs required to restore such services to the Premises. If the Premises should become not reasonably suitable for Lessee's use as a consequence of cessation of utilities or other services, interference with access to the Premises, legal restrictions or the presence of any Hazardous Material which does not result from Lessee's release or emission of such Hazardous Material, and in any of the foregoing cases the interference with Lessee's use of the Premises persists for thirty (30) days, then Lessee shall be entitled to an equitable abatement of rent, including any Additional Rent, to the extent of the interference with Lessee's use of the Premises, as the case may be, is caused thereby. Excluding damage or destruction of the Premises which shall be governed by Paragraph 21, if the interference persists and the Premises are not reasonably suitable for Lessee's use for more than ninety (90) consecutive days, Lessee shall have the right to terminate this Lease.

17. Liens. Lessee agrees to keep the Property free from all liens arising out of any work performed, materials furnished, or obligations incurred by Lessee. Lessee shall give Lessor at least ten (10) calendar days prior written notice before commencing any work of improvement thereon, the contract price for which exceeds Twenty-five Thousand Dollars ($25,000). Lessor shall have the right to post notices of non-responsibility with respect to any such work. If Lessee shall, in good faith, contest the validity of any such lien, claim or demand, then Lessee shall, at its sole expense, defend

and protect itself, Lessor and the Property against the same, and shall pay and satisfy any such adverse judgment that may be rendered thereon before the enforcement thereof against the Lessor or the Property. If Lessor shall require, Lessee shall furnish to Lessor a surety bond satisfactory to Lessor in an amount equal to one and one-half times the amount of such contested claim or demand, indemnifying Lessor against liability for the same, as required by law for the holding of the Property free from the effect of such lien or claim.

18. Assignment and Subletting.

(a) Except as otherwise provided in this Paragraph 18, Lessee shall not assign this Lease, or any interest, voluntarily or involuntarily, and shall not sublet the Premises or any part thereof, or any right or privilege appurtenant thereto, or suffer any other person (the agents and servants of Lessee excepted) to occupy or use the Premises, or any portion thereof, without the prior written consent of Lessor in each instance pursuant to the terms and conditions set forth below, which consent shall not be unreasonably withheld or delayed, subject to the following provisions.

(b) Prior to any assignment or sublease which Lessee desires to make, Lessee shall provide to Lessor the name and address of the proposed assignee or sublessee, and true and complete copies of all documents relating to Lessee's prospective agreement to assign or sublease, a copy of a current financial statement for such proposed assignee or sublessee, and Lessee shall specify all consideration to be received by Lessee for such assignment or sublease in the form of lump sum payments, installments of rent, or otherwise. For purposes of this Paragraph 18, the term "consideration" shall include all money or other consideration to be received by Lessee for such assignment or sublease. Within ten (10) days after the receipt of such documentation and other information, Lessor (1) shall notify Lessee in writing that Lessor elects to consent to the proposed assignment or sublease subject to the terms and conditions hereinafter set forth; (2) shall notify Lessee in writing that Lessor refuses such consent, specifying reasonable grounds for such refusal; or (3) except with respect to "permitted transferees," if at the time Lessee requests that Lessor consent to an assignment or sublease Lessee has vacated the Premises involved and is not conducting on-going operations in the Premises, may notify Lessee that Lessor elects to terminate this Lease; provided that with respect to a proposed sublease of a portion of the Premises, Lessor's termination right shall apply only to the proposed sublease space, and specifying the effective date of termination which shall be the same as the commencement date of the proposed sublease. If Lessor elects to terminate this Lease with respect to the Premises or a portion of the Premises pursuant to the foregoing provision, upon the effective date of termination, Lessor and Lessee shall each be released and discharged from any liability or obligation to the other under this Lease accruing thereafter with respect to the Premises or the portion thereof to which the termination applies, except for any obligations then outstanding and except for any indemnity obligations which survive the expiration or termination of this Lease by the express terms hereof, and Lessee agrees that Lessor may enter into a direct lease with such proposed assignee or sublessee without any obligation or liability to Lessee.

In deciding whether to consent to any proposed assignment or sublease, Lessor may take into account reasonable conditions, including, but not limited to, the following, have been satisfied:

(1) In Lessor's reasonable judgment, the proposed assignee or subtenant is engaged in such a business, that the premises involved, or the relevant part thereof, will be used in such a manner which complies with Paragraph 8 hereof entitled "Use" and Lessee or the proposed assignee or sublessee submits to Lessor documentary evidence reasonably satisfactory to Lessor that such proposed use constitutes a permitted use of the premises involved pursuant to the ordinances and regulations of the City of Menlo Park;

(2) The proposed assignee or subtenant is a reputable entity or individual with sufficient financial net worth so as to reasonably indicate that it will be able to meet its obligations under this Lease or the sublease with respect to the premises involved in a timely manner; and

(3) The proposed assignment or sublease is approved by Lessor's mortgage lender if such lender has the right to approve or disapprove proposed assignments or subleases. Lessor shall use its good faith efforts to obtain such approval from its lender within ten (10) days after Lessor is requested to do so.

(c) As a condition to Lessor's granting its consent to any assignment or sublease, except with respect to permitted transferees, (1) Lessor may require that Lessee pay to Lessor, as and when received by Lessee, fifty percent (50%) of the amount of any excess of the consideration to be received by Lessee in connection with said assignment or sublease over and above the rental amount fixed by this Lease and payable by Lessee to Lessor, after deducting only (i) the unamortized cost of the tenant improvement work paid for by Lessee which remains on the premises involved at the effective date of the assignment or on the commencement date of the sublease which are then in a serviceable condition and useable by the assignee or sublessee and not demolished or removed by the assignee or sublessee, (ii) a standard leasing commission payable by Lessee in consummating such assignment or sublease, and (iii) reasonable attorneys' fees incurred by Lessee and Lessor in negotiating and reviewing the assignment or sublease documentation; and (iv) the cost of reasonable alterations that are specific to the sublease and are required to be made to the sublease premises to effectuate the sublease, provided that the provisions of Paragraph 15(d) shall apply with respect to such alterations; and (2) Lessee and the proposed assignee or sublessee shall demonstrate to Lessor's reasonable satisfaction that each of the criteria referred to in subparagraph (b) above is satisfied.

(d) Each assignment or sublease agreement to which Lessor has consented shall be an instrument in writing in form satisfactory to Lessor, and shall be executed by both Lessee and the assignee or sublessee, as the case may be. Each such assignment or sublease agreement shall recite that it is and shall be subject and subordinate to the provisions of this Lease, that the assignee or sublessee accepts such

assignment or sublease, that Lessor's consent thereto shall not constitute a consent to any subsequent assignment or subletting by Lessee or the assignee or sublessee, and, except as otherwise set forth in a sublease approved by Lessor, agrees to perform all of the obligations of Lessee hereunder (to the extent such obligations relate to the portion of the premises assigned or subleased), and that the termination of this Lease shall, at Lessor's sole election, constitute a termination of every such assignment or sublease.

(e) In the event Lessor shall consent to an assignment or sublease, Lessee shall nonetheless remain primarily liable for all obligations and liabilities of Lessee under this Lease, including but not limited to the payment of rent with respect to the premises involved.

(f) Notwithstanding the foregoing, Lessee may, without Lessor's prior written consent and without any participation by Lessor in assignment and subletting proceeds, sublet a portion of the Premises or assign this Lease to a subsidiary, affiliate, division or corporation controlled or under common control with Lessee ("affiliate"), or to a successor corporation related to Lessee by merger, consolidation or reorganization, or to a purchaser of substantially all of Lessee's business operations conducted on the premises involved (each of the foregoing referred to herein as a "permitted transferee"), provided that any such assignee or sublessee (other than an affiliate) shall have a current verifiable net worth at least equal to that of Lessee immediately prior to the effective date of the sublease or assignment, or, if less, financial resources sufficient, in Lessor's reasonable good faith judgment, to perform the obligations under the assignment or sublease, as applicable. Lessee's foregoing rights in this subparagraph (f) to assign this Lease or to sublease a portion of the Premises shall be subject to the following conditions: (1) Lessee shall not be in default hereunder past any applicable cure period; (2) in the case of an assignment or subletting to an affiliate, Lessee shall remain liable to Lessor hereunder; and (3) the transferee or successor entity shall expressly assume in writing Lessee's obligations hereunder with respect to the premises involved.

(g) Neither the sale nor transfer of Lessee's capital stock shall be deemed an assignment, subletting, or other transfer of this Lease or the Premises, provided, that in the event of the sale, transfer or issuance of Lessee's securities to an affiliate or in connection with a transaction described in Paragraph 18(f), the conditions set forth in Paragraph 18(f) shall apply.

(h) Subject to the provisions of this Paragraph 18 any assignment or sublease without Lessor's prior written consent shall at Lessor's election be void. The consent by Lessor to any assignment or sublease shall not constitute a waiver of the provisions of this Paragraph 18, including the requirement of Lessor's prior written consent, with respect to any subsequent assignment or sublease. If Lessee shall purport to assign this Lease, or sublease all or any portion of the Premises, or permit any person or persons other than Lessee to occupy the Premises, without Lessor's prior written consent (if such consent is required hereunder), Lessor may collect rent from the person or persons then or thereafter occupying the Premises and apply the net amount collected to the rent

reserved herein, but no such collection shall be deemed a waiver of Lessor's rights and remedies under this Paragraph 18, or the acceptance of any such purported assignee, sublessee, or occupant, or a release of Lessee from the further performance by Lessee of covenants on the part of Lessee herein contained.

(i) Lessee shall not hypothecate or encumber its interest under this Lease or any rights of Lessee hereunder, or enter into any license or concession agreement respecting all or any portion of the Premises, without Lessor's prior written consent which consent Lessor may grant or withhold in Lessor's absolute discretion without any liability to Lessee. Lessee's granting of any such encumbrance, license, or concession agreement shall constitute an assignment for purposes of this Paragraph 18.

(j) In the event of any sale or exchange of Building #18 or the Premises by Lessor and assignment of this Lease by Lessor, Lessor shall, upon providing Lessee with written confirmation that Lessor has delivered any Security Deposit held by Lessor to Lessor's successor in interest, be and hereby is entirely relieved of all liability under any and all of Lessor's covenants and obligations contained in or derived from this Lease with respect to the period commencing with the consummation of the sale or exchange and assignment.

(k) Lessee hereby acknowledges that the foregoing terms and conditions are reasonable and, therefore, that Lessor has the remedy described in California Civil Code Section 1951.4 (Lessor may continue the Lease in effect after Lessee's breach and abandonment and recover rent as it becomes due, if Lessee has the right to sublet or assign, subject only to reasonable limitations).

19. Non-Waiver.

(a) No waiver of any provision of this Lease shall be implied by any failure of Lessor to enforce any remedy for the violation of that provision, even if that violation continues or is repeated. Any waiver by Lessor of any provision of this Lease must be in writing.

(b) No receipt of Lessor of a lesser payment than the rent required under this Lease shall be considered to be other than on account of the earliest rent due, and no endorsement or statement on any check or letter accompanying a payment or check shall be considered an accord and satisfaction. Lessor may accept checks or payments without prejudice to Lessor's right to recover all amounts due and pursue all other remedies provided for in this Lease.

Lessor's receipt of money from Lessee after giving notice to Lessee terminating this Lease shall in no way reinstate, continue, or extend the Lease term or affect the termination notice given by Lessor before the receipt of the money. After serving notice terminating this Lease, filing an action, or obtaining final judgment for possession of the Premises, Lessor may receive and collect any rent, and the payment of that rent shall not waive or affect such prior notice, action, or judgment.

20. Holding Over. Lessee shall vacate the Premises and deliver the same to Lessor upon the expiration or sooner termination of this Lease. In the event of holding over by Lessee after the expiration or termination of this Lease, such holding over shall be on a month-to-month tenancy and all of the terms and provisions of this Lease shall be applicable during such period, except that Lessee shall pay Lessor as Monthly Rent during such holdover an amount equal to the greater of (i) one hundred fifty percent (150%) of the Monthly Rent in effect at the expiration of the term, or (ii) the then market rent for comparable research and development/office space. If such holdover is without Lessor's written consent, Lessee shall be liable to Lessor for all costs, expenses, and consequential damages incurred by Lessor as a result of such holdover. The rental payable during such holdover period shall be payable to Lessor on demand.

21. Damage or Destruction.

(a) In the event of a total destruction of Building #18 and the Improvements during the lease term from any cause, either party may elect to terminate this Lease by giving written notice of termination to the other party within thirty (30) days after the casualty occurs. A total destruction shall be deemed to have occurred for this purpose if the Building #18 or the Premises are destroyed to the extent of seventy-five percent (75%) or more of the replacement cost thereof. If the Lease is not terminated, Lessor shall repair and restore the Building #18 or the Premises in a diligent manner and this Lease shall continue in full force and effect, except that Monthly Rent and Additional Rent shall be abated in accordance with Paragraph 21(d) below.

(b) In the event of a partial destruction of Building #18, the Improvements, or the Premises which are the subject of this Lease to an extent not exceeding seventy-five percent (75%) of the replacement cost thereof and if the damage thereto can be repaired, reconstructed, or restored within a period of two hundred seventy (270) days from the date of such casualty, and if the casualty is from a cause which is insured under Lessor's "all risk" property insurance, or is insured under any other coverage then carried by Lessor, Lessor shall forthwith repair the same, and this Lease shall continue in full force and effect, except that Monthly Rent and Additional Rent shall be abated in accordance with Paragraph 21(d) below. If any of the foregoing conditions is not met, Lessor shall have the option of either repairing and restoring the Building #18 and the Improvements or the Premises, or terminating this Lease by giving written notice of termination to Lessee within thirty (30) days after the casualty, subject to the provisions of Paragraph 21(c). Notwithstanding anything to the contrary contained in this Paragraph 21, Lessor shall not have the right to terminate this Lease if the cost to repair the damage to the Building #18 or to restore the Building #18 or the Premises would cost less than five percent (5%) of the replacement cost of the Building #18, regardless of whether or not the casualty is insured. Notwithstanding anything to the contrary contained in this Paragraph 21, if the cost to restore the Premises damaged exceeds five percent (5%) of the

replacement cost, and Lessor elects to terminate this Lease, Lessee may nullify the effect of such termination by giving Lessor written notice within ten (10) days after receipt by Lessee of Lessor's notice of termination that Lessee elects to restore the Premises damaged at Lessee's sole cost (to the extent the costs exceed Lessor's insurance proceeds), in which event this Lease shall remain in effect, provided that rent abatement shall not extend beyond the date that the restoration is completed, or two hundred seventy (270) days after the casualty, whichever occurs first.

(c) In the event of a partial destruction of Building #18, the Improvements or the Premises, to an extent equal to or exceeding twenty-five percent (25%) but less than seventy-five percent (75%) of the replacement cost thereof, or if the damage thereto cannot be repaired, reconstructed, or restored within a period of one hundred twenty (120) days from the date of such casualty, Lessee may terminate this Lease by giving written notice of termination to Lessor within thirty (30) days after the casualty. The foregoing shall not affect Lessor's termination rights under subparagraph (b) above.

Furthermore, if such casualty is from a cause which is not insured under Lessor's "all risk" property insurance, or is not insured under any other insurance carried by Lessor, Lessor may elect to repair and restore the building and related improvements (provided that Lessee has not elected to terminate this Lease pursuant to the first sentence of this Paragraph 21(c)), or Lessor may terminate this Lease by giving written notice of termination to Lessee, subject to the limitations of Paragraph 21(b). Lessor's election to repair and restore the building and related improvements or to terminate this Lease shall be made and written notice thereof shall be given to Lessee within thirty (30) days after the casualty. Notwithstanding the foregoing, (1) if Lessor has not obtained all necessary governmental permits for the restoration and commenced construction of the restoration within one hundred twenty (120) days after the casualty, Lessee may terminate this Lease by written notice to Lessor given at any time prior to the actual commencement of construction of the restoration; or (2) if Lessor elects to repair and restore the building and related improvements under subparagraph (b) or (c) above, but the repairs and restoration are not substantially completed within one hundred eighty (180) days after the casualty, Lessee may terminate this Lease by written notice to Lessor given within thirty (30) days after the expiration of said period of one hundred eighty (180) days after the casualty.

If this Lease is not terminated by Lessor or Lessee pursuant to the foregoing provisions, Lessor shall complete the repairs in a diligent manner and this Lease shall continue in full force and effect, except that Monthly Rent and Additional Rent shall be abated in accordance with Paragraph 21(d) below.

(d) Subject to the limitation in Paragraph 21(b) above which applies if Lessee elects to restore the Building #18 or the Premises at Lessee's expense, in the event of repair, reconstruction, or restoration as provided herein, the Monthly Rent and Additional Rent shall be abated proportionally in the ratio which the Lessee's use of the Premises is impaired during the period of such repair, reconstruction, or restoration, from the date of the casualty until such repair, reconstruction or restoration is completed.

(e) With respect to any destruction of the Premises which Lessor is obligated to repair, or may elect to repair, under the terms of this Paragraph 21, the provisions of Section 1932, Subdivision 2, and of Section 1933, Subdivision 4, of the Civil Code of the State of California are waived by the parties. Lessor's obligation to repair and restore such premises shall include the tenant improvement work referred to in Paragraph 13. Lessor shall also repair and restore any other leasehold improvements constructed thereafter by Lessor or by Lessee with Lessor's prior written consent. Lessor's time for completion of the repairs and restoration of the Premises referred to above shall be extended by a period equal to any delays caused by strikes, labor disputes, unavailability of materials, inclement weather, or acts of God, but not by more than forty-five (45) days.

(f) In the event of termination of this Lease pursuant to any of the provisions of this Paragraph 21, the Monthly Rent and Additional Rent shall be apportioned on a per diem basis and shall be paid to the date of the casualty. In no event shall Lessor be liable to Lessee for any damages resulting to Lessee from the occurrence of such casualty, or from the repairing or restoration of the Building #18, or from the termination of this Lease as provided herein, nor shall Lessee be relieved thereby from any of Lessee's obligations hereunder, except to the extent and upon the conditions expressly set forth in this Paragraph 21.

22. Eminent Domain.

(a) If the whole or any substantial part of the Premises shall be taken or condemned by any competent public authority for any public use or purpose, the term of this Lease with respect to the Premises shall end upon the earlier to occur of the date when the possession of the part so taken shall be required for such use or purpose or the vesting of title in such public authority. Rent shall be apportioned as of the date of such termination. Lessee shall be entitled to receive any damages awarded by the court for (i) leasehold improvements installed at Lessee's expense or other property owned by Lessee, and (ii) reasonable costs of moving by Lessee to another location in San Mateo County or surrounding areas within the San Francisco Bay Area. The entire balance of the award shall be the property of Lessor.

(b) If there is a partial taking of the Premises by eminent domain which is not a substantial part of the Premises or the balance of the Premises remains reasonably suitable for continued use and occupancy by Lessee in Lessee's reasonable judgment for the purposes referred to in Paragraph 8, Lessor shall complete any necessary repairs in a diligent manner and this Lease shall remain in full force and effect with a just and proportionate abatement of the Monthly Rent and Additional Rent, based on the extent to which Lessee's use of the Premises remaining is impaired thereafter. If after a partial taking, the Premises and the parking are not reasonably suitable for Lessee's continued

use and occupancy for the uses permitted herein, Lessee may terminate this Lease with respect to the Premises effective on the earlier of the date title vests in the public authority or the date possession is taken. Subject to the provisions of Paragraph 22(a), the entire award for such taking shall be the property of Lessor.

23. Remedies. If Lessee fails to make any payment of rent or any other sum due under this Lease for ten (10) days after receipt by Lessee of written notice from Lessor; or if Lessee breaches any other term of this Lease for thirty (30) days after receipt by Lessee of written notice from Lessor (unless such default is incapable of cure within thirty (30) days and Lessee commences cure within thirty (30) days and diligently prosecutes the cure to completion within a reasonable time); or if Lessee's interest herein, or any part thereof, is assigned or transferred, either voluntarily or by operation of law (except as expressly permitted by other provisions of this Lease); or if Lessee makes a general assignment for the benefit of its creditors; or if this Lease is rejected (i) by a bankruptcy trustee for Lessee, (ii) by Lessee as debtor in possession, or (iii) by failure of Lessee as a bankrupt debtor to act timely in assuming or rejecting this Lease; then any of such events shall constitute an event of default and breach of this Lease by Lessee and Lessor may, at its option, elect the remedies specified in either subparagraph (a) or (b) below. Any such rejection of this Lease referred to above shall not cause an automatic termination of this Lease. Whenever in this Lease reference is made to a default by Lessee, such reference shall refer to an event of default as defined in this Paragraph 23.

(a) Lessor may repossess the Premises and remove all persons and property therefrom. If Lessor repossesses the Premises because of a breach of this Lease, this Lease shall terminate with respect to the entire Premises and Lessor may recover from Lessee:

(1) the worth at the time of award of the unpaid rent which had been earned at the time of termination including interest thereon at a rate equal to the discount rate established by the Federal Reserve Bank of San Francisco for member banks, plus one percent (1%), or the maximum legal rate of interest, whichever is less, from the time of termination until paid;

(2) the worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Lessee proves could have been reasonably avoided, including interest thereon at a rate equal to the Federal discount rate plus one percent (1%) per annum, or the maximum legal rate of interest, whichever is less, from the time of termination until paid;

(3) the worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss for the same period that Lessee proves could be reasonably avoided discounted at the discount rate established by the Federal Reserve Bank of San Francisco for member banks at the time of the award plus one percent (1%); and

(4) any other amount necessary to compensate Lessor for all the detriment proximately caused by Lessee's breach or by Lessee's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom.

(b) If Lessor does not repossess the Premises, then this Lease shall continue in effect for so long as Lessor does not terminate Lessee's right to possession and Lessor may enforce all of its rights and remedies under this Lease, including the right to recover the rent and other sums due from Lessee hereunder. For the purposes of this Paragraph 23, the following do not constitute a repossession of the Premises by Lessor or a termination of the Lease by Lessor:

(1) Acts of maintenance or preservation by Lessor or efforts by Lessor to relet the Premises; or

(2) The appointment of a receiver by Lessor to protect Lessor's interests under this Lease.

(c) Lessor's failure to perform or observe any of its obligations under this Lease or to correct a breach of any warranty or representation made in this Lease within thirty (30) days after receipt of written notice from Lessee setting forth in reasonable detail the nature and extent of the failure referencing pertinent Lease provisions or if more than thirty (30) days is required to cure the breach, Lessor's failure to begin curing within the thirty (30) day period and diligently prosecute the cure to completion, shall constitute a default by Lessor. If Lessor commits a default, Lessee's remedy shall be to institute an action against Lessor for damages or for equitable or injunctive relief, but Lessee shall not have the right to rent abatement, to offset against rent, or to terminate this Lease in the event of any default by Lessor.

(d) Lessor shall have no security interest or lien on any item of Lessee's furniture, equipment and other personal property which is not affixed to the Premises ("Lessee's Personal Property"). Within ten (10) days following Lessee's request, Lessor shall execute documents reasonably acceptable to Lessee to evidence Lessor's waiver of any right, title, lien or interest in Lessee's Personal Property and giving any lender holding a security interest or lien on Lessee's Personal Property reasonable rights of access to the Premises to remove such Lessee's Personal Property, provided that such lender expressly agrees in such document for the benefit of Lessor to repair at such lender's expense any damage caused by such removal.

24. Lessee's Personal Property. If any personal property of Lessee remains in, on or about the Premises after (1) Lessor terminates this Lease pursuant to Paragraph 23 above following an event of default by Lessee, or (2) after the expiration of the Lease term or after the termination of this Lease pursuant to any other provisions hereof, Lessor shall give written notice thereof to Lessee pursuant to applicable law. Lessor shall thereafter release, store, and dispose of any such personal property of Lessee in accordance with the provisions of applicable law.

25. Notices. All notices, statements, demands, requests, or consents given hereunder by either party to the other shall be in writing and shall be personally delivered or sent by United States mail, registered or certified, return receipt requested, postage prepaid, and addressed to the parties as follows:

Lessor: Menlo Business Park, LLC
c/o Tarlton Properties, Inc.
955 Alma Street
Palo Alto, California 94301

Lessee: Pacific Biosciences, Inc.
1505 Adams Drive
Menlo Park, California 94025
Attention: Hugh Martin, Chairman and CEO

or to such other address as either party may have furnished to the other as a place for the service of notice. Notices shall be deemed given upon receipt or attempted delivery where delivery is not accepted.

26. Estoppel Certificates. Lessee and Lessor shall within fifteen (15) days following request by the other party (the "Requesting Party"), execute and deliver to the Requesting Party an estoppel certificate (1) certifying that this Lease has not been modified and certifying that this Lease is in full force and effect, or, if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect; (2) stating the date to which the rent and other charges are paid in advance, if at all; (3) stating the amount of any Security Deposit held by Lessor; (4) acknowledging that there are not, to the responding party's knowledge, any uncured defaults on the part of the Requesting Party hereunder, or if there is any uncured default on the part of the Requesting Party, stating the nature of such uncured default; and (5) any other provisions reasonably requested by either party.

27. Signage. Lessee shall have the use of Lessee's pro rata share of the space on the monument sign for Building #18 for Lessee's sign. Lessee may also place Lessee's vinyl lettering signage on the glass near the front door entrance to the Premises. All of Lessee's signage shall comply with the Menlo Park sign ordinances and regulations and shall be subject to Lessor's approval as to the location, size and design thereof. The cost of the installation of Lessee's sign on the monument sign for Building #18 and on the glass at the front door entrance shall be paid by Lessee. Any additional signage shall be subject to Lessor's prior approval and, if approved, shall be installed at Lessee's expense.

28. Real Estate Brokers. Lessor shall pay a leasing commission to Tarlton Properties, Inc., Lessor's broker, and to Cornish & Carey Commercial, Lessee's broker, pursuant to separate agreements between Lessor and said brokers. Each party represents and warrants to the other party that it has not had any dealings with any real estate broker, finder, or other person with respect to this Lease other than Tarlton Properties, Inc. who has acted as exclusive leasing agent for Lessor, and Cornish & Carey Commercial, who has acted as the sole agent for Lessee, and each party shall hold harmless the other party from all damages, expenses, and liabilities resulting from any claims that may be asserted against the other party by any broker, finder, or other person with whom the other party has or purportedly has dealt, other than the above named brokers.

29. Parking. Lessee shall have the right to use 58 unreserved on-site vehicular parking spaces on the Building #18 Land in the parking area for Building #18. Such use shall be subject to such rules and regulations for such parking facilities which may be established or altered by Lessor at any time from time to time during the Lease term, provided that such rules and regulations shall not unreasonably interfere with Lessee's parking rights. Lessee may mark a reasonable number of the 58 parking spaces in the Building #18 parking lot as visitor spaces, subject to the approval by Lessor and the City of Menlo Park. Vehicles of Lessee or its employees shall not park in driveways or occupy parking spaces or other areas reserved for deliveries, or loading or unloading.

30. Subordination; Attornment.

(a) This Lease, without any further instrument, shall at all times be subject and subordinate to any and all mortgages and deeds of trust which may now or hereafter affect Lessor's estate in the real property of which the Premises form a part, and to all advances made or hereafter to be made upon the security thereof, and to all renewals, modifications, consolidations, replacements and extensions thereof. Lessor shall use reasonable efforts to cause the beneficiary of any deed of trust executed by Lessor as trustor after the date hereof to execute a recognition and non-disturbance agreement in commercially reasonable form which provides that so long as Lessee is not in default hereunder beyond any applicable cure period (i) this Lease shall not be terminated, and (ii) that upon acquiring title to the Premises by foreclosure or otherwise such holder shall recognize all of Lessee's rights hereunder which accrue thereafter. Lessor shall obtain a recognition and non-disturbance agreement from Lessor's current lender prior to the Commencement Date in substantially the form submitted by Lessor to Lessee prior to the execution of this Lease; provided, however, Lessor's failure to do so shall not permit Lessee to terminate this Lease. The subordination of this Lease by Lessee to a future deed of trust is conditioned upon the execution by the lender of a subordination, recognition and non-disturbance agreement in commercially reasonable form.

(b) In confirmation of such subordination, Lessee shall promptly execute any certificate or other instrument which is in commercially reasonable form and Lessor deems proper to evidence such subordination, without expense to Lessor; provided, however, that if any person or persons purchasing or otherwise acquiring the real property of which the Premises are a part by any sale, sales and/or other proceedings under such mortgages and/or deeds of trust, shall elect to continue this Lease in full force

and effect in the same manner and with like effect as if such person or persons had been named as Lessor herein, then this Lease shall continue in full force and effect as aforesaid, and Lessee hereby attorns and agrees to attorn to such person or persons.

31. No Termination Right. Lessee shall not have the right to terminate this Lease as a result of any default by Lessor and Lessee's remedies in the event of a default by Lessor shall be limited to the remedy set forth in Paragraph 23(c). Lessee expressly waives the defense of constructive eviction.

32. Lessor's Entry. Except in the case of an emergency and except for permitted entry in the Premises during Lessee's normal working hours for regularly scheduled maintenance, both of which may occur without prior notice to Lessee, Lessor and Lessor's agents shall provide Lessee with at least twenty-four (24) hours notice prior to entry of the Premises. Lessor may enter the Premises for any reasonable purpose related to Lessor's ownership of the property. Such entry by Lessor and Lessor's agents shall not impair Lessee's operations more than reasonably necessary and shall comply with Lessee's reasonable security measures. Lessor and Lessor's agents shall at all times be accompanied by an employee of Lessee during any such entry except in case of emergency and except for janitorial work. Lessor may enter the Premises without prior notice to Lessee if the Premises are vacant.

33. Attorneys' Fees. If any action at law or in equity shall be brought to recover any rent under this Lease, or for or on account of any breach of or to enforce or interpret any of the provisions of this Lease or for recovery of the possession of the Premises, the prevailing party shall be entitled to recover from the other party costs of suit and reasonable attorneys' fees, the amount of which shall be fixed by the court and shall be made a part of any judgment rendered.

34. Compliance with Applicable Requirements.

(a) Lessee shall, at Lessee's sole cost and expense, fully, diligently and in a timely manner, comply with all "Applicable Requirements," which term is used in this Lease to mean all laws, rules, regulations, ordinances, directives, covenants, easements and restrictions of record, permits, the requirements of any applicable fire insurance underwriter or rating bureau, relating in any manner to the Premises (including but not limited to matters pertaining to industrial hygiene, environmental conditions on, in, under or about the Premises, including soil and groundwater conditions, subject to the provisions of Paragraph 9 hereof, and the use, generation, manufacture, production, installation, maintenance, removal, transportation, storage, spill, or release of any Hazardous Materials (which are addressed in Paragraph 9 hereof)), now in effect or which may hereafter come into effect. Lessee shall, within five (5) days after receipt of Lessor's written request, provide Lessor with copies of all documents and information, including but not limited to permits, registrations, manifests, applications, reports and certificates, evidencing Lessee's compliance with any Applicable Requirements specified by Lessor, and shall immediately upon receipt,

notify Lessor in writing (with copies of any documents involved) of any threatened or actual claim, notice, citation, warning, complaint or report pertaining to or involving failure by Lessee or the Premises to comply with any Applicable Requirements. Notwithstanding the foregoing, Lessee shall not be required to cause the Premises to comply with any Applicable Requirements requiring alterations or improvements to the Building #18 unless such compliance is necessitated solely due to Lessee's particular use of the Premises; provided, that if Lessor makes capital improvements to the Premises to comply with such Applicable Requirements, the cost thereof shall be amortized over the useful life of such capital improvements, and allocated on a pro rata basis to the extent such capital improvements benefit the Property beyond the Premises, as an expense chargeable to Lessee.

(b) Subject to Paragraph 32, Lessor, Lessor's agents, employees, contractors and designated representatives, and the holders of any mortgages, deeds of trust or ground leases on the premises ("Lenders") shall have the right to enter the Premises at any time in the case of an emergency, and otherwise at reasonable times, for the purpose of inspecting the condition of the Premises and for verifying compliance by Lessee with this Lease and all Applicable Requirements (as defined in Paragraph 34(a)), and Lessor shall be entitled to employ experts and/or consultants in connection therewith to advise Lessor with respect to Lessee's activities, including but not limited to Lessee's installation, operation, use, monitoring, maintenance, or removal of any Hazardous Substance on or from the Premises. The costs and expenses of any such inspections shall be paid by the party requesting same, unless an event of default or a breach of this Lease by Lessee or a violation of Applicable Requirements or a contamination, caused or materially contributed to by Lessee, is found to exist or to be imminent, or unless the inspection is requested or ordered by. a governmental authority as the result of any such existing or imminent violation or contamination. In such case, Lessee shall upon request reimburse Lessor or Lessor's Lender, as the case may be, for the costs and expenses of such inspections.

(c) During the term of this Lease, Lessee shall comply, at Lessee's expense, with all of the covenants, conditions, and restrictions affecting the Premises which are recorded in the Official Records of San Mateo County, California, and which are in effect as of the date of this Lease.

35. Quiet Enjoyment. Upon payment by Lessee of the Monthly Rent and Additional Rent for the Premises and the observance and performance of all of the covenants, conditions, and provisions on Lessee's part to be observed and performed under this Lease within applicable notice and cure periods, Lessee shall have quiet enjoyment and possession of the Premises for the entire term hereof subject to all of the provisions of this Lease.

36. Lessee's Right of First Offer.

(a) During the initial term of this Lease, Lessor hereby grants to Lessee the continuing right of first offer to lease the un-leased portions of the second floor of the Building #18 (the "Right of First Offer Space"). Said right of first offer shall be upon the following terms and conditions: upon the receipt by Lessor of a letter of intent or other written proposal ("First Offer Space Lease Proposal") from a third party to lease any of the Right of First Offer Space, before entering into a lease of any of the Right of First Offer Space described in the First Offer Space Lease Proposal with any other tenant, Lessor shall deliver to Lessee a written offer ("First Offer") to lease to Lessee the space described in the First Offer Space Lease Proposal that is currently available for lease, identifying the minimum number of rentable square feet available for lease, the monthly base rent at which the Right of First Offer Space is offered for lease, and the approximate date(s) that the Right of First Offer Space will be available for occupancy. Lessor shall also specify the amount, if any, of any tenant improvement allowance that Lessor is offering for the Right of First Offer Space, or for any portion thereof, and the portion of the Right of First Offer Space, if any, that is offered for lease "as is," without any tenant improvement allowance. Lessee shall have five (5) business days after receipt of the First Offer within which to give written notice to Lessor of Lessee's acceptance of Lessor's First Offer with respect to any or all of the Right of First Offer Space, time being of the essence. Failure of Lessee to deliver such written acceptance within said period of five (5) business days shall be deemed a rejection of the First Offer with respect to all of the Right of First Offer Space.

(b) If Lessee accepts Lessor's First Offer with respect to any or all of the Right of First Offer Space within the time specified, Lessor and Lessee shall execute and deliver an amendment to this Lease stating that (1) the Right of First Offer Space shall be added to the Premises, and Lessee shall pay the Monthly Base Rent for the Right of First Offer Space specified by Lessor in the First Offer, with increases, if any, specified in the First Offer; (2) Lessee's share of the Operating Expenses and Taxes, as those terms are defined in Paragraph 5 of Amended and Restated Lease between Lessor and Lessee dated December 17, 2007 for the properties located at 1505 Adams Drive and 1525 O'Brien Drive, Menlo Park, California, to be paid by Lessee with respect to the Right of First Offer Space leased by Lessee; (3) the Right of First Offer Space shall be leased by Lessee for a term which is co-terminus with the then remaining initial term of this Lease of the original Premises; (4) the Right of First Offer Space shall be leased to Lessee subject to all of the other terms and provisions of this Lease, except as otherwise specified in Lessor's First Offer; and (5) if Lessee exercises the option to extend contained in Paragraph 3 of this Lease, the Premises leased by Lessee during the option period referred to in this Lease shall include the Right of First Offer Space accepted by Lessee.

(c) If Lessee rejects the First Offer with respect to any or all of the Right of First Offer Space (the "Rejected Space"), Lessor shall have the right, within ninety (90) days after the expiration of said period of five (5) business days referred to in subparagraph (a) above, to lease any or all of the Rejected Space to a third party tenant,

but not for a rent or on terms and conditions substantially more favorable to the tenant than those specified in the First Offer. If Lessor is not successful in so leasing all of the Rejected Space, Lessee's right of first offer to lease shall again apply with respect to the Rejected Space that Lessor does not so lease.

37. General Provisions.

(a) Nothing contained in this Lease shall be deemed or construed by the parties hereto or by any third person to create the relationship of principal and agent or of partnership or of joint venture of any association between Lessor and Lessee, and neither the method of computation of rent nor any other provisions contained in this Lease nor any acts of the parties hereto shall be deemed to create any relationship between Lessor and Lessee other than the relationship of landlord and tenant.

(b) Each and all of the provisions of this Lease shall be binding upon and inure to the benefit of the parties hereto, and except as otherwise specifically provided elsewhere in this Lease, their respective heirs, executors, administrators, successors, and assigns, subject at all times, nevertheless, to all agreements and restrictions contained elsewhere in this Lease with respect to the assignment, transfer, encumbering, or subletting of all or any part of Lessee's interest in this Lease.

(c) The captions of the paragraphs of this Lease are for convenience only and shall not be considered or referred to in resolving questions of interpretation or construction.

(d) This Lease is and shall be considered to be the only agreement between the parties hereto and their representatives and agents with respect to the Premises. All negotiations and oral agreements acceptable to both parties have been merged into and are included herein. There are no other representations or warranties between the parties and all reliance with respect to representations is solely upon the representations and agreements contained in this instrument.

(e) The laws of the State of California shall govern the validity, performance, and enforcement of this Lease. Notwithstanding which of the parties may be deemed to have prepared this Lease, this Lease shall not be interpreted either for or against Lessor or Lessee, but this Lease shall be interpreted in accordance with the general tenor of the language in an effort to reach an equitable result.

(f) Time is of the essence with respect to the performance of each of the covenants and agreements contained in this Lease.

(g) Recourse by Lessee for breach of this Lease by Lessor shall be expressly limited to the amount of Lessor's interest in the Premises which are the subject of this Lease and the rents, issues, insurance, condemnation, and sales proceeds actually received by Lessor, and profits therefrom, and in the event of any such breach or default by Lessor Lessee hereby waives the right to proceed against any other assets of Lessor or against any other assets of any manager or member of Lessor.

(h) Any provision or provisions of this Lease which shall be found to be invalid, void or illegal by a court of competent jurisdiction, shall in no way affect, impair, or invalidate any other provisions hereof, and the remaining provisions hereof shall nevertheless remain in full force and effect.

(i) This Lease may be modified in writing only, signed by the parties in interest at the time of such modification.

(j) Each party represents to the other that the person signing this Lease on its behalf is properly authorized to do so, and in the event this Lease is signed by an agent or other third party on behalf of either Lessor or Lessee, written authority to sign on behalf of such party in favor of the agent or third party shall be provided to the other party hereto either prior to or simultaneously with the return to such other party of a fully executed copy of this Lease.

(k) No binding agreement between the parties with respect to the Premises which are the subject of this Lease shall arise or become effective until this Lease has been duly executed by both Lessee and Lessor and a fully executed copy of this Lease has been delivered to both Lessee and Lessor.

(l) Lessor and Lessee acknowledge that the terms and conditions of this Lease constitute confidential information of Lessor and Lessee. Each party shall use its reasonable good faith efforts to prevent the dissemination orally or in written form, of this Lease, lease proposals, lease drafts, or other documentation containing the terms, details or conditions contained herein to any third party without obtaining the prior written consent of the other party, except to the attorneys, accountants, lenders, investors, potential investors, potential business or merger partners, potential subtenants and assignees, or other authorized business representatives or agents of the parties, or except to the extent required to comply with applicable laws, including any filings by Lessee pursuant to state or federal securities laws. Neither Lessor nor Lessee shall make any public announcement of the consummation of this Lease transaction without the prior approval of the other party. A violation of this subparagraph (l) shall not permit either party to terminate this Lease.

(m) Except as otherwise provided in Paragraph 23(c), the rights and remedies that either party may have under this Lease or at law or in equity, upon any breach, are distinct, separate and cumulative and shall not be deemed inconsistent with each other, and no one of them shall be deemed to be exclusive of any other.

(n) Except as provided in Paragraph 20, Lessor and Lessee waive any claim for consequential damages which one may have against the other for breach of or failure to perform or observe the requirements and obligations created by this Lease.

(o) Lessor and Lessee each agree to and they hereby do waive trial by jury in any action, proceeding or counterclaim brought by either of the parties hereto against the other on any matters whatsoever arising out of or in any way connected with this Lease, the relationship of Lessor and Lessee, Lessee's use or occupancy of the Premises which are the subject of this Lease and/or any claim of injury or damage, and any statutory remedy.

(p) This Lease shall not be recorded.

(q) Whenever this Lease requires an approval, consent, determination, selection or judgment by either Lessor or Lessee, unless another standard is expressly set forth, such approval, consent, determination, selection or judgment and any conditions imposed thereby shall be reasonable and shall not be unreasonably withheld or delayed and, in exercising any right or remedy hereunder, each party shall at all times act reasonably and in good faith.

(r) Any expenditure by a party permitted or required under this Lease, for which such party demands reimbursement from the other party, shall be limited to the fair market value of the goods and services involved, shall be reasonably incurred, and shall be substantiated by documentary evidence available for inspection and review by the other party.

IN WITNESS WHEREOF, the Lessor and Lessee have duly executed this Lease as of the date first set forth herein.

"Lessor"

MENLO BUSINESS PARK, LLC
a California limited liability company

By: /s/ J. O. Oltmans, II
J. O. Oltmans, II, Manager

By: /s/ James R. Swartz
James R. Swartz, Manager

"Lessee"

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.,
a Delaware corporation

By: /s/ Hugh Martin

Its:

By:

Its:

BUILDING 18 ‘PROPERTY LEGAL DESCRIPTION

The land referred to in this Report is situated in the State of California, County of San Mateo, City of Menlo Park and is described as follows:.

PARCEL J:

Parcel 1 as shown on that certain map entitled ‘MENLO BUSINESS PARK PARCEL MAP, FOR MERGER OF PARCELS B AND C AS SHOWN. ON MAP FILED AUGUST 19, 1986 IN VOLUME 57 OF PARCEL MAPS AT PAGES 86-87 AND LOTS 17 AND 18 OF THE TRACT OF MENLO BUSINESS PARK FILED APRIL 9, 1984 IN VOLUME 111 OF MAPS AT PAGES 50-52, SAN MATEO COUNTY RECORDS. MENLO PARK SAN MATEO COUNTY, CALIFORNIA”, filed February 28, 1989 in Book 61 of Parcel Maps at pages 94 and 95, Records of San Mateo County, State of California.

A.P. NO.: 055-474-140 JPN 111 050 000 17 T
111 050 000 18 T

EXHIBIT “A”

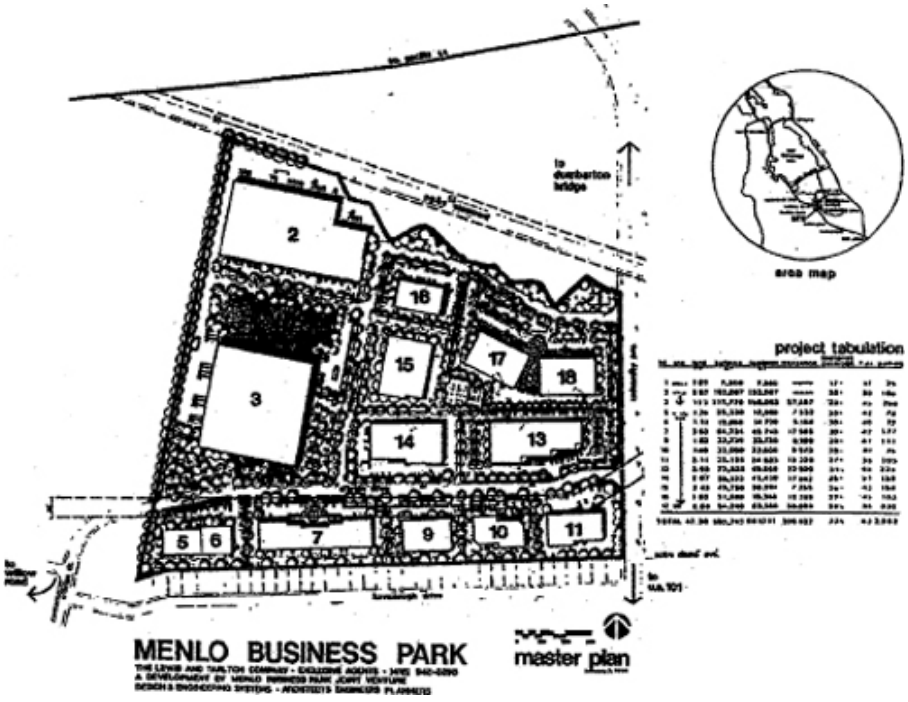
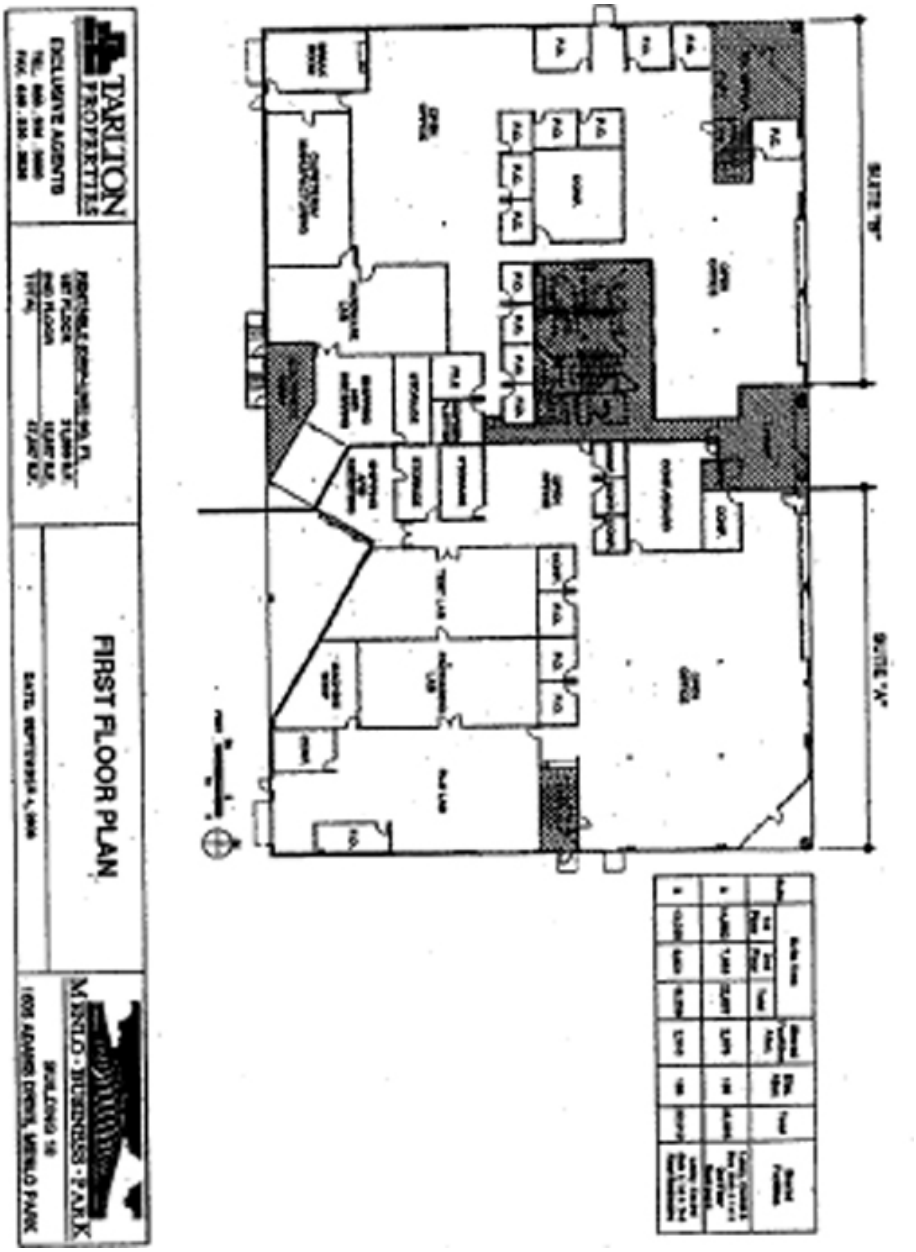
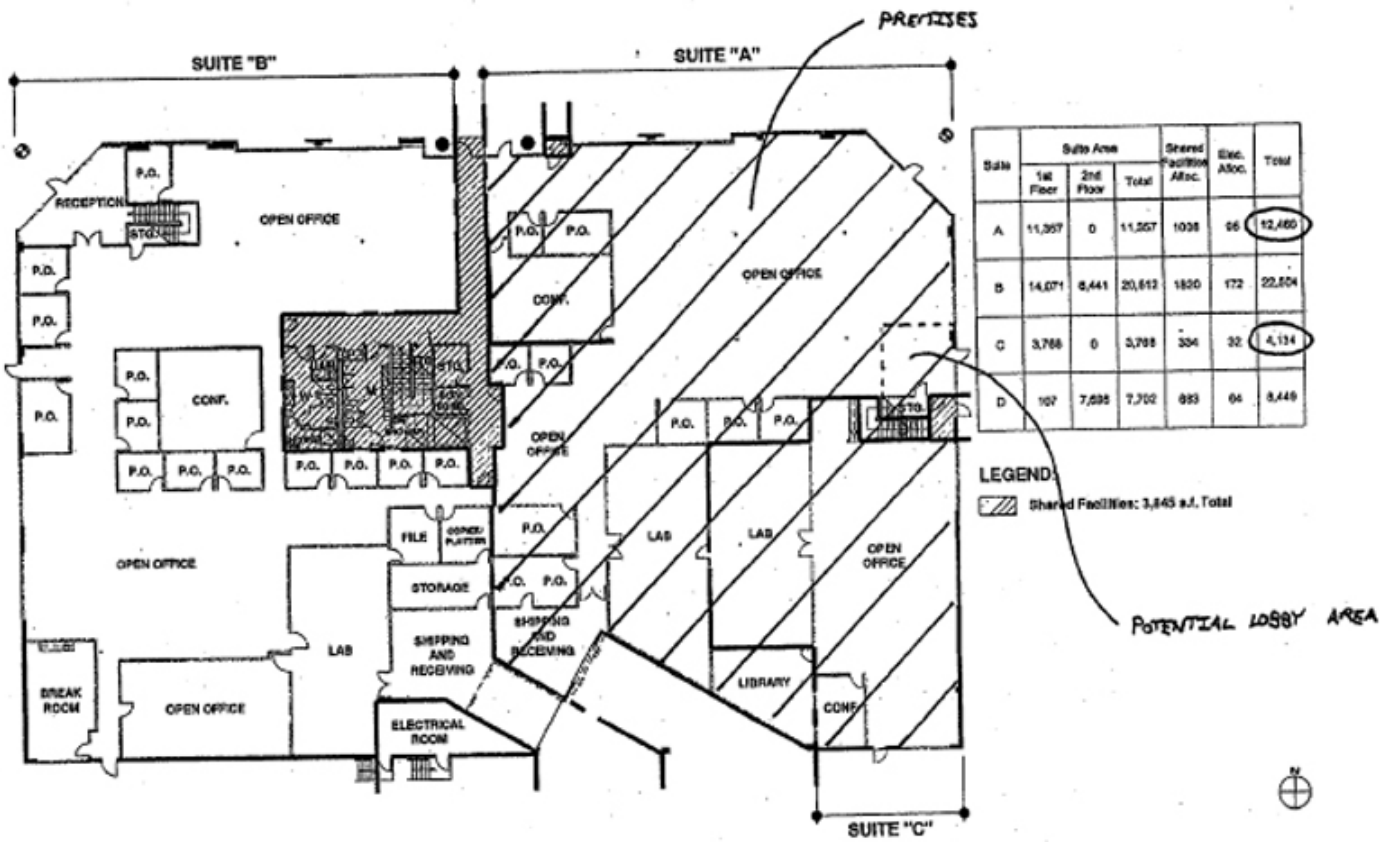

2
3
16
15
17
18
14
13
5
6
7
9
10
11
area map
project tabulation
MENLO BUSINESS PARK
master plan

EXHIBIT “B”


TARLTON PROPERTIES
FIRST FLOOR PLAN
MENLO BUSINESS PARK

TARTON PROPERTIES
EXCLUSIVE AGENTS
SECOND FLOOR PLAN
DATED: SEPTEMBER 4, 2008
MENLO · BUSINESS · PARK
BUILDING 1B
1605 ADAMS DRIVE, MENLO PARK
SUITE "B"
SUITE "A"



Suite	Suite Area			Shared Facilities Alloc.	Elec. Alloc.	Total
	1st Floor	2nd Floor	Total			
A	11,357	0	11,357	1038	65	12,460
B	14,071	6,441	20,512	1820	172	22,504
C	3,768	0	3,768	334	32	4,134
D	107	7,695	7,702	683	64	8,449

LEGEND:
Shared Facilities: 3,845 s.f. Total

ELECTRIC RM.	363 S.F.	
RENTABLE (DRIP-LINE) SQ. FT.		
1ST FLOOR	31,680 S.F.	
2ND FLOOR	15,867 S.F.	
TOTAL	47,547 S.F.	

TARLTON PROPERTIES
EXCLUSIVE AGENTS
TEL. 650.320.3600
FAX. 650.330.3636

FIRST FLOOR PLAN

DATE: MARCH 12, 2020

MENLO · BUSINESS · PARK
BUILDING 18
1605 ADAMS DRIVE, MENLO PARK

EXHIBIT "C-2"

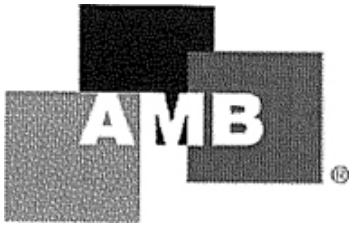
LESSOR'S BUILDING #18
FURNITURE INVENTORY

Twenty Nine (29) 8' x 12' workstations

Each workstation consists of:

(1) 48" corner work surface	total (29)
(2) 8" straight work surfaces	total (77)*
*70 installed and 7 sitting loose in back for a total of 77	
(1) 48" overhead cabinet	total (29)
(1) 48" open shelf	total (29)
(2) Task lights	total (58)
(2) 48" tack boards	total (58)
(1) 2 drawer pedestal	total (29)
(1) 3 drawer pedestal	total (29)
(5) Power poles	total (5)

EXHIBIT "D"



Industrial Lease

Willow Park
Menlo Park, California

AMB Property, L.P., a Delaware limited partnership,

as Landlord,

and

Pacific Biosciences of California, Inc., a Delaware corporation
dba Pac Bio, Inc.,

as Tenant

Table or Contents

Glossary

The following terms in the Lease are defined in the paragraphs opposite the terms.

Term	Defined in Paragraph
Access Notice	Exhibit F
Additional Rent	4.1
Affiliates	12.9
Alteration/Alterations	7.3
Applicable Requirements	6.3
Approved Final Drawings	Exhibit F
Base Rent	1.4
Basic Provisions	1
Brokers	1.13
Building	1.2
Building Operating Expenses	4.2(b)
Building Standards	Exhibit F
Change Order	Exhibit F
Change Requests	Exhibit F
Clean Room Equipment	16.31
Code	12.8
Commencement Date	1.3
Commencement Date Certificate	3.3
Common Areas	2.2
Common Area Operating Expenses	4.2(b)
Completion Date	Exhibit F
condemnation	14
Contractor	Exhibit F
CUP	6.2
Default	13.1
Equipment Area	16.33
Election Notice	Addendum 2
Excess Tenant Improvement Costs	Exhibit F
Existing Tenant	1.3
Expansion Space/Expansion Spaces	Addendum 2
Expiration Date	1.3
Extended Term	Addendum 1
Fair Market Rental Rate	Addendum 1
Final Drawings	Exhibit F
Force Majeure Delays	Exhibit F
General Contractor	Exhibit F
Generator Equipment	16.33
Hazardous Substance	6.2(a)
HVAC	4.2(a)(x)
Industrial Center	1.2
Initial Plans	Exhibit F
Landlord	1.1
Landlord Entities	6.2(c)
Landlord’s Notice	Addendum 2
Landlord Response Period	12.2
Lease	1.1
Lenders	6.4
Mortgage	16.18(a)
nondisturbance agreement	16.18(c)
Offer	Addendum 1
Operating Expenses	4.2
Option	Addendum I
Option Notice	Addendum 1
Tenant Improvement Allowance	Exhibit F
Tenant Improvement Costs	Exhibit F
Tenant Improvements	Exhibit F
Party/Parties	1.1
Permitted Use	1.8
Phase	1.2
Phase Operating Expenses	4.2(b)
Premises	1.2
Prevailing Party	16.13
Proposed Effective Date	12.2
Real Property Taxes	10.2
Renovations	16.29
Rent	4.1
Rent Commencement Date	4.1

AMB Property Corporation
Industrial Lease

1. Basic Provisions ("Basic Provisions").

1.1 Parties. This Lease ("Lease") dated December 10, 2009, is made by and between AMB Property, L.P., a Delaware limited partnership ("Landlord") and Pacific Biosciences of California, Inc., a Delaware corporation dba Pac Bio, Inc. ("Tenant") (collectively, the "Parties" or individually, a "Party").

1.2 Premises. The premises ("Premises"), which are the subject of this Lease, are located in the industrial center commonly known as Willow Park (the "Industrial Center"). The Premises consist of an approximately 29,371 square foot building ("Building") commonly known as 1394 Willow Road, Menlo Park, California and as depicted on **Exhibit A**. The Building is also identified on **Exhibit A**. The phase ("Phase"), which is also identified on **Exhibit A** consists of a portion of the Industrial Center in which the Building is located.

If the Premises are all of the Building, there shall, for purposes of this Lease, be no distinction between the words "Premises" or "Building" Tenant shall have nonexclusive rights to the Common Areas (as defined in Paragraph 2.2 below) but shall not have any rights to the roof, exterior walls, or utility raceways of the Building or to any other buildings in the Industrial Center, except to the extent required by the terms of Paragraph 7.1 of this Lease. The Industrial Center consists of the Premises, the Building, the Phase, the Common Areas, the land upon which they are located, and all other buildings and improvements within the boundaries of the Industrial Center.

1.3 Term. Approximately sixty four (64) months and twenty (20) days ("Term") commencing on December 11, 2009 ("Commencement Date") and ending sixty (60) months following the Rent Commencement Date (defined below) ("Expiration Date"): provided, however, in no event shall the Commencement Date occur prior to the termination of that certain lease between Landlord and Conor Medsystems, LLC, a Delaware limited liability company ("Existing Tenant") and the termination of such lease with Existing Tenant is a condition precedent to the effectiveness of this Lease and the Commencement Dale of this Lease.

1.4 Base Rent. Base monthly rent ("Base Rent") shall be payable as follows:

Months of Term	Monthly Base Rent
Rent Commencement Date - 04	$ 0
05-12	$ 48,462.15
13-24	$ 49,916.01
25-36	$ 51,413.49
37-48	$ 52,955.89
49-60	$ 54,544.57

1.5 Tenant's Share of Operating Expenses ("Tenant's Share").

(a)	Common Area Operating Expenses	2.95%
(b)	Building Operating Expenses	100%
(c)	Phase Operating Expenses	0%

1.6 Tenant's Estimated Monthly Rent Payment. Following is the estimated monthly Rent payment to Landlord pursuant to the provisions of this Lease. This estimate is made at the inception of the Lease and is subject to adjustment pursuant to the provisions of this Lease. The Estimated Total Monthly Payment, set forth below, shall be paid to Landlord no later than the Commencement Date.

(a)	Base Rent (Paragraph 4.1)	$48,462.15
(b)	Operating Expenses (Paragraph 4.2. excluding Real Property Taxes, Landlord Insurance, and HVAC)	$ 4,817.00
(c)	Landlord Insurance (Paragraph 8.3)	$ 499.00
(d)	Real Property Taxes (Paragraph 10)	$ 2,585.00
	Estimated Total Monthly Payment	$56,363.15

1.7 Security Deposit. $54,544.57 ("Security Deposit").

1.8 Permitted Use ("Permitted Use"). General office, manufacturing, wet laboratory and other research and development uses consistent with biotechnology and medical device companies, but only to the extent permitted by the City in which the Premises are located and all agencies and governmental authorities having jurisdiction of the Premises.

1.9 Guarantor. None

1.10 Addenda. Attached hereto are the following Addenda, all of which constitute a part of this Lease:

Addendum 1: Option to Extend

Addendum 2: Right of First Offer

1.11 Exhibits. Attached hereto are the following Exhibits, all of which constitute a part of this Lease:

Exhibit A:	Description of Premises.
Exhibit B:	Commencement Date Certificate.
Exhibit C:	Tenant Move-in and Lease Renewal Environmental Questionnaire
Exhibit D:	Move Out Standards
Exhibit E:	Rules and Regulations
Exhibit F:	Tenant Improvements
Exhibit G:	Clean Room Equipment

1.12 Address for Rent Payments. All amounts payable by Tenant to Landlord shall, until further notice from Landlord, be paid to Landlord at the following address:

AMB Property, L.P.
c/o AMB Property Corporation
P.O. Box 6156
Hicksville, NY 11802-6156

1.13 Brokers. Tenant represents that it has not dealt with any real estate brokers or agents other than NAI BT Commercial representing Landlord and Cornish & Carey Commercial representing Tenant (collectively, the "Brokers"). The Brokers shall receive commissions pursuant to a separate listing agreement with Landlord.

2. Premises and Common Areas.

2.1 Letting. Landlord hereby leases to Tenant and Tenant hereby leases from Landlord the Premises upon all of the terms, covenants, and conditions, set forth in this Lease. Any statement of square footage set forth in this Lease or that may have been used in calculating Base Rent and/or Operating Expenses is an approximation which Landlord and Tenant agree is reasonable, and the Base Rent and Tenant's Share based thereon is not subject to revision whether or not the actual square footage is more or less. Except as set forth in Exhibit F attached hereto, Tenant accepts the Premises in its present "As-Is" condition, state of repair and operating order. Landlord shall deliver the Premises, clean room, roof and lights in good working order and repair with the existing building operating systems, including electrical, mechanical, plumbing, lighting and sprinkler systems in good working order and repair as of the Rent Commencement Date (defined below) and Tenant shall have a warranty period of sixty (60) days after the Rent Commencement Date to confirm such condition. Tenant's failure to notify Landlord in writing within such sixty (60) day period of any deficiencies in such systems shall be deemed Tenant's approval of the condition thereof.

2.2 Common Areas - Definition. "Common Areas" are all areas and facilities outside the Premises and within the exterior boundary line of the Industrial Center and interior utility raceways within the Premises that are provided and designated by the Landlord from time to time for the general nonexclusive use of Landlord, Tenant, and other tenants of the Industrial Center and their respective employees, suppliers, shippers, tenants, contractors, and invitees.

2.3 Common Areas - Tenant's Rights. Landlord hereby grants to Tenant, for the benefit of Tenant and its employees, suppliers, shippers, contractors, customers, and invitees, during the term of this Lease, the nonexclusive right to use, in common with others entitled to such use, the Common Areas as they exist from time to time, subject to any rights, powers, and privileges reserved by Landlord under the terms hereof or under the terms of any rules and regulations or covenants, conditions, and restrictions governing the use of the Industrial Center.

2.4 Common Areas - Rules and Regulations. Landlord shall have the exclusive control and management of the Common Areas and shall have the right, from time to time, to establish, modify, amend, and enforce reasonable Rules and Regulations with respect thereto in accordance with Paragraph 16.19.

2.5 Common Area Changes. Landlord shall have the right, in Landlord's sole discretion, from time to time:

(a) To make changes to the Common Areas, including, without limitation, changes in the locations, size, shape, and number of driveways, entrances, parking spaces, parking areas, loading and unloading areas, ingress, egress, direction of traffic, landscaped areas, walkways, and utility raceways;

(b) To close temporarily any of the Common Areas for maintenance purposes so long as reasonable access to the Premises remains available;

(c) To designate other land outside the boundaries of the Industrial Center to be a part of the Common Areas;

(d) To add additional buildings and improvements to the Common Areas;

(e) To use the Common Areas while engaged in making additional improvements, repairs, or alterations to the Industrial Center, or any portion thereof; and

(f) To do and perform such other acts and make such other changes in, to, or with respect to the Common Areas and Industrial Center as Landlord may, in the exercise of sound business judgment, deem to be appropriate.

2.6 Parking. At no additional cost to Tenant, Tenant may use Tenant's Share of the undesignated vehicle parking spaces, on an unreserved and unassigned basis, on those portions of the Common Areas designated by Landlord for such parking. Landlord shall exercise reasonable efforts to ensure that such spaces are available to Tenant for its use, but Landlord shall not be required to enforce Tenant's right to use the same. Tenant shall not use more parking spaces than such number. Such parking spaces shall be used only for parking by vehicles no larger than full sized passenger automobiles or pick-up trucks and in no event shall Tenant or any of Tenant's Entities park or permit any parking of vehicles overnight. Tenant shall not permit or allow any vehicles that belong to or are controlled by Tenant or Tenant's employees, suppliers, shippers, customers or invitees to be loaded, unloaded or parked in areas other than those designated by Landlord for such activities. If Tenant permits or allows any of the prohibited activities described herein, then Landlord shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove or tow away the vehicle involved and charge the cost to Tenant, which cost shall be immediately payable as additional rent upon demand by Landlord. Landlord may change the number of parking spaces and configuration of the parking areas at any time, and may assign reserved parking spaces to any tenant, in Landlord's sole discretion; provided, Landlord shall not reduce Tenant's Share of undesignated vehicle parking spaces.

2.7 Access. Subject to emergencies, Applicable Requirements (defined below) and the terms of Paragraphs 9 and 14, Landlord shall use its commercially reasonable efforts to provide access to Tenant (i) through that certain gate which separates Adams Court and the Phase, twenty four (24) hours a day, seven (7) days a week and (ii) to the Premises twenty four (24) hours a day, seven (7) days a week.

3. Term.

3.1 Term. The Commencement Date. Expiration Date, and Term of this Lease are as specified in Paragraph 1.3.

3.2 Delay in Possession. If for any reason Landlord cannot deliver possession of the Premises to Tenant by the Commencement Date, Landlord shall not be subject to any liability therefor, nor shall such failure affect the validity of this Lease or the obligations of Tenant hereunder. In such case, Tenant shall not, except as otherwise provided herein, be obligated to pay Rent or perform any other obligation of Tenant under the terms of this Lease until Landlord delivers possession of the Premises to Tenant.

3.3 Commencement Date Certificate. At the request of Landlord, Tenant shall execute and deliver to Landlord a completed certificate ("Commencement Date Certificate") in the form attached hereto as **Exhibit B**.

4. Rent.

4.1 Base Rent. Tenant shall pay to Landlord Base Rent and other monetary obligations of Tenant to Landlord under the terms of this Lease (such other monetary obligations are herein referred to as "Additional Rent") in lawful money of the United States, without offset or deduction, in advance on or before the first day of each month of the Term commencing on the later of Substantial Completion of the Tenant Improvements or May 1, 2010 ("Rent Commencement Date"); provided, Tenant shall not be obligated to pay Base Rent for the first four (4) months following the Rent Commencement Date, Base Rent and Additional Rent for any period during the term hereof which is for less than one full month shall be prorated based upon the actual number of days of the month involved. Payment of Base Rent and Additional Rent shall be made to Landlord at its address stated herein or to such other persons or at such other addresses as Landlord may from time to time designate in writing to Tenant, Base Rent and Additional Rent are collectively referred to as "Rent." All monetary obligations of Tenant to Landlord under the terms of this Lease are deemed to be Rent.

4.2 Operating Expenses. Commencing on the Rent Commencement Date. Tenant shall pay to Landlord on the first (1st) day of each month during the Term hereof, in addition to the Base Rent as and when set forth above in Section 4.1. Tenant's Share of all Operating Expenses in accordance with the following provisions.

(a) "Operating Expenses" are all costs incurred by Landlord relating to the ownership and/or operation of the Industrial Center, Phase, Building, and Premises including, but not limited to, the following:

(i) Expenses relating to the ownership, management, maintenance, repair, replacement and/or operation of the Common Areas, including, without limitation, parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways, driveways, rail spurs, landscaped areas, striping, bumpers, irrigation systems, drainage systems, lighting facilities, fences and gates, exterior signs, and/or tenant directories.

(ii) Water, gas, electricity, telephone, and other utilities not paid for directly by tenants of the Industrial Center.

(iii) Trash disposal, snow removal, security and the management and administration of any and all portions of the Industrial Center, including, without limitation, a property management fee, accounting, auditing, billing, postage, salaries and benefits for clerical and supervisory employees, whether located at the Industrial Center or off-site, payroll taxes and legal and accounting costs and all fees, licenses and permits related to the ownership, operation and management of the Industrial Center;

(iv) Reserves set aside for maintenance, repair and replacements of improvements within the Industrial Center.

(v) Real Property Taxes.

(vi) Premiums and all applicable deductibles for the insurance policies maintained by Landlord under paragraph 8 below.

(vii) Environmental monitoring and insurance programs.

(viii) Monthly amortization of capital improvements to any portion of the Industrial Center which are not expensed by Landlord, including any capital improvements made pursuant to Paragraph 7.2 below which are subject to reimbursement under this Paragraph 4.2. The monthly amortization of any such capital improvement shall be the sum of the (a) quotient obtained by dividing the cost of the capital improvement by Landlord's reasonable estimate of the number of months of useful life of such improvement plus (b) an amount equal to the cost of the capital improvement with interest thereon at the lesser of 10% per annum or the maximum interest rate permitted by law.

(ix) Maintenance of the Industrial Center, including, but not limited to, painting, caulking, and repair and replacement of Building components, including, but not limited to, roof membrane, elevators, and fire detection and sprinkler systems.

(x) Heating, ventilating, and air conditioning systems ("HVAC") the costs for which are not the sole responsibility of Tenant or another tenant of the Industrial Center.

(b) Tenant's Share of Operating Expenses that are not specifically attributed to the Premises, Building or Phase ("Common Area Operating Expenses") shall be that percentage shown in Paragraph 1.5(a). Tenant's Share of Operating Expenses that arc attributable to the Building ("Building Operating Expenses") shall be that percentage shown in Paragraph 1.5(b). Tenant's Share of Phase Operating Expenses that are attributable to the Phase ("Phase Operating Expenses") shall be that percentage shown in Paragraph 1.5(e). Landlord, in its sole discretion, shall determine which Operating Expenses are Common Area Operating Expenses, Building Operating Expenses, Phase Operating Expenses or expenses to be entirely borne by Tenant.

(c) The inclusion of the improvements facilities, and services set forth in Subparagraph 4.2(a) shall not impose any obligation upon Landlord either to have said improvements or facilities or to provide those services.

(d) Tenant shall pay monthly in advance, on the same day that the Base Rent is due, Tenant's Share of the expenses set forth in Paragraph 1.6. Landlord shall deliver to Tenant within 90 days after the expiration of each calendar year a reasonably detailed statement showing Tenant's Share of the actual expenses incurred during the preceding year. If Tenant's estimated payments under this Paragraph 4(d) during the preceding year exceed Tenant's Share as indicated on said statement. Tenant shall be credited the amount of such overpayment against Tenant's Share of expenses next becoming due. If Tenant's estimated payments under this Paragraph 4.2(d) during said preceding year were less than Tenant's Share as indicated on said statement, Tenant shall pay to Landlord the amount of the deficiency within 10 days after delivery by Landlord to Tenant of said statement. At any time following at least ten (10) days written notice to Tenant. Landlord may adjust the amount of the estimated Tenant's Share of expenses to reflect Landlord's estimate of such expenses for the year.

(e) Notwithstanding anything to the contrary contained herein, for purposes of this Lease, the term "Operating Expenses" shall not include the following: (i) costs (including permit, license, and inspection fees) incurred in renovating, improving, decorating, painting, or redecorating vacant space or space for other tenants within the Industrial Center: (ii) legal and auditing fees (other than those fees reasonably incurred in connection with the ownership and operation of all or any portion the Industrial Center); (iii) leasing commissions, advertising expenses, and other costs incurred in connection with the original leasing of the Industrial Center or future re-leasing of any portion of the Industrial Center; (iv) depreciation of the Building or any other improvements situated within the Industrial Center; (v) any items for which Landlord is actually and directly reimbursed by any other tenant of the Industrial Center; (vi) costs of repairs or other work necessitated by fire, windstorm or other casualty (excluding any deductibles) and/or costs of repair or other work necessitated by the exercise of the right of eminent domain to the extent insurance proceeds or a condemnation award, as applicable, is actually received by Landlord for such purposes; provided, such costs of repairs or other work shall be paid by the parties in accordance with the provisions of Sections 7, 8 and 9 below: (vii) other than any interest charges as expressly provided for in this Lease, any interest or payments on any financing for any portion of the Industrial Center, interest and penalties incurred as a result of Landlord's late payment of any invoice (provided that Tenant pays Tenant's Share of expenses to Landlord when due as set forth herein), and any bad debt loss, rent loss or reserves for same; (viii) any payments under a ground lease or master lease; and (ix)) any capital improvements, unless such capital improvements are made (a) in order to replace any building equipment needed to operate the Building or Industrial Center at the same quality levels (or levels of efficiency) as prior to the replacement, or (b) with the intention of reducing the costs of the operations of the Building and/or Industrial Center, or (c) to comply with government regulations, laws, or ordinances including, but not limited to the Americans with Disabilities Act, which first came into effect following the Commencement Date.

5. Security Deposit. Tenant shall deposit with Landlord upon Tenant's execution hereof the Security Deposit set forth in Paragraph 1.7 as security for Tenant's faithful performance of Tenant's obligations under this Lease. If Tenant fails to pay Base Rent or Additional Rent or otherwise defaults under this Lease (as defined in Paragraph 13.1). Landlord may use the Security Deposit for the payment of any amount due Landlord or to reimburse or compensate Landlord for any liability, cost, expense, loss, or damage (including attorneys' fees) which Landlord may suffer or incur by reason

thereof. Tenant shall on demand pay Landlord the amount so used or applied so as to restore the Security Deposit to the amount set forth in Paragraph 1.7. Landlord shall not be required to keep all or any part of the Security Deposit separate from its general accounts. Landlord shall, at the expiration or earlier termination of the Term hereof and after Tenant has vacated the Premises, return to Tenant that portion of the Security Deposit not used or applied by Landlord. No part of the Security Deposit shall be considered to be held in trust, to bear interest, or to be prepayment for any monies to be paid by Tenant under this Lease.

6. Use.

6.1 Permitted Use. Tenant shall use and occupy the Premises only for the Permitted Use set forth in Paragraph 1.8. Tenant shall not commit any nuisance, permit the emission of any objectionable noise or odor, suffer any waste, make any use of the Premises which is contrary to any law or ordinance, or which will invalidate or increase the premiums for any of Landlord's insurance. Tenant shall not service, maintain, or repair vehicles on the Premises, Building, or Common Areas. Tenant shall not store foods, pallets, drums, or any other materials outside the Premises. Tenant's use is subject to, and at all times Tenant shall comply with any and all Applicable Requirements, defined below. Landlord reserves to itself the right, from time to time, to grant, without the consent of Tenant, such easements, rights and dedications that Landlord deems reasonably necessary, and to cause the recordation of parcel or subdivision maps and/or restrictions, so long as such easements, rights, dedications, maps and restrictions, as applicable, do not materially and adversely interfere with Tenant's operations in the Premises. Tenant agrees to sign any documents reasonably requested by Landlord to effectuate any such easements, rights, dedications, maps or restrictions. Tenant shall not initiate, submit an application for, or otherwise request, any land use approvals or entitlements with respect to the Premises or any other portion of the Industrial Center, including without limitation, any variance, conditional use permit or rezoning, without first obtaining Landlord's prior written consent thereto, which consent may be given or withheld in Landlord's sole discretion.

6.2 Hazardous Substances.

(a) Reportable Uses Require Consent. The term, "Hazardous Substance" as used in this Lease, shall mean any product, substance, chemical, material, or waste whose presence, nature, quantity, and/or intensity of existence, use, manufacture, disposal, transportation, spill, release, or effect, either by itself or in combination with other materials expected to be on the Premises, is either: (i) potentially injurious to the public health, safety or welfare, the environment, or the Premises: (ii) regulated or monitored by any governmental authority; or (iii) a basis for potential liability of Landlord to any governmental agency or third party under any applicable statute or common law theory. Hazardous Substance shall include, but not be limited to, hydrocarbons, petroleum, gasoline, crude oil, or any products or by-products thereof. Tenant shall not engage in any activity in or about the Premises which constitutes a Reportable Use (as hereinafter defined) of Hazardous Substances without the express prior written consent of Landlord and compliance in a timely manner (at Tenant's sole cost and expense) with all Applicable Requirements (as defined in Paragraph 6.3). "Reportable Use" shall mean (i) the installation or use of any above or below ground storage tank, (ii) the generation, possession, storage, use, transportation, or disposal of a Hazardous Substance that requires a permit from, or with respect to which a report, notice, registration, or business plan is required to be filed with, any governmental authority, and (iii) the presence in, on, or about the Premises of a Hazardous Substance with respect to which any Applicable Requirements require that a notice be given to persons entering or occupying the Premises or neighboring properties. Notwithstanding the foregoing, Tenant may, without Landlord's prior consent, but upon notice to Landlord and in compliance with all Applicable Requirements, use any ordinary and customary materials reasonably required to be used by Tenant in the normal course of the Permitted Use, so long as such use is not a Reportable Use and does not expose the Premises or neighboring properties to any meaningful risk of contamination or damage, or expose Landlord to any liability therefor. In addition, Landlord may (but without any obligation to do so) condition its consent to any Reportable Use of any Hazardous Substance by Tenant upon Tenant's giving Landlord such additional assurances as Landlord, in its reasonable discretion, deems necessary to protect itself, the public, the Premises, and the environment against damage, contamination, injury, and/or liability therefor, including but not limited to the installation (and, at Landlord's option, removal on or before Lease expiration or earlier termination) of reasonably necessary protective modifications to the Premises (such as concrete encasements) and/or the deposit of an additional Security Deposit. Notwithstanding anything to the contrary provided herein, Landlord and Tenant acknowledge that Tenant shall be securing a Conditional Use Permit from the City of Menlo Park ("CUP"), for the use and storage of certain Hazardous Substances on or within the Premises, and that Landlord's acceptance of such CUP, which acceptance shall not be unreasonably withheld, shall constitute Landlord's consent under this section.

(b) Duty to Inform Landlord. If Tenant knows, or has reasonable cause to believe, that a Hazardous Substance is located in, under, or about the Premises or the Building, Tenant shall immediately give Landlord written notice thereof, together with a copy of any statement, report, notice, registration, application, permit, business plan, license, claim, action, or proceeding given to, or received from, any governmental authority or private party concerning the presence, spill, release, discharge of, or exposure to such Hazardous Substance. Tenant shall not cause or permit any Hazardous Substance to be spilled or released in, on, under, or about the Premises (including, without limitation, through the plumbing or sanitary sewer system).

(c) Indemnification. Tenant shall indemnify, protect, defend, and hold Landlord, Landlord's affiliates, Lenders, and the officers, directors, shareholders, partners, employees, managers, independent contractors, attorneys, and agents of the foregoing ("Landlord Entities") and the Premises harmless from and against any and all damages, liabilities, judgments, costs, claims, liens, expenses, penalties, loss of permits, and attorneys' and consultants' fees arising out of or involving any Hazardous Substance on or brought onto the Premises by or for Tenant or by any of Tenant's employees, agents, contractors, servants, visitors, suppliers, or invitees (such employees, agents, contractors, servants, visitors, suppliers, and invitees as herein collectively referred to as "Tenant Entities"). Tenant's obligations under this Paragraph 6.2(c) shall include, but not be limited to, the effects of any contamination or injury to person,

property, or the environment created or suffered by Tenant, and the cost of investigation (including consultants' and attorneys' fees and testing), removal, remediation, restoration and/or abatement thereof, or of any contamination therein involved. Tenant's obligations under this Paragraph 6.2(c) shall survive the Expiration Date or earlier termination of this Lease.

6.3 Tenant's Compliance with Requirements. Tenant shall, at Tenant's sole cost and expense, fully, diligently, and in a timely manner comply with all "Applicable Requirements," which term is used in this Lease to mean all laws, rules, regulations, ordinances, directives, covenants, easements, and restrictions of record, permits, the requirements of any applicable fire insurance underwriter or rating bureau, and the recommendations of Landlord's engineers and/or consultants, relating in any manner to the Premises (including but not limited to matters pertaining to (a) industrial hygiene, (b) environmental conditions on, in, under, or about the Premises, including soil and groundwater conditions, and (c) the use generation, manufacture, production, installation, maintenance, removal, transportation, storage, spill, or release of any Hazardous Substance), now in effect or which may hereafter come into effect. Tenant shall, within 5 days after receipt of Landlord's written request, provide Landlord with copies of all documents and information evidencing Tenant's compliance with any Applicable Requirements, and shall immediately upon receipt notify Landlord in writing (with copies of any documents involved) of any threatened or actual claim, notice, citation, warning, complaint, or report pertaining to or involving failure by Tenant or the Premises to comply with any Applicable Requirements.

6.4 Inspection; Compliance with Law. In addition to Landlord's environmental monitoring and insurance program, the cost of which is included in Operating Expenses, Landlord and the holders of any mortgages, deeds of trust, or ground leases on the Premises ("Lenders") shall have the right to enter the Premises at any time in the case of an emergency, and otherwise at reasonable times, for the purpose of inspecting the condition of the Premises and for verifying compliance by Tenant with this Lease and all Applicable Requirements. Landlord shall be entitled to employ experts and/or consultants in connection therewith to advise Landlord with respect to Tenant's installation, operation, use, monitoring, maintenance, or removal of any Hazardous Substance on or from the Premises. The cost and expenses of any such inspections shall be paid by the party requesting same unless a violation of Applicable Requirements exists or is imminent or the inspection is requested or ordered by a governmental authority. Tenant shall upon request reimburse Landlord or Landlord's Lender, as the case may be for the costs and expenses of such inspections.

6.5 Tenant Move-in Questionnaire. Prior to executing this Lease, Tenant has completed, executed and delivered to Landlord Tenant's Move-in and Lease Renewal Environmental Questionnaire (the "'tenant Move-in Questionnaire"), a copy of which is attached hereto as **Exhibit C** and incorporated herein by this reference. Tenant covenants, represents and warrants to Landlord that the information on the Tenant Move-in Questionnaire is true and correct and accurately describes the use(s) of Hazardous Substances which will be made and/or used on the Premises by Tenant. Subject to all of the terms and conditions of this Lease, Landlord consents to Tenant's use of such Hazardous Substances.

6.6 Exculpation. Tenant shall neither be liable for nor otherwise obligated to Landlord under any provision of this Lease with respect to (i) any claim, remediation obligation, investigation obligation, liability, cause of action, attorney's fees, consultants' cost, expense or damage resulting from any Hazardous Substance present in, on or about the Premises, the Building or the Industrial Center to the extent neither caused nor otherwise permitted, directly or indirectly, by Tenant or the Tenant Entities; or (ii) the removal, investigation, monitoring or remediation of any Hazardous Substance present in, on or about the Premises, the Building or the Industrial Center caused by any source, including third parties other than Tenant and the Tenant Entities, as a result of or in connection with the acts or omissions of persons other than Tenant or the Tenant Entities; provided, however, Tenant shall be fully liable for and otherwise obligated to Landlord under the provisions of this Lease for all liabilities, costs, damages, penalties, claims, judgments, expenses (including without limitation, attorneys' and experts' fees and costs) and losses to the extent (a) Tenant or any of the Tenant Entities contributes to the presence of such Hazardous Substances or Tenant and/or any of the Tenant Entities exacerbates the conditions caused by such Hazardous Substances, or (b) Tenant and/or the Tenant Entities allows or permits persons over which Tenant or any of the Tenant Entities has control and/or for which Tenant or any of the Tenant Entities are legally responsible for, to cause such Hazardous Substances to be present in, on, under, through or about any portion of the Premises, the Building or the Industrial Center, or does not take all reasonably appropriate actions to prevent such persons over which Tenant or any of the Tenant Entities has control and/or for which Tenant or any of the Tenant Entities are legally responsible from causing the presence of Hazardous Substances in, on, under, through or about any portion of the Premises, the Building or the Industrial Center.

7. Maintenance, Repairs, Trade Fixtures and Alterations.

7.1 Tenant's Obligations. Subject to the provisions of Paragraph 7.2 (Landlord's Obligations). Paragraph 9 (Damage or Destruction), and Paragraph 14 (Condemnation), Tenant shall, at Tenant's sole cost and expense and at all times, keep the Premises and every part thereof in good order, condition, and repair (whether or not such portion of the Premises requiring repair, or the means of repairing the same, are reasonably or readily accessible to Tenant and whether or not the need for such repairs occurs as a result of Tenant's use, any prior use, the elements, or the age of such portion of the Premises) including, without limiting the generality of the foregoing, all equipment or facilities specifically serving the Premises, such as plumbing, heating, ventilating, air conditioning, electrical, lighting facilities, boilers, fired or unfired pressure vessels, fire hose connectors if within the Premises, fixtures, interior walls, interior surfaces of exterior walls, ceilings, floors, windows, doors, plate glass, and skylights, but excluding any items which are the responsibility of Landlord pursuant to Paragraph 7.2 below. Tenant's obligations shall include restorations, replacements, or renewals when necessary to keep the Premises and all improvements thereon or a part thereof in good order, condition, and state of repair. Subject to the terms of Paragraph 8.4 of this Lease, Tenant shall also be solely responsible for the cost of all repairs and replacements caused by the negligent acts or omissions or intentional misconduct by Tenant or Tenant's employees, contractors, agents, guests or invitees. If Tenant refuses or neglects to

perform its obligations under this paragraph to the reasonable satisfaction of Landlord. Landlord may, but without obligation to do so, at any time perform the same without Landlord having any liability to Tenant for any loss or damage that may accrue to Tenant's personal property or equipment ("Tenant's Property") or to Tenant's business by reason thereof. If Landlord performs any such obligations, Tenant shall pay to Landlord, as Additional Rent, Landlord's costs and expenses incurred therefor.

7.2 Landlord's Obligations. Subject to the provisions of Paragraph 6 (Use), Paragraph 7.1 (Tenant's Obligations), Paragraph 9 (Damage or Destruction), and Paragraph 14 (Condemnation), Landlord, at its expense and not subject to the reimbursement requirements of Paragraph 4.2, shall maintain and repair the roof structure, foundations and the structure of the exterior walls of the Building. Landlord, subject to reimbursement pursuant to Paragraph 4.2, shall maintain and repair the Building roof membrane, Common Areas, and utility systems within the Industrial Center which are outside of the Premises. In addition, Landlord may, in Landlord's sole discretion, and at Tenant's sole cost, elect to contract for all or any portion of the maintenance, repair and/or replacement of the HVAC systems serving the Premises.

7.3 Alterations. Tenant shall not install any signs, fixtures, improvements, nor make or permit any other alterations or additions (individually, an "Alteration", and collectively, the "Alterations") to the Premises without the prior written consent of Landlord, except for Alterations that cumulatively cost less than Twenty Five Thousand Dollars ($25,000.00) and which do not affect the Building systems or the structural integrity or structural components of the Premises or the Building. In all events, Tenant shall deliver at least ten (10) days prior notice to Landlord, from the date Tenant intends to commence construction, sufficient to enable Landlord to post a Notice of Non-Responsibility and Tenant shall obtain all permits or other governmental approvals prior to commencing any of such work and deliver a copy of same to Landlord. All Alterations shall be at Tenant's sole cost and expense in accordance with plans and specifications which have been previously submitted to and approved in writing by Landlord, and shall be installed by a licensed, insured, and bonded contractor (reasonably approved by Landlord) in compliance with all applicable Laws (including, but not limited to, the ADA), and all recorded matters and rules and regulations of the Industrial Center. In addition, all work with respect to any Alterations must be done in a good and workmanlike manner. Landlord's approval of any plans, specifications or working drawings for Tenant's Alterations shall not create nor impose any responsibility or liability on the part of Landlord for their completeness, design sufficiency, or compliance with any laws, ordinances, rules and regulations of governmental agencies or authorities. In performing the work of any such Alterations, Tenant shall have the work performed in such a manner as not to obstruct access to the Industrial Center, or the Common Areas for any other tenant of the Industrial Center, and as not to obstruct the business of Landlord or other tenants in the Industrial Center, or interfere with the labor force working in the Industrial Center. Except with respect to the Tenant Improvements set forth in **Exhibit F** attached hereto, as Additional Rent hereunder. Tenant shall reimburse Landlord, within ten (10) days after demand, for actual and reasonable legal, engineering, architectural, planning and other expenses incurred by Landlord in connection with Tenant's Alterations, plus Tenant shall pay to Landlord a fee equal to one percent (1%) of the total cost of the Alterations. If Tenant makes any Alterations, Tenant agrees to carry "Builder's All Risk" insurance, in an amount approved by Landlord and such other insurance as Landlord may require, it being understood and agreed that all of such Alterations shall be insured by Tenant in accordance with the terms of this Lease immediately upon completion thereof. Tenant shall keep the Premises and the property on which the Premises are situated free from any liens arising out of any work performed, materials furnished or obligations incurred by or on behalf of Tenant. Tenant shall, prior to construction of any and all Alterations, cause its contractor(s) and/or major subcontractor(s) to provide insurance as reasonably required by Landlord, and Tenant shall provide such assurances to Landlord, including without limitation, waivers of lien, surety company performance bonds as Landlord shall require to assure payment of the costs thereof to protect Landlord and the Industrial Center from and against any loss from any mechanic's, materialmen's or other liens.

7.4 Surrender/Restoration. Tenant shall surrender the Premises by the end of the last day of the Lease term or any earlier termination date, clean and free of debris and in good operating order, condition, and stale of repair, ordinary wear and tear excepted and in accordance with the Move Out Standards set forth in **Exhibit D** to this Lease. Without limiting the generality of the above. Tenant shall remove all tenant improvements designated by Landlord in Landlord's sole discretion, personal property, trade fixtures, and floor bolls, patch all floors, and cause all lights to be in good operating condition.

8. Insurance; Indemnity.

8.1 Payment of Premiums and Deductibles. The cost of the premiums and all applicable deductibles for the insurance policies maintained by Landlord under this Paragraph 8 shall be a Common Area Operating Expense reimbursable pursuant to Paragraph 4.2 hereof. Premiums for policy periods commencing prior to, or extending beyond, the term of this Lease shall be prorated to coincide with the corresponding Commencement Date and Expiration Date.

8.2 Tenant's Insurance.

(a) At its sole cost and expense, Tenant shall maintain in full force and effect during the Term of the Lease the following insurance coverages insuring against claims which may arise from or in connection with the Tenant's operation and use of the Premises.

(i) Commercial General Liability insurance with minimum limits of $1,000,000 per occurrence and $3,000,000 general aggregate for bodily injury, personal injury, and property damage. If required by Landlord, liquor liability coverage will be included. Such insurance shall be endorsed to include Landlord and Landlord Entities as additional insureds, shall be primary and noncontributory with any Landlord insurance, and shall provide severability of interests between or among insureds.

(ii) Workers' Compensation insurance with statutory limits and Employers Liability with a $1,000,000 per accident limit for bodily injury or disease.

(iii) Automobile Liability insurance covering all owned, nonowned, and hired vehicles with a $ 1,000,000 per accident limit for bodily injury and property damage.

(iv) Property insurance against "all risks" at least as broad as the current ISO Special Form policy (and Tenant shall not be obligated to carry flood or earthquake coverage provided Tenant agrees that Landlord shall not be liable for any damage or loss arising from flood or earthquake and Tenant waives and releases Landlord from all claims, losses, damages, liabilities, judgments and costs arising from or related to Tenant not carrying such flood or earthquake coverage) for loss to any tenant improvements or betterments, floor and wall coverings, and business personal property on a full insurable replacement cost basis with no coinsurance clause, and Business Income insurance covering at least three (3) months of loss of income and continuing expense.

(b) Tenant shall deliver to Landlord certificates of all insurance reflecting evidence of required coverages prior to initial occupancy, and annually thereafter.

(c) Intentionally Omitted.

(d) All insurance required under Paragraph 8.2 (i) shall be issued by insurers licensed to do business in the state in which the Premises are located and which are rated A:VII or better by Best's Key Rating Guide and (ii) shall be endorsed to provide at least 30-days prior notification of cancellation or material change in coverage to said additional insureds.

8.3 Landlord's Insurance. Landlord may, but shall not be obligated to, maintain risk of direct physical loss property damage insurance coverage, including earthquake and flood, covering the buildings within the Industrial Center, Commercial General Liability insurance, and such other insurance in such amounts and covering such other liability or hazards as deemed appropriate by Landlord. The amount and scope of coverage of Landlord's insurance shall be determined by Landlord from time to time in its sole discretion and shall be subject to such deductible amounts as Landlord may elect. Landlord shall have the right to reduce or terminate any insurance or coverage.

8.4 Waiver of Subrogation. To the extent permitted by law and with permission of their insurance carriers, Landlord and Tenant each waive any right to recover against the other on account of any and all claims Landlord or Tenant may have against the other with respect to property insurance actually carried, or required to be carried hereunder, to the extent of the proceeds realized from such insurance coverage.

8.5 Indemnity. Tenant shall protect, defend, indemnify, and hold Landlord and Landlord Entities harmless from and against any and all loss, claims, liability or costs (including court costs and attorneys' fees) incurred by reason of:

(a) any damage to any property (including but not limited to property of any Landlord Entity) or death, bodily, or personal injury to any person occurring in or about the Premises, the Building, or the Industrial Center to the extent that such injury or damage shall be caused by or arise from any actual or alleged act, neglect, fault, or omission by or of Tenant, its agents, servants, employees, invitees, contractors, suppliers, subtenants, or visitors;

(b) the conduct or management of any work or anything whatsoever done by the Tenant on or about the Premises or from transactions of the Tenant concerning the Premises;

(c) Tenant's failure to comply with any and all governmental laws, ordinances, and regulations applicable to the condition or use of the Premises or its occupancy; or

(d) any breach or default on the part of Tenant in the performance of any covenant or agreement to be performed pursuant to this Lease.

The provisions of this Paragraph 8.5 shall, with respect to any claims or liability accruing prior to such termination, survive the Expiration Date or earlier termination of this Lease.

8.6 Exemption of Landlord from Liability. Except to the extent caused by the gross active or gross passive negligence or willful misconduct of Landlord, neither Landlord nor Landlord Entities shall be liable for and Tenant waives any claims against Landlord and Landlord Entities for injury or damage to the person or the property of Tenant, Tenant's employees, contractors, invitees, customers or any other person in or about the Premises, Building or Industrial Center from any cause whatsoever, including, but not limited to, damage or injury which is caused by or results from (i) fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, lire sprinklers, wires, appliances, plumbing, heating, ventilating, air conditioning or lighting fixtures or (ii) from the condition of the Premises, other portions of the Building or Industrial Center. Landlord shall not be liable for any damages arising from any act or neglect (passive or active) of any other tenants of Landlord or any subtenant or assignee of such other tenants nor from the failure by Landlord to enforce the provisions of any other lease in the Industrial Center. Notwithstanding Landlord's negligence (active or passive), gross negligence (active or passive), or breach of this Lease. Landlord shall under no circumstances be liable for (a) injury to Tenant's business, for any loss of income or profit therefrom or any indirect, consequential or punitive damages or (b) any damage to property or injury to persons arising from any act of God or war, violence or insurrection, including, but not limited to, those caused by earthquakes, hurricanes, storms, drought, floods, acts of terrorism, and/or riots.

9. Damage or Destruction.

9.1 Termination Right. Tenant shall give Landlord immediate written notice of any damage to the Premises. Subject to the provisions of Paragraph 9.2, if the Premises or the Building shall be damaged to such an extent that there is substantial interference for a period exceeding two hundred seventy (270) consecutive days with the conduct by Tenant of its business at the Premises, then either party, at any time prior to commencement of repair of the Premises and following ten (10) days written notice to the other party, may terminate this Lease effective thirty (30) days after delivery of such notice to the other party. Further, if any portion of the Premises is damaged and is not fully covered by the aggregate of insurance proceeds received by Landlord and any applicable deductible or if the holder of any indebtedness secured by the Premises requires that the insurance proceeds be applied to such indebtedness, and Tenant does not voluntarily contribute any shortfall thereof to Landlord, then Landlord shall have the right to terminate this Lease by delivering written notice of termination to Tenant within sixty (60) days after the date of notice to Tenant of any such event. Such termination shall not excuse the performance by Tenant of those covenants which under the terms hereof survive termination. Rent shall be abated in proportion to the degree of interference during the period that there is such substantial interference with the conduct of Tenant's business at the Premises. Abatement of rent and Tenant's right of termination pursuant to this provision shall be Tenant's sole remedy with respect to any such damage regardless of the cause thereof.

9.2 Damage Caused by Tenant. Tenant's termination rights under Paragraph 9.1 shall not apply if the damage to the Premises or Building is the result of any act or omission of Tenant or of any of Tenant's agents, employees, customers, invitees, or contractors.

10. Real Property Taxes.

10.1 Payment of Real Property Taxes. Landlord shall pay the Real Property Taxes due and payable during the term of this Lease and, except as otherwise provided in Paragraph 10.3, such payments shall be a Common Area Operating Expense reimbursable pursuant to Paragraph 4.2.

10.2 Real Property Tax Definition. As used herein, the term "Real Property Taxes" is any form of tax or assessment, general, special, ordinary, or extraordinary, imposed or levied upon (a) the Industrial Center or Building, (b) any interest of Landlord in the Industrial Center or Building, (c) Landlord's right to rent or other income from the Industrial Center or Building, and/or (d) Landlord's business of leasing the Premises. Real Properly Taxes include (a) any license fee, commercial rental tax, excise tax, improvement bond or bonds, levy, or tax: (b) any tax or charge which replaces or is in addition to any of such above-described "Real Properly Taxes," and (c) any fees, expenses, or costs (including attorneys' fees, expert fees, and the like) incurred by Landlord in protesting or contesting any assessments levied or any tax rate. Notwithstanding the foregoing, Real Properly Taxes shall not include any income taxes levied upon Landlord's income from leasing the Premises or any other properly in the Industrial Center. Real Property Taxes for tax years commencing prior to, or extending beyond, the term of this Lease shall be prorated to coincide with the corresponding Commencement Date and Expiration Date.

10.3 Additional Improvements. Operating Expenses shall not include Real Property Taxes attributable to improvements placed upon the Industrial Center by other tenants or by Landlord for the exclusive enjoyment of such other tenants. Tenant shall, however, pay to Landlord at the time Operating Expenses are payable under Paragraph 4.2, the entirety of any increase in Real Property Taxes if assessed by reason of improvements placed upon the Premises by Tenant or at Tenant's request.

10.4 Joint Assessment. If the Building is not separately assessed. Real Property Taxes allocated to the Building shall be a pro rata portion of the Real Property Taxes for all of the land and improvements included within the tax parcel assessed.

10.5 Tenant's Property Taxes. Tenant shall pay prior to delinquency all taxes assessed against and levied upon Tenant's improvements, fixtures, furnishings, equipment, and all personal property of Tenant contained in the Premises or stored within the Industrial Center.

11. Utilities. Tenant shall pay directly for all utilities and services supplied to the Premises, including but not limited to electricity, telephone, security, gas, and cleaning of the Premises, together with any taxes thereon. For any such utility fees or services that are not billed or metered separately to Tenant, including without limitation, water and sewer charges, and garbage and waste disposal (collectively, "Utility Expenses"). Tenant shall pay to Landlord Tenant's Share of Utility Expenses. If Landlord reasonably determines that Tenant's Share of Utility Expenses is not commensurate with Tenant's use of such services. Tenant shall pay to Landlord the amount which is attributable to Tenant's use of the utilities or similar services, as reasonably estimated and determined by Landlord, based upon factors such as size of the Premises and intensity of use of such utilities by Tenant such that Tenant shall pay the portion of such charges reasonably consistent with Tenant's use of such utilities and similar services. If Tenant disputes any such estimate or determination, then Tenant shall either pay the estimated amount or cause the Premises to be separately metered at Tenant's sole expense. Tenant shall also pay Tenant's Share of any assessments, charges, and fees included within any tax bill for the lot on which the Premises are situated, including without limitation, entitlement fees, allocation unit fees, sewer use fees, and any other similar fees or charges.

12. Assignment and Subleasing.

12.1 Prohibition. Tenant shall not, without the prior written consent of Landlord, assign, mortgage, hypothecate, encumber, grant any license or concession, pledge or otherwise transfer this Lease or any interest herein, permit any assignment or other such transfer of this Lease or any interest hereunder by operation of law, sublet the

Premises or any part thereof, or permit the use of the Premises by any persons other than Tenant and Tenant's Entities (all of the foregoing are sometimes referred to collectively as "Transfers" and any person to whom any Transfer is made or sought to be made is sometimes referred to as a "Transferee"). No consent to any Transfer shall constitute a waiver of the provisions of this Section, and all subsequent Transfers may be made only with the prior written consent of Landlord, which consent shall not he unreasonably withheld, but which consent shall he subject to the provisions of this Section.

12.2 Request for Consent. If Tenant seeks to make a Transfer. Tenant shall notify Landlord, in writing, and deliver to Landlord at least thirty (30) days (but not more than one hundred eighty (ISO) days) prior to the proposed commencement date of the Transfer (the "Proposed Effective Date") the following information and documents (the "Tenant's Notice"): (i) a description of the portion of the Premises to be transferred (the "Subject Space"); (ii) all of the terms of the proposed Transfer including without limitation, the Proposed Effective Date, the name and address of the proposed Transferee, and a copy of the existing or proposed assignment, sublease or other agreement governing the proposed Transfer: (iii) current financial statements of the proposed Transferee certified by an officer, member, partner or owner thereof, and any such other information as Landlord may then reasonably require, including without limitation, audited financial statements for the previous three (3) most recent consecutive fiscal years: (iv) the Transfer Plans and Specifications (defined below), if any: and (v) such other information as Landlord may then reasonably require. Tenant shall give Landlord the Tenant's Notice by registered or certified mail addressed to Landlord al Landlord's Address specified in the Basic Provisions. Within thirty (30) days after Landlord's receipt of the Tenant's Notice (the "Landlord Response Period") Landlord shall notify Tenant, in writing, of its determination with respect to such requested proposed Transfer and the election to recapture as set forth below. If Landlord does not elect to recapture pursuant to the provisions hereof and Landlord does consent to the requested proposed Transfer. Tenant may thereafter assign its interests in and to this Lease or sublease all or a portion of the Premises to the same party and on the same terms as set forth in the Tenant's Notice. If Landlord fails to respond to Tenant's Notice within Landlord's Response Period, then, after Tenant delivers to Landlord thirty (30) days written notice (the "Second Response Period") and Landlord fails to respond thereto prior to the end of the Second Response Period, the proposed Transfer shall then be deemed approved by Landlord.

12.3 Criteria for Consent. Tenant acknowledges and agrees that, among other circumstances for which Landlord could reasonably withhold consent to a proposed Transfer, it shall be reasonable for Landlord to withhold its consent where (a) Tenant is or has been in default of its obligations under this Lease beyond applicable notice and cure periods, (b) the use to he made of the Premises by the proposed Transferee is prohibited under this Lease or differs from the uses permitted under this Lease, (c) the proposed Transferee or its business is subject to compliance with additional requirements of the ADA beyond those requirements which are applicable to Tenant, unless the proposed Transferee shall (1) first deliver plans and specifications for complying with such additional requirements (the "Transfer Plans and Specifications") and obtain Landlord's written consent thereto, and (2) comply with all Landlord's conditions contained in such consent, (d) the proposed Transferee does not intend to occupy a substantial portion of the Premises assigned or sublet to it, (e) Landlord reasonably disapproves of the proposed Transferee's business operating ability or history or creditworthiness or the character of the business to be conducted by the proposed Transferee at the Premises, (f) the proposed Transferee is a governmental agency or unit or an existing tenant in the Industrial Center, (g) the proposed Transfer would violate any "exclusive" rights of any occupants in the Industrial Center or cause Landlord to violate another agreement or obligation to which Landlord is a party or otherwise subject, (h) Landlord or Landlord's agent has shown space in the Industrial Center to the proposed Transferee or responded to any inquiries from the proposed Transferee or the proposed Transferee's agent concerning availability of space in the Industrial Center, at any time within the preceding twelve (12) months, (i) Landlord otherwise reasonably determines that the proposed Transfer would have the effect of decreasing the value of the Building or the Industrial Center, or increasing the expenses associated with operating, maintaining and repairing the Industrial Center, (i) either the proposed Transferee, or any person or entity which directly or indirectly, controls, is controlled by, or is under common control with, the proposed Transferee: (i) occupies space in (he Building al the time of the request for consent, (ii) is negotiating with Landlord to lease space in the Building at such time, or (iii) has negotiated with Landlord during the 12 month period immediately preceding the Tenant's Notice, (k) the rent proposed to be charged by Tenant to the proposed Transferee during the term of such Transfer, calculated using a present value analysis, is less than ninety-live percent (95%) of the rent then being quoted by Landlord, at the proposed time of such Transfer, for comparable space in the Building or any other Building in the Industrial Center for a comparable term, calculated using a present value system, or (l) the proposed Transferee will use, store or handle Hazardous Substances in or about the Premises of a type, nature or quantity not then acceptable to Landlord.

12.4 Effectiveness of Transfer and Continuing Obligations. Prior to Ihe date on which any permitted Transfer becomes effective, Tenant shall deliver to Landlord (i) a counterpart of the fully executed Transfer document, (ii) an executed Certificate substantially in the form of **Exhibit C** hereto (the "Transferee HazMat Certificate"), and (iii) Landlord's form of Consent to Assignment or Consent io Sublease, as applicable, executed by Tenant and the Transferee in which each of Tenant and the Transferee confirms its obligations pursuant to this Lease. Failure or refusal of a Transferee to execute any such consent instrument shall not release or discharge the Transferee from its obligation to do so or from any liability as provided herein. The voluntary, involuntary or other surrender of this Lease by Tenant, or a mutual cancellation by Landlord and Tenant, shall not work a merger, and any such surrender or cancellation shall, at the option of Landlord, either terminate all or any existing subleases or operate as an assignment to Landlord of any or all of such subleases. Each permitted Transferee shall assume and be deemed to assume this Lease and shall be and remain liable jointly and severally with Tenant for payment of Rent and for the due performance of, and compliance with all the terms, covenants, conditions and agreements herein contained on Tenant's part to be performed or complied with, for the Term of this Lease. No Transfer shall affect the continuing primary liability of Tenant (which, following assignment, shall be joint and several with the assignee), and Tenant shall nol he released from performing any of the terms, covenants and conditions of this Lease. An assignee of Tenant shall become directly liable to Landlord for all obligations of Tenant hereunder, but no Transfer by Tenant shall relieve Tenant of any obligations or liability under this Lease whether occurring before or after such consent, assignment, subletting or other Transfer. The acceptance of any or all of the Rent by Landlord from any other person (whether or not such person is an occupant of the Premises) shall not be deemed to be a waiver by Landlord of any provision of this Lease or to be a consent to any Transfer. Except as set

forth in Paragraph 12.9 below, if Tenant is a business entity, the direct or indirect transfer of more than fifty percent (50%) of the ownership interest of the entity (whether in a single transaction or in the aggregate through more than one transaction) shall be deemed a Transfer and shall be subject to all the provisions hereof and in such event, it shall be a condition to Landlord's consent to such ownership change that such entities or persons acquiring such ownership interest assume, as a primary obligor, all rights and obligations of Tenant under this Lease (and such entities and persons shall execute all documents reasonably required to effectuate such assumption). Any and all options, first rights of refusal, tenant improvement allowances and other similar rights granted to Tenant in this Lease, if any, shall not be assignable by Tenant unless expressly authorized in writing by Landlord (which shall be in Landlord's sole discretion). Except as set forth in Paragraph 12.9 below, any transfer made without Landlord's prior written consent, shall, at Landlord's option, be null, void and of no effect, and shall, at Landlord's option, constitute a material default by Tenant of this Lease. As Additional Rent hereunder. Tenant shall pay to Landlord each time it requests a Transfer, an administrative fee in the amount of two thousand five hundred dollars ($2,500) and, in addition, Tenant shall promptly reimburse Landlord for actual legal and other expenses incurred by Landlord in connection with any actual or proposed Transfer.

12.5 Rent Adjustment/Recapture. In the event the proposed Transfer (together with any prior Transfers) is of an amount of square footage equal to or greater than fifty percent (50%) of the Premises, Landlord shall have the right to recapture the Subject Space described in the Tenant's Notice. If such recapture notice is given, it shall serve to terminate this Lease with respect to the proposed Subject Space, or, if the proposed Subject Space covers all the Premises, it shall serve to terminate the entire Term of this Lease, in either case, as of the Proposed Effective Dale. However, no termination of this Lease with respect to part or all of the Premises shall become effective without the prior written consent, where necessary, of the holder of each deed of trust encumbering the Premises or any other portion of the Industrial Center. If this Lease is terminated pursuant to the foregoing provisions with respect to less than the entire Premises, the Rent shall be adjusted on the basis of the proportion of rentable square feet retained by Tenant to the rentable square feet originally demised and this Lease as so amended shall continue thereafter in full force and effect.

12.6 Transfer Premium. If Landlord consents to a Transfer, as a condition thereto. Tenant shall pay to Landlord monthly, as Additional Rent, at the same time as the monthly installments of Rent are payable hereunder, filly percent (50%) of any Transfer Premium, after first deducting commercially reasonable brokerage commissions and reasonable attorneys' fees. The term "Transfer Premium" shall mean all rent, additional rent and other consideration payable by such Transferee which either initially or over the term of the Transfer exceeds the Rent or pro rata portion of the Rent, as the case may be, for such space reserved in the Lease.

12.7 Waiver. Notwithstanding any Transfer, or any indulgences, waivers or extensions of time granted by Landlord to any Transferee, or failure by Landlord to take action against any Transferee, Tenant agrees that Landlord may, at its option, proceed against Tenant without having taken action against or joined such Transferee, except that Tenant shall have the benefit of any indulgences, waivers and extensions of time granted to any such Transferee.

12.8 Special Transfer Prohibitions. Notwithstanding anything set forth above to the contrary. Tenant may not (a) sublet the Premises or assign this Lease to any person or entity in which Landlord owns an interest, directly or indirectly (by applying constructive ownership rules set forth in Section 856(d)(5) of the Internal Revenue Code (the "Code"); or (b) sublet the Premises or assign this Lease in any other manner which could cause any portion of the amounts received by Landlord pursuant to this Lease or any sublease to fail to qualify as "rents from real property" within the meaning of Section 856(d) of the Code, or which could cause any other income received by Landlord to fail to qualify as income described in Section 856(c)(2) of the Code.

12.9 Affiliates. The assignment or subletting by Tenant of all or any portion of ibis Lease or the Premises to (i) a parent or subsidiary of Tenant, or (ii) any person or entity which controls, is controlled by or under the common control with Tenant, or (iii) any entity which purchases all or substantially all of the assets of Tenant, or (iv) any entity into which Tenant is merged or consolidated (all such persons or entities described in clauses (i), (ii), (iii) and (iv) being sometimes herein referred to as "Affiliates") shall not be subject to obtaining Landlord's prior consent and no Transfer Premium shall be payable, provided in all instances that:

(a) any such Affiliate was not formed as a subterfuge to avoid the obligations of this Article 12;

(b) Tenant gives Landlord prior notice of any such assignment or sublease to an Affiliate, except solely for those assignments or subleases in connection with which any applicable law precludes Tenant's delivery to Landlord of prior notice of said assignment or sublease then, in all such instances. Tenant shall deliver to Landlord subsequent notice of said assignment or sublease within ten (10) days following the first (1st) day on which Tenant is permitted by law to deliver notice of such assignment or sublease to Landlord;

(c) the successor of Tenant shall have throughout the Term a tangible net worth and net assets, in the aggregate, computed in accordance with generally accepted accounting principles (but excluding goodwill as an asset), which is sufficient to meet the obligations of Tenant under this Lease, as reasonably determined by Landlord;

(d) any such assignment or sublease shall be subject to all of the terms and provisions of this Lease, and such assignee or sublessee (i.e. any such Affiliate), other than in the case of an Affiliate resulting from a merger or consolidation, shall assume, in a written document reasonably satisfactory' to Landlord and delivered to Landlord upon or prior to the effective date of such assignment or sublease, all the obligations of Tenant under this Lease: and

(e) Tenant and any guarantor shall remain fully liable for all obligations to be performed by Tenant under this Lease.

13. Default; Remedies.

13.1 Default. The occurrence of any one of the following events shall constitute an event of default on the part of Tenant ("Default"):

(a) The abandonment of the Premises by Tenant:

(b) Failure to pay any installment of Base Rent, Additional Rent, or any other monies due and payable hereunder, said failure continuing for a period of five (5) days after Landlord's delivery of written notice to Tenant that said payment is past due. Tenant agrees that any such written notice delivered by Landlord shall, to the fullest extent permitted by law, serve as the statutorily required notice under applicable law to the extent Tenant fails to cure such failure to pay within such five (5) day period. In addition to the foregoing, Tenant agrees to notice and service of notice as provided for in accordance with applicable statutory requirements;

(c) A general assignment by Tenant for the benefit of creditors;

(d) The filing of a voluntary petition of bankruptcy by Tenant; the filing of a voluntary petition for an arrangement; the filing of a petition, voluntary or involuntary, for reorganization; or the filing of an involuntary petition by Tenant's creditors;

(e) Receivership, attachment, or other judicial seizure of the Premises or all or substantially all of Tenant's assets on the Premises;

(f) Failure of Tenant to maintain insurance as required by Paragraph 8.2;

(g) Any breach by Tenant of its covenants under Paragraph 6.2;

(h) Failure in the performance of any of Tenant's covenants, agreements, or obligations hereunder (except those failures specified as events of Default in other Paragraphs of this Paragraph 13.1 which shall be governed by such other Paragraphs), which failure continues for 10 days after written notice thereof from Landlord to Tenant; provided that, if Tenant has exercised reasonable diligence to cure such failure and such failure cannot be cured within such 10-day period despite reasonable diligence. Tenant shall not be in default under this subparagraph unless Tenant fails thereafter diligently and continuously to prosecute the cure to completion; and

(i) Except as set forth in Paragraph 12.9, any transfer of a substantial portion of the assets of Tenant, unless such transfer or obligation is undertaken or incurred in the ordinary course of Tenant's business, or in good faith for equivalent consideration, or with Landlord's consent.

13.2 Remedies. In the event of any Default by Tenant, Landlord shall have any or all of the following remedies:

(a) Termination. In the event of any Default by Tenant, then in addition to any other remedies available to Landlord at law or in equity and under this Lease. Landlord shall have the immediate option to terminate this Lease and all rights of Tenant hereunder by giving written notice of such intention to terminate. In the event that Landlord shall elect to so terminate this Lease then Landlord may recover from Tenant;

(1) the worth at the time of award of any unpaid Rent and any other sums due and payable which have been earned at the time of such termination; plus

(2) the worth at the time of award of the amount by which the unpaid Rent and any other sums due and payable which would have been earned after termination until the time of award exceeds the amount of such rental loss Tenant proves could have been reasonably avoided; plus

(3) the worth at the time of award of the amount by which the unpaid Rent and any other sums due and payable for the balance of the term of this Lease after the time of award exceeds the amount of such rental loss that Tenant proves could be reasonably avoided; plus

(4) any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course would be likely to result therefrom, including, without limitation, any costs or expenses incurred by Landlord (i) in retaking possession of the Premises; (ii) in maintaining, repairing, preserving, restoring, replacing, cleaning, the Premises or any portion thereof, including such acts for reletting to a new lessee or lessees; (iii) for leasing commissions; or (iv) for any other costs reasonably necessary or reasonably appropriate to relet the Premises; plus

(5) such reasonable attorneys' fees incurred by Landlord as a result of a Default, and costs in the event suit is filed by Landlord to enforce such remedy; and plus

(6) at Landlord's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable law. As used in subparagraphs (1) and (2) above, the "worth at the time of award" is computed by allowing interest at an annual rate equal to twelve percent (12%) per annum or the maximum rate permitted by law, whichever is less. As used in subparagraph (3) above, the "worth at the time of award" is computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of

award, plus one percent (1%). Tenant waives redemption or relief from forfeiture under California Code of Civil Procedure Sections 1174 and 1179, or under any other present or future law, in the event Tenant is evicted or Landlord takes possession of the Premises by reason of any Default of Tenant hereunder.

(b) Continuation of Lease. In the event of any Default by Tenant, then in addition to any other remedies available to Landlord at law or in equity and under this Lease, Landlord shall have the remedy described in California Civil Code Section 1951.4 (Landlord may continue this Lease in effect after Tenant's Default and abandonment and recover Rent as it becomes due, provided tenant has the right to sublet or assign, subject only to reasonable limitations).

(c) Re-entry. In the event of any Default by Tenant, Landlord shall also have the right, with or without terminating this Lease, in compliance with applicable law. to re-enter the Premises and remove all persons and property from the Premises; such property may be removed and stored in a public warehouse or elsewhere at the cost of and for the account of Tenant.

(d) Reletting. In the event of the abandonment of the Premises by Tenant or in the event that Landlord shall elect to re-enter or shall take possession of the Premises pursuant to legal proceeding or pursuant to any notice provided by law, then if Landlord does not elect to terminate this Lease as provided in Paragraph a, Landlord may from time to time, without terminating this Lease, relet the Premises or any part thereof for such term or terms and at such rental or rentals and upon such other terms and conditions as Landlord in its sole discretion may deem advisable with the right to make alterations and repairs to the Premises. In the event that Landlord shall elect to so relet, then rentals received by Landlord from such reletting shall be applied in the following order: (1) to reasonable attorneys' fees incurred by Landlord as a result of a Default and costs in the event suit is tiled by Landlord to enforce such remedies; (2) to the payment of any indebtedness other than Rent due hereunder from Tenant to Landlord; (3) to the payment of any costs of such reletting; (4) to the payment of the costs of any alterations and repairs to the Premises: (5) to the payment of Rent due and unpaid hereunder; and (6) the residue, if any, shall be held by Landlord and applied in payment of future Rent and other sums payable by Tenant hereunder as the same may become due and payable hereunder. Should that portion of such rentals received from such reletting during any month, which is applied to the payment of Rent hereunder, be less than the Rent payable during the month by Tenant hereunder, then Tenant shall pay such deficiency to Landlord. Such deficiency shall be calculated and paid monthly. Tenant shall also pay to Landlord, as soon as ascertained, any costs and expenses incurred by Landlord in such reletting or in making such alterations and repairs not covered by the rentals received from such reletting; provided. Tenant shall not be obligated to Landlord for any such costs attributable to the removal (or repair following removal) of the Tenant Improvements described in **Exhibit F**.

(e) Termination. No re-entry or taking of possession of the Premises by Landlord pursuant to this Lease shall be construed as an election to terminate this Lease unless a written notice of such intention is given to Tenant or unless the termination thereof is decreed by a court of competent jurisdiction. Notwithstanding any reletting without termination by Landlord because of any Default by Tenant, Landlord may at any time after such reletting elect to terminate this Lease for any such Default.

(f) Cumulative Remedies. The remedies herein provided are not exclusive and Landlord shall have any and all other remedies provided herein or by law or in equity.

(g) No Surrender. No act or conduct of Landlord, whether consisting of the acceptance of the keys to the Premises, or otherwise, shall be deemed to be or constitute an acceptance of the surrender of the Premises by Tenant prior to the expiration of the Term, and such acceptance by Landlord of surrender by Tenant shall only flow from and must be evidenced by a written acknowledgment of acceptance of surrender signed by Landlord. The surrender of this Lease by Tenant, voluntarily or otherwise, shall not work a merger unless Landlord elects in writing that such merger take place, but shall operate as an assignment to Landlord of any and all existing subleases, or Landlord may, at its option, elect in writing to treat such surrender as a merger terminating Tenant's estate under this Lease, and thereupon Landlord may terminate any or all such subleases by notifying the sublessee of its election so to do within five (5) days after such surrender.

(h) Notice Provisions Tenant agrees that any notice given by Landlord pursuant to Paragraph 13.1 of the Lease shall satisfy the requirements for notice under California Code of Civil Procedure Section 1161, and Landlord shall not be required to give any additional notice in order to be entitled to commence an unlawful detainer proceeding. Should Landlord prepare any notice to Tenant for failure to pay rent, additional rent or perform any other obligation under the Lease, Tenant shall pay to Landlord, without any further notice from Landlord, the additional sum of $75.00 which the parties hereby agree represents a fair and reasonable estimate of the costs Landlord will incur by reason of preparing such notice.

13.3 Late Charges. Tenant hereby acknowledges that late payment by Tenant to Landlord of Rent and other sums due hereunder will cause Landlord to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges. Accordingly, if any installment of Rent or other sum due from Tenant shall not be received by Landlord or Landlord's designee within 4 days after such amount shall be due, then, without any requirement for notice to Tenant. Tenant shall pay to Landlord a late charge equal to 5% of such overdue amount. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Landlord will incur by reason of late payment by Tenant. Acceptance of such late charge by Landlord shall in no event constitute a waiver of Tenant's Default with respect to such overdue amount, nor prevent Landlord from exercising any of the other rights and remedies granted hereunder. In addition, should Landlord be unable to negotiate any payment made by Tenant on the first attempt by Landlord and without any notice to Tenant. Tenant shall pay to Landlord a fee of $50.00 per item which the parties hereby agree represents a fair and reasonable estimate of the costs Landlord will incur by reason of Landlord's inability to negotiate such item(s).

14. Condemnation. If the Premises or any portion thereof are taken under the power of eminent domain or sold under the threat of exercise of said power (all of which are herein called "condemnation"), this Lease shall terminate as to the part so taken as of the date the condemning authority takes title or possession, whichever first occurs. If more than 10% of the floor area of the Premises, or more than 25% of the portion of the Common Areas designated for Tenant's parking, is taken by condemnation. Tenant may, at Tenant's option, to be exercised in writing within 10 days after Landlord shall have given Tenant written notice of such taking (or in the absence of such notice, within 10 days after the condemning authority shall have taken possession), terminate this Lease as of the date the condemning authority takes such possession. If Tenant does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the Premises remaining, except that the Base Rent shall be reduced in the same proportion as the rentable floor area of the Premises taken bears to the total rentable floor area of the Premises. No reduction of Base Rent shall occur if the condemnation does not apply to any portion of the Premises. Any award for the taking of all or any part of the Premises under the power of eminent domain or any payment made under threat of the exercise of such power shall be the property of Landlord; provided, however, that Tenant shall be entitled to any compensation, separately awarded to Tenant, for Tenant's relocation expenses and/or loss of Tenant's trade fixtures. In the event that this Lease is not terminated by reason of such condemnation, Landlord shall to the extent of its net severance damages in the condemnation matter, repair any damage to the Premises caused by such condemnation authority. Tenant shall be responsible for the payment of any amount in excess of such net severance damages required to complete such repair.

15. Estoppel Certificate and Financial Statements.

15.1 Estoppel Certificate. Each party (herein referred to as "Responding Party") shall within 10 business days after written notice from the other Party (the "Requesting Party") execute, acknowledge, and deliver to the Requesting Party, to the extent it can truthfully do so, an estoppel certificate in a form reasonably acceptable to the Responding Party, or any of Landlord's lenders or any prospective purchasers of the Premises or the Industrial Center as the case may be, plus such additional information, confirmation, and statements as be reasonably requested by the Requesting Party.

15.2 Financial Statement. If Landlord desires to finance, refinance, or sell the Building, Industrial Center, or any part thereof, Tenant shall deliver to any potential lender or purchaser designated by Landlord such financial statements of Tenant as are prepared by Tenant in the ordinary course of business, including but not limited to Tenant's financial statements for the past 3 years (if then available). All such financial statements shall be received by Landlord and such lender or purchaser in confidence and shall be used only for the purposes herein set forth. Landlord agrees to execute and Landlord shall use its commercially reasonable efforts to cause Landlord's lender or purchaser to execute a non-disclosure agreement reasonably acceptable to such parties related to such financial statements of Tenant.

16. Additional Covenants and Provisions.

16.1 Severability. The invalidity of any provision of this Lease, as determined by a court of competent jurisdiction, shall not affect the validity of any other provision hereof.

16.2 Interest on Past-Due Obligations. Any monetary payment due Landlord hereunder not received by Landlord within 10 days following the date on which it was due shall bear interest from the date due at 12% per annum, but not exceeding the maximum rate allowed by law in addition to the late charge provided for in Paragraph 13.3.

16.3 Time of Essence. Time is of the essence with respect to the performance of all obligations to be performed or observed by the Parties under this Lease.

16.4 Landlord Liability. Tenant, its successors, and assigns shall not assert nor seek to enforce any claim for breach of this Lease against any of Landlord's assets other than Landlord's interest in the Industrial Center. Tenant agrees to look solely to such interest for the satisfaction of any liability or claim against Landlord under this Lease. In no event whatsoever shall Landlord (which term shall include, without limitation, any general or limited partner, trustees, beneficiaries, officers, directors, or stockholders of Landlord) ever be personally liable for any such liability.

16.5 Entire Agreement. It is understood and acknowledged that there are no oral agreements between the parties hereto affecting this Lease and this Lease supersedes and cancels any and all previous negotiations, arrangements, brochures, agreements and understandings, if any, between the parties hereto or displayed by Landlord to Tenant with respect to the subject matter thereof, and none thereof shall be used to interpret or construe this Lease. This Lease and any side letter or separate agreement executed by Landlord and Tenant in connection with this Lease and dated of even date herewith contain all of the terms, covenants, conditions, warranties and agreements of the parties relating in any manner to the rental, use and occupancy of the Premises, shall be considered to be the only agreement between the parties hereto and their representatives and agents, and none of the terms, covenants, conditions or provisions of this Lease can be modified, deleted or added to except in writing signed by the parties hereto. All negotiations and oral agreements acceptable to both parties have been merged into and are included herein, there are no other representations or warranties between the parties, and all reliance with respect to representations is based totally upon the representations and agreements contained in this Lease. The parties acknowledge that (i) each party and/or its counsel have reviewed and revised this Lease, and (ii) no rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall be employed in the interpretation or enforcement of this Lease or any amendments or exhibits to this Lease or any document executed and delivered by either party in connection with this Lease.

16.6 Notice Requirements. All notices required or permitted by this Lease shall be in writing and may be delivered in person (by hand, messenger, or courier service) or may be sent by regular, certified, or registered mail or U.S. Postal Service Express Mail, with postage prepaid, or by facsimile transmission during normal business hours, and shall be deemed sufficiently given if served in a manner specified in this Paragraph 16.6. The addresses noted adjacent to a Party's signature on this Lease shall be that Party's address for delivery or mailing of notice purposes. Either Party may by written notice to the other specify a different address for notice purposes, except that upon Tenant's taking possessing of the Premises, the Premises shall constitute Tenant's address for the purpose of mailing or delivering notices to Tenant. A copy of all notices required or permitted to be given to Landlord hereunder shall be concurrently transmitted to such party or parties at such addresses as Landlord may from time to time hereafter designate by written notice to Tenant.

16.7 Date of Notice. Any notice sent by registered or certified mail, return receipt requested, shall be deemed given on the date of delivery shown on the receipt card, or if no delivery date is shown, the postmark thereon. If sent by regular mail, the notice shall be deemed given 48 hours after the same is addressed as required herein and mailed with postage prepaid. Notices delivered by United States Express Mail or an overnight courier that guarantees next day delivery shall be deemed given 24 hours after delivery of the same to the United States Postal Service or courier. If any notice is transmitted by facsimile transmission or similar means, the same shall be deemed served or delivered upon telephone or facsimile confirmation of receipt of the transmission thereof, provided a copy is also delivered via hand or overnight delivery or certified mail. If notice is received on a Saturday, Sunday, or legal holiday, it shall be deemed received on the next business day.

16.8 Waivers. No waiver by Landlord of a Default by Tenant shall be deemed a waiver of any other term, covenant, or condition hereof, or of any subsequent Default by Tenant of the same or any other term, covenant, or condition hereof. In addition the acceptance by Landlord of any rent or other payment after it is due, whether or not a notice of default has been served or any action (including, without limitation, an unlawful detainer action) has been filed by Landlord thereon, shall not be deemed a waiver of Landlord's rights to proceed on any notice of default or action which has been filed against Tenant based upon Tenant's breach of the Lease.

16.9 Holdover. Tenant has no right to retain possession of the Premises or any part thereof beyond the expiration or earlier termination of this Lease. If Tenant holds over with the consent of Landlord: (a) the Base Rent payable shall be increased to 150% of the Base Rent applicable during the month immediately preceding such expiration or earlier termination; (b) Tenant's right to possession shall terminate on 30 days notice from Landlord; and (c) all other terms and conditions of this Lease shall continue to apply. Nothing contained herein shall be construed as a consent by Landlord to any holding over by Tenant. Tenant shall indemnify, defend, and hold Landlord harmless from and against any and all claims, demands, actions, losses, damages, obligations, costs, and expenses, including, without limitation, attorneys' fees incurred or suffered by Landlord by reason of Tenant's failure to surrender the Premises on the expiration or earlier termination of this Lease in accordance with the provisions of this Lease.

16.10 Cumulative Remedies. No remedy or election hereunder shall be deemed exclusive but shall, wherever possible, be cumulative with all other remedies in law or in equity.

16.11 Binding Effect: Choice of Law. This Lease shall be binding upon the Parties, their personal representatives, successors, and assigns, and be governed by the laws of the State in which the Premises are located. Any litigation between the Parties hereto concerning this Lease shall be initiated in the county in which the Premises are located.

16.12 Landlord. The covenants and obligations contained in this Lease on the part of Landlord are binding on Landlord, its successors, and assigns only during their respective period of ownership of an interest in the Building. In the event of any transfer or transfers of such title to the Building, Landlord (and, in the ease of any subsequent transfers or conveyances, the then grantor) shall be concurrently freed and relieved from and after the date of such transfer or conveyance, without any further instrument or agreement, of all liability with respect to the performance of any covenants or obligations on the part of Landlord contained in this Lease thereafter to be performed.

16.13 Attorneys' Fees and Other Costs. If any Party brings an action or proceeding to enforce the terms hereof or declare rights hereunder, the Prevailing Party (as hereafter defined) in any such proceeding shall be entitled to reasonable attorneys' fees. The term "Prevailing Party" shall include, without limitation, a Party who substantially obtains or defeats the relief sought. Landlord shall be entitled to attorneys' fees, costs, and expenses incurred in the preparation and service of notices of Default (as defined in this Lease) and consultations in connection therewith, whether or not a legal action is subsequently commenced in connection with such Default or resulting breach. Tenant shall reimburse Landlord on demand for all reasonable legal, engineering, and other professional services expenses incurred by Landlord in connection with all requests by Tenant or any lender of Tenant for consent, waiver or approval of any kind.

16.14 Landlord's Access; Showing Premises; Repairs. Landlord and Landlord's agents shall have the right to enter the Premises at any time, in the case of an emergency, and otherwise at reasonable times upon reasonable notice for the purpose of showing the same to prospective purchasers, lenders, or tenants, and making such alterations, repairs, improvements, or additions to the Premises or to the Building, as Landlord may reasonably deem necessary, provided, in no event shall Tenant be obligated to disclose or provide access to Tenant's proprietary or confidential information in connection with such inspections. Landlord may at any time place on or about the Premises or Building any ordinary "For Sale" signs, and Landlord may at any time during the last 180 days of the term hereof place on or about the Premises any ordinary "For Lease" signs. All such activities of Landlord shall be without abatement of rent or liability to Tenant.

16.15 Signs. Tenant shall not place any signs at or upon the exterior of the Premises or the Building, except that Tenant may, with Landlord's prior written consent, install (but not on the root) such signs as are similar to the signs of other tenants at the Industrial Center so long as such signs are in a location designated by Landlord and comply with sign ordinances and the signage criteria established for the Industrial Center by Landlord.

16.16 Termination: Merger. Unless specifically stated otherwise in writing by Landlord, the voluntary or other surrender of this Lease by Tenant, the mutual termination or cancellation hereof, or a termination hereof by Landlord for Default by Tenant, shall automatically terminate any sublease or lesser estate in the Premises; provided, however, Landlord shall, in the event of any such surrender, termination, or cancellation, have the option to continue any one or all of any existing subtenancies. Landlord's failure within 10 days following any such event to make a written election to the contrary by written notice to the holder of any such lesser interest shall constitute Landlord's election to have such event constitute the termination of such interest.

16.17 Quiet Possession. Upon payment by Tenant of the Base Rent and Additional Rent for the Premises and the performance of all of the covenants, conditions, and provisions on Tenant's part to be observed and performed under this Lease, tenant shall have quiet possession of the Premises for the entire term hereof, subject to all of the provisions of this Lease.

16.18 Subordination: Attornment: Non-Disturbance.

(a) Subordination. This Lease shall be subject and subordinate to any ground lease, mortgage, deed of trust, or other hypothecation or mortgage (collectively, "Mortgage") now or hereafter placed by Landlord upon the real property of which the Premises are a part, to any and all advances made on the security thereof, and to all renewals, modifications, consolidations, replacements, and extensions thereof. Tenant agrees that any person holding any Mortgage shall have no duty, liability, or obligation to perform any of the obligations of Landlord under this Lease. In the event of Landlord's default with respect to any such obligation. Tenant will give any Lender, whose name and address have previously been furnished in writing to Tenant, notice of a default by Landlord. Tenant may not exercise any remedies for default by Landlord unless and until Landlord and the Lender shall have received written notice of such default and a reasonable time (not less than 90 days) shall thereafter have elapsed without the default having been cured. If any Lender shall elect to have this Lease superior to the lien of its Mortgage and shall give written notice thereof to Tenant, this Lease shall be deemed prior to such Mortgage. The provisions of a Mortgage relating to the disposition of condemnation and insurance proceeds shall prevail over any contrary provisions contained in this Lease.

(b) Attornment. Subject to the nondisturbance provisions of subparagraph (c) of this Paragraph 16.18. Tenant agrees to attorn to a Lender or any other party who acquires ownership of the Premises by reason of a foreclosure of a Mortgage. In the event of such foreclosure, such new owner shall not: (i) be liable for any act or omission of any prior landlord or with respect to events occurring prior to acquisition of ownership, (ii) be subject to any offsets or defenses which Tenant might have against any prior Landlord, or (iii) be liable for security deposits or be bound by prepayment of more than one month's rent.

(c) Non-Disturbance. With respect to a Mortgage entered into by Landlord after the execution of this Lease. Tenant's subordination of this Lease shall be subject to receiving assurance (a "nondisturbance agreement") from the Mortgage holder that Tenant's possession and this Lease will not he disturbed so long as Tenant is not in default and attorns to the record owner of the Premises.

(d) Self-Executing. The agreements contained in this Paragraph 16.1 shall be effective without the execution of any further documents; provided, however, that upon written request from Landlord or a Lender in connection with a sale, financing, or refinancing of Premises. Tenant and Landlord shall execute such further writings as may be reasonably required to separately document any such subordination or nonsubordination, attornment, and/or nondisturbance agreement, as is provided for herein. Landlord is hereby irrevocably vested with full power to subordinate this Lease to a Mortgage.

16.19 Rules and Regulations. Tenant agrees that it will abide by, and to cause its employees, suppliers, shippers, customers, tenants, contractors, and invitees to abide by, all reasonable rules and regulations ("Rules and Regulations") which Landlord may make from time to time for the management, safety, care, and cleanliness of the Common Areas, the parking and unloading of vehicles, and the preservation of good order, as well as for the convenience of other occupants or tenants of the Building and the Industrial Center and their invitees. The current Rules and Regulations are attached hereto as **Exhibit E**. Landlord shall not be responsible to Tenant for the noncompliance with said Rules and Regulations by other tenants of the Industrial Center.

16.20 Security Measures. Tenant acknowledges that the rental payable to Landlord hereunder does not include the cost of guard service or other security measures. Landlord has no obligations to provide same. Tenant assumes all responsibility for the protection of the Premises, Tenant, its agents, and invitees and their property from the acts of third parties.

16.21 Reservations. Landlord reserves the right to grant such easements that Landlord deems necessary and to cause the recordation of parcel maps, so long as such easements and maps do not unreasonably interfere with the use of the Premises by Tenant. Tenant agrees to sign any documents reasonably requested by Landlord to effectuate any such easements or maps. Tenant further agrees that Landlord may at any time following the execution of this Lease, either directly or through Landlord's agents, identify Tenant's name in any marketing materials relating to the Building or Landlord's portfolio and/or make press releases or other announcements regarding the leasing of the Premises by Tenant, and Tenant hereby waives any and all claims in connection therewith.

16.22 Conflict. Any conflict between the printed provisions of this Lease and the typewritten or handwritten provisions shall be controlled by the typewritten or handwritten provisions.

16.23 Offer. Preparation of this Lease by either Landlord or Tenant or Landlord's agent or Tenant's agent and submission of same to Tenant or Landlord shall not he deemed an offer to lease. This Lease is not intended to be binding until executed and delivered by all Parties hereto.

16.24 Amendments. This Lease may be modified only in writing, signed by the parties in interest at the time of the modification.

16.25 Multiple Parties. Except as otherwise expressly provided herein, if more than one person or entity is named herein as Tenant, the obligations of such persons shall he the joint and several responsibility of all persons or entities named herein as such Tenant.

16.26 Authority. Each person signing on behalf of Landlord or Tenant warrants and represents that she or he is authorized to execute and deliver this Lease and to make it a binding obligation of Landlord or Tenant.

16.27 Recordation. Tenant shall not record this Lease or a short form memorandum hereof.

16.28 Confidentiality. Tenant acknowledges that the content of this Lease and any related documents are confidential information. Tenant shall keep and maintain such confidential information strictly confidential and shall not disclose such confidential information to any person or entity other than Tenant's financial, legal and space planning consultants.

16.29 Landlord Renovations. Tenant acknowledges that Landlord may from time to time, at Landlord's sole option, renovate, improve, develop, alter, or modify (collectively, the "Renovations") portions of the Building, Premises, Common Areas and the Industrial Center, including without limitation, systems and equipment, roof, and structural portions of the same. In connection with such Renovations, Landlord may, among other things, erect scaffolding or other necessary structures in the Building, limit or eliminate access to portions of the Industrial Center, including portions of the Common Areas, or perform work in the Building, which work may create noise, dust or leave debris in the Building. Tenant hereby agrees that such Renovations and Landlord's actions in connection with such Renovations shall in no way constitute a constructive eviction of Tenant nor entitle Tenant to any abatement of Rent. Landlord shall have no responsibility, or for any reason be liable to Tenant, for any direct or indirect injury to or interference with Tenant's business arising from the Renovations, nor shall Tenant be entitled to any compensation or damages from Landlord for loss of the use of the whole or any part of the Premises or of Tenant's Property. Alterations or improvements resulting from the Renovations or Landlord's actions in connection with such Renovations, or for any inconvenience or annoyance occasioned by such Renovations or Landlord's actions in connection with such Renovations.

16.30 WAIVER OF JURY TRIAL. THE PARTIES HERETO SHALL AND THEY HEREBY DO WAIVE TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM BROUGHT BY EITHER OF THE PARTIES HERETO AGAINST THE OTHER ON ANY MATTERS WHATSOEVER ARISING OUT OF OR IN ANY WAY RELATED TO THIS LEASE, THE RELATIONSHIP OF LANDLORD AND TENANT, TENANT'S USE OR OCCUPANCY OF THE PREMISES, THE BUILDING OR THE INDUSTRIAL CENTER, AND/OR ANY CLAIM OF INJURY, LOSS OR DAMAGE.

16.31 Clean Room Equipment. Landlord and Tenant acknowledge and agree that Landlord shall lease to Tenant during the Term, at no additional cost, all equipment and utility systems located in the clean room in the Premises and identified on **Exhibit G** attached hereto and incorporated herein by this reference (the foregoing are collectively, "Clean Room Equipment"). Such leasing is on an "AS-IS WITH ALL FAULTS" basis and subject to all of the terms of this Lease (including, without limitation, Paragraph 8 of this Lease), without recourse, representation or warranty of any kind or nature, express or implied, including without limitation, habitability, merchantability or fitness for a particular purpose. At the expiration or earlier termination of this Lease, the Clean Room Equipment shall be returned and surrendered to Landlord in the same or substantially similar condition and repair as when delivered to Tenant, reasonable wear and tear excepted. Tenant shall be obligated to repair, maintain and insure the Clean Room Equipment, and Tenant shall not have the right or ability to (a) remove or materially modify the Clean Room Equipment or (b) assign or sublet any of the Clean Room except in conjunction with this Lease and the Premises. Tenant shall pay any taxes, assessments and insurance premiums attributable to the Clean Room Equipment.

16.32 HVAC Units: Drawings. On or before the Commencement Date, Landlord shall provide to Tenant (i) a list of all HVAC units that serve the Premises such list to include, to the extent available, unit number, maker of unit, type of unit, model number, serial number and size of unit and (ii) to the extent in Landlord's possession, any CAD drawings, including mechanical and electrical drawings, relating to the Premises.

16.33 Generator. Tenant shall have the right (but only to the extent permitted by the City of Menlo Park and all agencies and governmental authorities having jurisdiction thereof), at Tenant's sole cost and expense, to maintain and operate the currently existing emergency generator, UPS battery systems and related appurtenances (collectively, the "Generator Equipment") in the location such Generator Equipment is currently located ("Equipment Area"), provided:

(a) Tenant shall at its sole cost and expense, obtain all licenses and permits to operate and maintain the generator equipment within the Equipment Area, if required. Because the Generator is owned by Landlord, if a governmental agency requires that Landlord be the applicant for the license or permits then Landlord shall obtain such licenses or permits at Tenant's sole cost and expense, for the benefit of Tenant. Tenant shall obtain Landlord's prior written consent before making any modifications to the Equipment Area.

(b) No additional Base Rent shall be paid by Tenant for use of the Equipment Area or Generator Equipment; provided. Tenant shall be solely responsible to pay for all utilities, including without limitation, electricity, used in connection with the Generator Equipment or Equipment Area.

(c) The Generator Equipment shall remain the property of Landlord and Tenant shall not remove the Generator Equipment upon the expiration or earlier termination of this Lease. Prior to expiration or earlier termination of this Lease. Landlord may require that Tenant perform, at Tenant's sole expense, an environmental site assessment reasonably acceptable to Landlord to determine the extent of any contamination and Tenant shall, at Tenant's sole expense, clean up, remove, and remediate all Hazardous Substances that may have been caused by Tenant's use of the Generator Equipment.

(d) Each of the other provisions of this Lease shall be applicable to the Equipment Area and the use of the Generator Equipment by Tenant, including without limitation. Paragraphs 6, 7 and 8 of the Lease.

(e) Anything to the contrary contained herein notwithstanding, if, during the Term. as such Term may be extended. Landlord, in its reasonable judgment, believes that the Generator Equipment poses a human health or environmental hazard that cannot be remediated or has not been remediated within ten (10) days after Tenant has been notified thereof, then Tenant shall immediately cease all operation of the Generator Equipment.

(f) Tenant shall not use the Generator Equipment, the Equipment Area or any other portion of the Industrial Center in any way which interferes with the use of the Industrial Center by Landlord, or other tenants or licensees of Landlord or any other occupant. Such interference shall be deemed a material breach by the Tenant under the Lease, and Tenant shall, within five (5) days of written notice from Landlord, be responsible for terminating said interference. In the event any such interference does not cease within live (5) days of Landlord's written notice. Tenant acknowledges that continuing interference may cause irreparable injury and. Tenant shall immediately cease all operation of the Generator Equipment.

(g) Tenant shall indemnify, defend (by counsel reasonably acceptable to Landlord) and hold harmless Landlord and all of Landlord's Entities from any and all claims, demands, losses, liabilities, damages, judgments, costs and expenses (including reasonable attorneys' fees) any of such Landlord's Entities may suffer or incur arising out of or related to the use. operation and maintenance of the Generator Equipment or any portion thereof by Tenant.

(h) Tenant shall maintain all reports, inventory and other records, test results, permits and all other data and information required under Applicable Requirements for the use, maintenance and operation of the Generator Equipment, and upon request of Landlord, shall provide a copy of all such reports, records, test results and other information without cost or expense to Landlord.

///continued on next page///

The parties hereto have executed this Lease at the place and on the dates specified below their respective signatures.

LANDLORD

AMB PROPERTY. L.P.,
a Delaware limited partnership

By: AMB PROPERTY CORPORATION,
a Maryland corporation, its general partner

By: /s/ Mark Hansen
Its: Sr. Vice President
Date: 12-10-09

TENANT

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.,
a Delaware Corporation, dba Pac Bro, Inc.

By: /s/ Hugh Martin
Its: CEO
Date: 12-10-09

By: /s/ Carol Tillis
Its: VP Finance
Date: 10-12-09

Tenant's Address:

After the Commencement Date
The Premises Address

Prior to the Commencement Date

Landlord's Address:
AMB Property. L.P., a Delaware limited partnership
c/o AMB Property Corporation
Pier 1. Bay 1
San Francisco, California 94111

With a copy to:

1360 Willow Road. Suite 100
Menlo Park, California 94025

If Tenant is a CORPORATION, the authorized officers must sign on behalf of the corporation and indicate the capacity in which they are signing. The Lease must be executed by the chairman of the board, president or vice-president, and the secretary, assistant secretary, chief financial officer or any assistant treasurer, unless the bylaws or a resolution of the board of directors shall otherwise provide, in which event, the bylaws or a certified copy of the resolution, as the case may be, must be attached to this Lease.

Exhibit A
Description of Premises

This exhibit, entitled “Premises”, is and shall constitute Exhibit A to that certain Industrial Lease dated December 10, 2009 (the “Lease”), by and between AMB Property, L.P., a Delaware limited partnership (“Landlord”) and Pacific Biosciences of California. Inc., a Delaware corporation dba Pac Bio. Inc. (“Tenant”) for the leasing of certain premises commonly known as 1394 Willow Road. Menlo Park. California (the “Premises”).

The Premises consist of the rentable square footage of space specified in the Basic Provisions and has the address specified in the Basic Provisions. The Premises are a part of and are contained in the Building specified in the Basic Provisions. If set forth below (or attached), the cross-hatched area depicts the Premises within the Industrial Center:

Exhibit B
Commencement Date Certificate

Landlord: AMB Property, L.P., a Delaware limited partnership

Tenant: Pacific Biosciences of California, Inc.,
a Delaware corporation dba Pac Bio, Inc.

Lease Date: December 10, 2009

Premises: 1394 Willow Road, Menlo Park, California 94025

Tenant hereby accepts the Premises as being in the condition required under the Lease.
The Commencement Date of the Lease is _____, ____.
The Expiration Date of the Lease is _____, ____.

LANDLORD
AMB PROPERTY, L.P.,
a Delaware limited partnership

By: AMB PROPERTY CORPORATION,
a Maryland corporation, its general partner

By: /s/ Mark Hansen
Mark Hansen
Its: Sr. Vice President
Date: 12-10-09

TENANT
PACIFIC BIOSCIENCES CALIFORNIA, INC.,
a Delaware corporation dba Pac Bio, Inc.

By: /s/ Hugh Martin
Its: CEO
Date: 12-10-09

By: /s/ Carol Tillis
Its: VP Finance
Date: 12-10-09

Tenant's Address:

After the Commencement Date
The Premises Address

Prior to the Commencement Date

_____
_____
_____

Landlord's Address:

AMB Property, L.P., a Delaware limited partnership
c/o AMB Property Corporation
Pier 1, Bay 1
San Francisco, California 94111

With a copy to:

1360 Willow Road, Suite 100
Menlo Park, California 94025

If Tenant is a CORPORATION, the authorized officers must sign on behalf of the corporation and indicate the capacity in which they are signing. The document must be executed by the chairman of the board, president or vice-president, and the secretary, assistant secretary, chief financial officer or any assistant treasurer, unless the bylaws or a resolution of the board of directors shall otherwise provide, in which event, the bylaws or a certified copy of the resolution, as the case may be, must be attached to this document.

Exhibit D
Move Out Standards

This “Move Out Standards” (Exhibit D) is dated December 10, 2009. for the reference purposes only and is made between AMB Properly. L.P., a Delaware limited partnership (“Landlord”), and Pacific Biosciences of California, Inc., a Delaware corporation dba Pac Bio. Inc. (“Tenant”), to be a part of that certain Industrial Lease (the “Lease”) concerning certain premises more commonly known as 1394 Willow Road. Menlo Park, California (the “Premises”). Landlord and Tenant agree that the Lease is hereby modified and supplemented as follows:

At the expiration or earlier termination of this Lease, and in addition to any other provisions of the Lease regarding surrender of the Premises, Tenant shall surrender the Premises in the same condition as they were upon delivery of possession thereto under the Lease, reasonable wear and tear excepted, and shall deliver all keys to Landlord. Before surrendering the Premises, Tenant shall remove all of its personal property and trade fixtures and such alterations or additions to the Premises made by Tenant as may be specified for removal by Landlord. If Tenant fails to remove its personal property, fixtures or alterations or additions upon the expiration or earlier termination of the Lease, the same shall be deemed abandoned and shall become the property of Landlord. Tenant shall be liable to Landlord for all costs and damages incurred by Landlord in removing, storing or selling such property, fixtures, alterations or additions and in restoring the Premises to the condition required pursuant to the Lease.

Notwithstanding anything to the contrary in the Lease. Tenant shall surrender the Premises, at the time of the expiration or earlier termination of the Lease, in a condition that shall include, but is not limited to. the following:

1.	Lights:	Office and warehouse lights will be fully operational with all bulbs functioning.
2.	Dock Levelers & Roll-Up Doors (if any):	Should be in good working condition.
3.	Dock Seals (if any):	Free of tears and broken backboards repaired.
4.	Warehouse floor:	Free of stains and swept with no racking bolts and other protrusions left in the floor. Cracks should be repaired with an epoxy or polymer.
5.	Tenant-Installed Equipment & Wiring:	Removed and space returned to move-in condition when originally leased. (Remove air lines, junction boxes, conduit, etc.)
6.	Walls:	Sheetrock (drywall) damage should be patched and fire-taped so that there are no holes in either office or warehouse.
7.	Roof:	Any tenant-installed equipment must be removed and roof penetrations properly repaired by licensed roofing contractor. Active leaks must be fixed and latest landlord maintenance and repairs recommendation must have been followed.
8.	Signs:	All exterior signs must be removed and holes patched and paint touched up as necessary. All window signs should likewise be removed.
9.	Heating & Air Conditioning System:	A written report from a licensed HVAC contractor within the last three months stating that all evaporative coolers and HVAC systems are operational and in good and safe operating condition.
10.	Overall Cleanliness:	Clean windows, sanitize bathroom(s), vacuum carpet and remove any and all debris from office and warehouse. Remove all pallets and debris from exterior of Premises.
11.	Upon Completion:	Contact Landlord’s property manager to coordinate date of turning off power, turning in keys, and obtain final Landlord inspection of Premises which, in turn, will facilitate refund of security deposit.

Exhibit E
Rules & Regulations

This Exhibit (**Exhibit E**) is dated December 10, 2009, for the reference purposes only and is made between AMB Property, L.P., a Delaware limited partnership ("Landlord"), and Pacific Biosciences of California, Inc., a Delaware corporation dba Pac Bio, Inc. ("Tenant"), to be a part of that certain Industrial Lease (the "Lease") concerning certain premises more commonly known as 1394 Willow Road, Menlo Park, California (the "Premises"). The terms, conditions and provisions of this **Exhibit E** are hereby incorporated into and are made a part of the Lease. Any capitalized terms used herein and not otherwise defined herein shall have the meaning ascribed to such terms as set forth in the Lease.

1. No advertisement, picture or sign of any sort shall be displayed on or outside the Premises or the Building without the prior written consent of Landlord. Landlord shall have the right to remove any such unapproved item without notice and at Tenant's expense.

2. Tenant shall not regularly park motor vehicles (other than Tenant's company owned or leased vehicles) in designated parking areas after the conclusion of normal daily business activity.

3. Tenant shall not use any method of heating or air conditioning other than that supplied by Landlord without the prior written consent of Landlord.

4. All window coverings installed by Tenant and visible from the outside of the Building require the prior written approval of Landlord.

5. Tenant shall not use, keep or permit to be used or kept any foul or noxious gas or substance or any flammable or combustible materials on or around the Premises, the Building or the Industrial Center, except as consented to by Landlord in writing as set forth in Paragraph 6 of the Lease.

6. Tenant shall not alter any lock or install any new exterior locks or bolts on any door at the Premises without providing Landlord with a duplicate key for such locks promptly following installation.

7. Tenant may make up to ten (10) duplicate keys without the prior consent of Landlord.

8. Tenant shall park motor vehicles in those general parking areas as designated by Landlord except for loading and unloading. During those periods of loading and unloading, Tenant shall not unreasonably interfere with traffic flow within the Industrial Center and loading and unloading areas of other Tenants.

9. Tenant shall not disturb, solicit or canvas any occupant of the Building or Industrial Center and shall cooperate to prevent same.

10. No person shall go on the roof without Landlord's permission.

11. Business machines and mechanical equipment belonging to Tenant which cause noise or vibration that may be transmitted to the structure of the Building, to such a degree as to be objectionable to Landlord or other Tenants, shall be placed and maintained by Tenant, at Tenant's expense, on vibration eliminators or other devices sufficient to eliminate noise or vibration.

12. All goods, including material used to store goods, delivered to the Premises of Tenant shall be immediately moved into the Premises and shall not be left in parking or receiving areas overnight.

13. Tractor trailers which must be unhooked or parked with dolly wheels beyond the concrete loading areas must use steel plates or wood blocks under (he dolly wheels to prevent damage to the asphalt paving surfaces. No parking or storing of such trailers will be permitted in the auto parking areas of the Industrial Center or on streets adjacent thereto.

14. Forklifts which operate on asphalt paving areas shall only use tires that do not damage the asphalt.

15. Tenant is responsible for the storage and removal of all trash and refuse. All such trash and refuse shall be contained in suitable receptacles stored behind screened enclosures at locations approved by Landlord.

16. Tenant shall not store or permit the storage or placement of goods, or merchandise or pallets or equipment of any sort outside of the Premises nor in or around the Building, the Industrial Center or any of the Common Areas of the foregoing. No displays or sales of merchandise shall be allowed in the parking lots or other Common Areas.

17. Tenant shall not permit any animals, including, but not limited to, any household pets, to be brought or kept in or about the Premises, the Building, the Industrial Center or any of the Common Areas of the foregoing.

18. Tenant shall not permit any motor vehicles to be washed on any portion of the Premises or in the Common Areas of the Industrial Center, nor shall Tenant permit mechanical work or maintenance of motor vehicles to be performed on any portion of the Premises or in the Common Areas of the industrial Center.

Exhibit F

Tenant Improvements

This Exhibit (**Exhibit F**) is dated December 10, 2009, for the reference purposes only and is made between AMB Property, L.P., a Delaware limited partnership ("Landlord"), and Pacific Biosciences of California, Inc., a Delaware corporation dba Pac Bio, Inc. ("Tenant"), to be a part of that certain Industrial Lease (the "Lease") concerning certain premises more commonly known as 1394 Willow Road, Menlo Park, California (the "Premises"). Landlord and Tenant agree that the Lease is hereby modified and supplemented as follows:

1. Tenant Improvements. Subject to the conditions set forth below, Landlord agrees to construct and install certain improvements ("Tenant Improvements") in the Building of which the Premises are a part in accordance with the Approved Final Drawings (defined below) and pursuant to the terms of this **Exhibit F**.

2. Definition. "Tenant Improvements" as used in the Lease shall include only those interior improvements to be made to the Premises as specified in the Approved Final Drawings (defined below) and agreed to by Tenant and Landlord in accordance with the provisions hereof. "Tenant Improvements" shall specifically not include (i) any alterations, additions or improvements installed or constructed by Tenant, (ii) any of Tenant's trade fixtures, racking, security equipment, equipment, furniture, furnishings, telephone and/or data equipment, telephone and/or data lines or other personal property, and (iii) any supplemental fire protection improvements or equipment, including without limitation, in-rack fire sprinklers, hose racks, reels, smoke vents, and draft curtains (collectively, "Tenant's Installations").

3. Tenant's Initial Plans: the Work. Tenant desires Landlord to perform certain Tenant Improvements in the Premises. The Tenant Improvements shall be in substantial accordance with the space plan and/or description of work "Space Plan") attached hereto as **Exhibit F-1** and the plan(s) and scope of work (collectively, the "Initial Plans") which will be prepared by an architect of Landlord's choice, after the parties meet and confer to agree upon a scope of work immediately after execution of the Lease. Within fifteen (15) business days from the date Landlord and Tenant meet to discuss the scope of work, Landlord shall endeavor to deliver to Tenant the Initial Plans. A copy of the Initial Plans shall be executed or initiated by each of the parties, as soon as practicable thereafter. Such work, as shown in the Initial Plans and as more fully detailed in the Approved Final Drawings (as defined and described in Section 4 below), shall be hereinafter referred to as the "Work". Not later than five (5) days after the Initial Plans are prepared and delivered to Tenant. Tenant or Tenant's Entities shall furnish to Landlord such additional plans, drawings, specifications and finish details as Landlord may reasonably request lo enable Landlord's architects and engineers, as applicable, to prepare mechanical, electrical and plumbing plans and to prepare the Final Drawings, including, but not limited to, a final telephone layout and special electrical connections, if any. All plans, drawings, specifications and other details describing the Work which have been, or are hereafter, furnished by or on behalf of Tenant shall be subject to Landlord's approval, which approval shall not be unreasonably withheld. Landlord shall not be deemed to have acted unreasonably if it withholds its approval of any plans, specifications, drawings or other details or of any Change Request (hereafter defined in Section 11 below) because, in Landlord's reasonable opinion, the work as described in any such item, or any Change Request, as the case may be: (a) is likely to adversely affect Building systems, the structure of the Building or the safety of the Building or its occupants; (b) might impair Landlord's ability to furnish services to Tenant or other tenants in the Building; (c) would increase the cost of operating the Building or the Industrial Center; (d) would violate any Applicable Requirements; (e) contains or uses Hazardous Substances; (f) would adversely affect the appearance of the Building or the Industrial Center; (g) might adversely affect another tenant's premises or such other tenant's use and enjoyment of such premises; (h) is prohibited by any ground lease affecting the Building and/or the Industrial Center, any recorded matters or any mortgage, trust deed or other instrument encumbering the Building and/or the Industrial Center; (i) is likely to be substantially delayed because of unavailability or shortage of labor or materials necessary to perform such work or the difficulties or unusual nature of such work; (j) is not, at a minimum, in accordance with Landlord's Building Standards (defined below); or (k) would increase the Tenant Improvement Costs (defined in Section 9 below) by more than twenty percent (20%) from the cost originally estimated and anticipated by the parties. The foregoing reasons, however, shall not be the only reasons for which Landlord may withhold its approval, whether or not such other reasons are similar or dissimilar to the foregoing. Neither the approval by Landlord of the Work or the Initial Plans or any other plans, specifications, drawings or other items associated with the Work nor Landlord's performance, supervision or monitoring of the Work shall constitute any warranty or covenant by Landlord to Tenant of the adequacy of the design for Tenant's intended use of the Premises. Tenant agrees to, and does hereby, assume full and complete responsibility to ensure that the Work and the Approved Final Drawings are adequate to fully meet the needs and requirements of Tenant's intended operations of its business within the Premises and Tenant's use of the Premises.

4. Final Drawings and Approved Final Drawings. If necessary for the performance of the Work, and to the extent not already included as part of the Initial Plans attached hereto, Landlord shall prepare or cause to be prepared final working drawings and specifications for the Work (the "Final Drawings") based on and consistent with the Initial Plans and the other plans, specifications, drawings, finish details or other information furnished by Tenant or Tenant's Entities to Landlord and approved by Landlord pursuant to Section 3 above. Tenant shall cooperate diligently with Landlord and the architect, engineer and other representatives and Tenant shall furnish within five (5) days after any request therefor, all information required by Landlord or Landlord's architect, engineer or other representatives for completion of the Final Drawings. So long as the Final Drawings are substantially consistent with the Initial Plans, Tenant shall approve the Final Drawings within five (5) days after receipt of same from Landlord. Tenant's failure to approve or disapprove such Final Drawings within the foregoing five (5) day time period, shall be conclusively deemed to be approval of same by Tenant. If Tenant reasonably disapproves of any matters included in the Final Drawings because such items are not substantially consistent with the initial Plans, Tenant shall, within the aforementioned five (5) day period, deliver to Landlord written notice of its disapproval and Tenant shall specify in such written notice, in sufficient detail as Landlord may reasonably require, the matters disapproved, the reasons for such disapproval, and the specific changes or revisions necessary to be made to the Final Drawings to cause such drawings to substantially

conform to the Initial Plans. Any additional costs associated with such requested changes or revisions shall be included as part of the Tenant Improvement Costs (defined below). The foregoing procedure shall be followed by the parties until the Final Drawings are acceptable to both Landlord and Tenant. Landlord and Tenant shall indicate their approval of the Final Drawings by initialing each sheet of the Final Drawings and delivering to one another a true and complete copy of such initialed Final Drawings (the "Approved Final Drawings"). A true and complete copy of the Approved Final Drawings shall be executed or initialed by each of the parties, as soon as practicable thereafter. Any changes or revisions to the Approved Final Drawings requested by Tenant must first be approved by Landlord, which approval shall not be unreasonably withheld, subject to the provisions of Section 3 above. If Landlord approves such requested changes or revisions. Landlord shall cause the Approved Final Drawings to be revised accordingly and Landlord and Tenant shall initial each sheet of the Approved Final Drawings as revised. Landlord and Tenant hereby covenant to each other to cooperate with each other and to act reasonably in the preparation and approval of the Final Drawings and the Approved Final Drawings.

5. Performance of Work. As soon as practicable after Tenant and Landlord initial a true and complete copy of the Approved Final Drawings. Landlord shall submit the Approved Final Drawings to the governmental authorities having rights of approval over the Work and shall apply for the necessary approvals and building permits. Subject to the satisfaction of all conditions precedent and subsequent to its obligations under this document, and further subject to the provisions or Section 10 hereof, as soon as practicable after Landlord or its representatives have received all necessary approvals and building permits. Landlord will put the Approved Final Drawings out for bid to one or more licensed, bonded and insured general contractors which are reasonably acceptable to Tenant. The Tenant Improvements shall be constructed by a general contractor selected by Landlord and reasonably acceptable to Tenant (the "General Contractor"). Landlord shall commence construction, or cause the commencement of construction by the General Contractor, of the Tenant Improvements, as soon as practicable after selection of the General Contractor. Except as hereinafter expressly provided to the contrary. Landlord shall cause the performance of the Work using (except as may be stated or otherwise shown in the Approved Final Drawings) building standard materials, quantities and procedures then in use by Landlord ("Building Standards").

6. Substantial Completion. Landlord and Tenant shall cause the General Contractor to Substantially Complete (defined below) the Tenant Improvements in accordance with the Approved Final Drawings within a commercially reasonable time, with the intention to attempt to complete such improvements by the anticipated Rent Commencement Date of the Lease as set forth in the Lease (the "Completion Date"), subject to delays due to (a) acts or events beyond its control including, but not limited to, acts of God, earthquakes, strikes, lockouts, boycotts, casualties, discontinuance of any utility or other service required for performance of the Work, moratoriums, governmental agencies, delays on the part of governmental agencies and weather, (b) the lack of availability or shortage of specialized materials used in the construction of the Tenant Improvements, (c) any matters beyond the control of Landlord, the General Contractor or any subcontractors, (d) any changes required by the fire department, building and/or planning department, building inspectors or any other agency having jurisdiction over the Building, the Work and/or the Tenant Improvements (except to the extent such changes are directly attributable to Tenant's use or Tenant's specialized tenant improvements, in which event such delays are considered Tenant Delays) (the events and matters set forth in Subsections (a), (b), (c) and (d) are collectively referred to as "Force Majeure Delays"), or (e) any Tenant Delays (defined in Section 7 below). The Tenant Improvements shall be deemed substantially complete on the earlier of the date that the General Contractor issues to Landlord a notice of substantial completion or the date that the building officials of the applicable governmental agency(s) issues its final approval of the construction of the Tenant Improvements whether in the form of the issuance of a final permit, certificate of occupancy or the written approval evidencing its final inspection on the building permit(s) ("Substantial Completion", or "Substantially Completed", or "Substantially Complete"). Tenant hereby acknowledges and agrees that the term "Substantial Completion" of the Tenant Improvements as used herein will not include the completion of any work associated with 'Tenant's Installations, including without limitation. Tenant's high-pile storage requirements. Tenant's racking systems, and work related to any requirements of governmental and regulatory agencies with respect to any of Tenant's Installations. If the Work is not deemed to be Substantially Completed on or before the scheduled Completion Date, (i) Landlord agrees to use reasonable efforts to Substantially Complete the Work as soon as practicable thereafter, (ii) the Lease shall remain in full force and effect, (iii) Landlord shall not be deemed to be in breach or default of the Lease or this document as a result thereof and Landlord shall have no liability to Tenant as a result of any delay in occupancy (whether for damages, abatement, of all or any portion of the Rent, or otherwise), and (iv) except in the event of any Tenant Delays, which will not affect the Rent Commencement Date but will extend the Completion Date without any penalty or liability to Landlord, and notwithstanding anything to the contrary contained in the Lease, the Rent Commencement Date and Expiration Date of the Term of the Lease (as defined in the Lease) shall be extended commensurately by the amount of time attributable to such Force Majeure Delays, and Landlord and Tenant shall execute a written amendment to the Lease evidencing such extensions of time. Subject to the provisions of the Lease, the Tenant Improvements shall belong to Landlord and shall be deemed to be incorporated into the Premises for all purposes of the Lease, unless Landlord, in writing, indicates otherwise to Tenant.

7. Tenant Delays. There shall be no extension of the intended (and therefore actual) Rent Commencement Date or Expiration Date of the Term of the Lease (as otherwise permissibly extended in accordance with the provisions of Section 6 above) if the Work has not been Substantially Completed by the scheduled Rent Commencement Date due to any delay attributable to Tenant and/or any of Tenant's Entities or Tenant's intended use of the Premises (collectively, "Tenant Delays"), including, but not limited to, any of the following described events or occurrences: (a) delays related to changes made or requested by Tenant to the Work and/or the Approved Final Drawings; (b) the failure of Tenant to furnish all or any plans, drawings, specifications, finish details or other information required under Sections 3 and 4 above; (c) the failure of Tenant to comply with the requirements of Section 10 below; (d) Tenant's requirements for special work or materials, finishes, or installations other than the Building Standards or Tenant's requirements for special construction or phasing; (e) any changes required by the fire department, building or planning department, building inspectors or any other agency having jurisdiction over the Building, the Work and/or the Tenant Improvements if such changes are directly attributable to Tenant's use or Tenant's specialized tenant improvements; (f) the completion of any work associated with Tenant's Installations, including without limitation. Tenant's high-pile storage requirements, Tenant's racking systems, and work related to any requirements of governmental and regulatory agencies with respect to any of Tenant's Installations; (g) the performance of any additional work pursuant to a Change Request that is requested by Tenant; (h) the performance of work in or about the Premises by any person, firm or corporation employed by or on

behalf of Tenant, including, without limitation, any failure to complete or any delay in the completion of such work: and/or (i) any and all delays caused by or arising from acts or omissions of Tenant and/or Tenant's Entities, in any manner whatsoever, including, but not limited to, any and all revisions to the Approved Final Drawings. Any delays in the construction of the Tenant Improvements due to any of the events described above, shall in no way extend or affect the date on which Tenant is required to commence paying Rent under the terms of the Lease and the Rent Commencement Date of the Lease shall occur as if such delays had not occurred and in such event Tenant shall not be allowed to actually occupy the Premises until Substantial Completion of the improvements notwithstanding that the Rent Commencement Date have begun. It is the intention of the parties that all of such delays will be considered Tenant Delays for which Tenant shall be wholly and completely responsible for any and all consequences related to such delays, including, without limitation, any costs and expenses attributable to increases in labor or materials.

8. Tenant Improvement Allowance. Landlord shall provide an allowance for the planning and construction of the Tenant Improvements for the Work to be performed in the Premises, as described in the Initial Plans and the Approved Final Drawings, in the amount of One Million Eight Hundred Eleven Thousand Two Hundred Seventy Three and 00/100 Dollars ($1,811,273.00) (the "Tenant Improvement Allowance"). Tenant shall not be entitled to any credit, abatement or payment from Landlord in the event that the amount of the Tenant Improvement Allowance specified above exceeds the actual Tenant Improvement Costs. The Tenant Improvement Allowance shall only be used for tenant improvements typically installed by Landlord in buildings similar to that of which the Premises are located. The Tenant Improvement Allowance shall be the maximum contribution by Landlord for the Tenant Improvement Costs and shall be subject to the provisions of Section 10 below. Landlord shall have no obligation to credit to Tenant all or any portion of the Tenant Improvement Allowance unless Tenant timely complies with all time requirements hereunder such that all work is completed and the Tenant Improvement Allowance is to be paid or credited, as applicable, on or before July 31, 2011.

9. Tenant Improvement Costs. The Tenant Improvements' cost (the "Tenant Improvement Costs") shall mean and include any and all costs and expenses of the Work, including, without limitation, all of the following:

(a) All costs of preliminary space planning and final architectural and engineering plans and specifications (including, without limitation, the scope of work, all plans and specifications, the Initial Plans, the Final Drawings and the Approved Final Drawings) for the Tenant Improvements, and architectural fees, engineering costs and fees, and other costs associated with completion of said plans;

(b) All costs of obtaining building permits and other necessary authorizations and approvals from the City of Menlo Park and other applicable agencies and jurisdictions;

(c) All costs of interior design and finish schedule plans and specifications including as-built drawings;

(d) All direct and indirect costs of procuring, constructing and installing the Tenant Improvements in the Premises, including, but not limited to, the construction fee for overhead and profit, the cost of all on-site supervisory and administrative staff, office, equipment and temporary services rendered by Landlord's consultants and the General Contractor in connection with construction of the Tenant Improvements, and all labor (including overtime) and materials constituting the Work;

(e) All fees payable to the General Contractor, architect and Landlord's engineering firm if they are required by Tenant to redesign any portion of the Tenant Improvements following Tenant's approval of the Approved Final Drawings; and

(f) A construction management fee payable to Landlord in an amount equal to two percent (2%) of all of the expenses of the Work, including, without limitation, direct and indirect costs of designing, procuring, constructing and installing the Tenant Improvements in the Premises and the Building.

10. Excess Tenant Improvement Costs. The term "Excess Tenant Improvement Costs" as used herein shall mean and refer to the aggregate of (i) all costs related to any and all Change Requests/Change Orders, and (ii) the amount by which the actual Tenant Improvement Costs (exclusive of all costs referred to in item (i) above) exceed the Tenant Improvement Allowance, subject to the remaining provisions of this Section 10. Tenant shall faithfully pay all of the Excess Tenant Improvement Costs to Landlord, in cash, within ten (10) days of Landlord's delivery to Tenant of a written demand therefor together with a reconciliation of such costs. No Work shall be commenced until Tenant has fully complied with the preceding provisions of this Section 10. If Tenant fails to remit the sums so demanded by Landlord pursuant to Section 8 above and this Section 10 within the time periods required, Landlord may, at its option, declare Tenant in default under the Lease.

11. Change Requests. No changes or revisions to the Approved Final Drawings shall be made by either Landlord or Tenant unless approved in writing by both parties. Upon Tenant's request and submission by Tenant (at Tenant's sole cost and expense) of the necessary information and/or plans and specifications for any changes or revisions to the Approved Final Drawings and/or for any work other than the Work described in the Approved Final Drawings ("Change Requests") and the approval by Landlord of such Change Request(s), which approval Landlord agrees shall not be unreasonably withheld, Landlord shall perform the additional work associated with the approved Change Request(s), at Tenant's sole cost and expense, subject, however, to the following provisions of this Section 11. Prior to commencing any additional work related to the approved Change Request(s). Landlord shall submit to Tenant a written statement of the cost of such additional work and a proposed tenant change order therefor ("Change Order") in the standard form then in use by Landlord. Tenant shall execute and deliver to Landlord such Change Order and shall pay the entire cost of such additional work in the following described manner. Any costs related to such approved Change Request(s). Change Order and any delays associated therewith, shall be added to the Tenant Improvement Costs and shall be paid for by Tenant as and with any Excess Tenant Improvement Costs as set forth in Section 10 above. The billing for such additional costs to Tenant shall be accompanied by evidence of the amounts billed as is customarily used in the business. Costs related to approved Change Requests and Change Orders shall include without limitation, any architectural or design fees. Landlord's construction fee for overhead and profit, the cost of all on-site supervisory and administrative staff, office, equipment and temporary services rendered by Landlord and/or Landlord's consultants, and the General Contractor's price for effecting the change. If Tenant fails to execute or deliver such Change Order, or to pay the costs related thereto, then Landlord shall not be obligated to do any additional work related to such approved Change Request(s) and/or Change Orders, and Landlord may proceed to perform only the Work, as specified in the Approved Final Drawings. Landlord shall equitably adjust the amount of the Tenant Improvement Costs for any deletions in the scope of the Work.

12. Termination. If the Lease is terminated prior to the Completion Date, for any reason due to the default of Tenant hereunder, in addition to any other remedies available to Landlord under the Lease. Tenant shall pay to Landlord as Additional Rent under the Lease, within live (5) days of receipt of a statement therefor, any and all costs incurred by Landlord and not reimbursed or otherwise paid by Tenant through the date of termination in connection with the Tenant Improvements to the extent planned, installed and/or constructed as of such date of termination, including, but not limited to, any costs related to the removal of all or any portion of the Tenant Improvements and restoration costs related thereto. Subject to the provisions of the Lease, upon the expiration or earlier termination of the Lease. Tenant shall not be permitted to remove the Tenant Improvements it being the intention of the parties that the Tenant Improvements are to be considered incorporated into the Building. From and after the date on which the Lease is terminated. Tenant and Landlord shall have no further rights, obligations or claims with respect to each other arising from the Lease, except for those obligations of Tenant under the Lease which expressly survive and continue after the termination or expiration of the Lease.

13. Tenant Access. Landlord shall grant Tenant a license to access the Premises four (4) weeks prior to the Completion Date to allow Tenant to do other work required by Tenant to make the Premises ready for Tenant's use and occupancy (the "Tenant's Pre-Occupancy Work"). It shall he a condition to the grant by Landlord and continued effectiveness of such license that:

(a) Tenant shall give to Landlord a written request to have such access not less than five (5) business days prior to the date on which such proposed access will commence (the "Access Notice"). The Access Notice shall contain or be accompanied by each of the following items, all in form and substance reasonably acceptable to Landlord: (i) a detailed description of and schedule for Tenant's Pre-Occupancy Work; (ii) the names and addresses of all contractors, subcontractors and material suppliers and all other representatives of Tenant who or which will be entering the Premises on behalf of Tenant to perform Tenant's Pre-Occupancy Work or will be supplying materials for such work, and the approximate number of individuals, itemized by Trade, who will be present in the Premises; (iii) copies of all contracts, subcontracts, material purchase orders, plans and specifications pertaining to Tenant's Pre-Occupancy Work; (iv) copies of all licenses and permits required in connection with the performance of Tenant's Pre-Occupancy Work; (v) certificates of insurance (in amounts satisfactory to Landlord and with the parties identified in, or required by, the Lease named as additional insureds) and instruments of indemnification against all claims, costs, expenses, penalties, fines, and damages which may arise in connection with Tenant's Pre-Occupancy Work; and (vi) assurances of the ability of Tenant to pay for all of Tenant's Pre-Occupancy Work and/or a letter of credit or other security deemed appropriate by Landlord securing Tenant's lien-free completion of Tenant's Pre-Occupancy Work.

(b) Such pre-term access by Tenant and Tenant's employees, agents, contractors, consultants, workmen, mechanics, suppliers and invitees shall be subject to scheduling by Landlord.

(c) Tenant's employees, agents, contractors, consultants, workmen, mechanics, suppliers and invitees shall fully cooperate, work in harmony and not, in any manner, interfere with Landlord or Landlord's agents or representatives in performing the Work and any additional work pursuant to approved Change Orders. Landlord's work in other areas of the Building or the Industrial Center, or the general operation of the Building. If at any time any such person representing Tenant shall not be cooperative or shall otherwise cause or threaten to cause any such disharmony or interference, including, without limitation, labor disharmony, and Tenant fails to immediately institute and maintain corrective actions as directed by Landlord, then Landlord may revoke such license upon twenty-four (24) hours' prior written notice to Tenant.

(d) Any such entry' into and occupancy of the Premises or any portion thereof by Tenant or any person or entity working for or on behalf of Tenant shall be deemed to be subject to all of the terms, covenants, conditions and provisions of the Lease, excluding only the covenant to pay Rent. Landlord shall not be liable for any injury, loss or damage that may occur to any of Tenant's Pre-Occupancy Work made in or about the Premises or to any property placed therein prior to the commencement of the term of the Lease, the same being at Tenant's sole risk and liability. Tenant shall be liable to Landlord for any damage to any portion of the Premises, the Work or the additional work related to any approved Change Orders caused by Tenant or any of Tenant's employees, agents, contractors, consultants, workmen, mechanics, suppliers and invitees. In the event that the performance of Tenant's Pre-Occupancy Work causes extra costs to be incurred by Landlord or requires the use of other Building services. Tenant shall promptly reimburse Landlord for such extra costs and/or shall pay Landlord for such other Building services at Landlord's standard rates then in effect.

14. Lease Provisions: Conflict. The terms and provisions of the Lease, insofar as they are applicable, in whole or in part to this **Exhibit F**. are hereby incorporated herein by reference. In the event of any conflict between the terms of the Lease and this **Exhibit F**. the terms of this **Exhibit F** shall prevail. Any amounts payable by Tenant to Landlord under this **Exhibit F** shall be deemed to be Additional Rent under the Lease and, upon any default in the payment of same. Landlord shall have all rights and remedies available to it as provided for in the Lease.

15. Landlord's Work. Landlord shall also perform, at Landlord's sole cost and expense, the following:

(a) installation of fiber conduit between 1392 Willow Road and 1394 Willow Road; and

(b) conversion of the existing grade level door into a dock high door with the following specifications:

(i) the door will be widened (currently such widening is estimated at approximately 18 inches);

(ii) the ramp to the parking lot shall be removed as far back as the Building to create a loading dock;

(iii) work required to install a ramp as a path from the fire corridor exit next to the small shipping door; and

(iv) if requested by Tenant in writing prior to the Rent Commencement Date, widening of an existing double door in the fire corridor wall opening into the new shipping dock.

Addendum 1
Option to Extend

This Addendum I (the "Addendum") is incorporated as a part of that certain Industrial Lease dated December 10, 2009 (the "Lease"), by and between AMB Property, L.P., a Delaware limited partnership ("Landlord"), and Pacific Biosciences of California, Inc., a Delaware corporation dba Pac Bio. Inc. ("Tenant"), for the leasing of those certain premises commonly known as 1394 Willow Road. Menlo Park, California, as more particularly described in **Exhibit A** to the Lease (the "Premises"). Any capitalized terms used herein and not otherwise defined herein shall have the meaning ascribed to such terms as set forth in the Lease.

1. Grant of Extension Option. Subject to the provisions, limitations and conditions set forth in Paragraph 5 below. Tenant shall have an Option ("Option") to extend the initial Term of the Lease for a three (3) year period ("Extended Term").

2. Tenant's Option Notice. Tenant shall have the right to deliver written notice to Landlord of its intent to exercise this Option (the "Option Notice"). If Landlord does not receive the Option Notice from Tenant on a date which is neither more than three hundred sixty five (365) days nor less than two hundred forty (240) days prior to the end of the initial Term of the Lease, all rights under this Option shall automatically terminate and shall be of no further force or effect. Upon the proper exercise of this Option, subject to the provisions, limitations and conditions set forth in Paragraph 5 below, the initial Term of the Lease shall be extended for the Extended Term.

3. Determination of the Option Rent.

A. The Base Rent payable for each month during the Extended Term shall be set at ninety-five percent (95%) of the then-prevailing fair market rental rate (the "**Prevailing Rental Rate**") for renewals of space of equivalent quality, type, size and location in comparable R&D buildings in Menlo Park, with the length of the Extended Term, the credit standing of Tenant, tenant improvement allowances then being granted in the marketplace and other market rent concessions then being offered in the marketplace to be taken into account. The Prevailing Rental Rate shall include the periodic rental increases, if any, that would be included for space leased for the period the Premises will be covered by the Lease. As used herein, "**then-prevailing**" shall mean the time period which is six (6) months prior to the commencement of the Extended Term and not the commencement date of the Extended Term. Within thirty (30) days after receipt of Tenant's notice to renew, Landlord shall deliver to Tenant written notice of Landlord's determination of the Prevailing Rental Rate and shall advise Tenant of the required adjustment to Base Rent, if any, and the other terms and conditions offered. Tenant shall, within ten (10) days after receipt of Landlord's notice, time being of the essence with respect thereto, notify Landlord in writing whether Tenant accepts or rejects Landlord's determination of the Prevailing Rental Rate.

B. If Tenant rejects Landlord's determination of the Prevailing Rental Rate. Tenant's written notice shall include Tenant's own determination of the Prevailing Rental Rate. If Tenant does not deliver any written notice to Landlord within ten (10) days after receipt of Landlord's notice of the Prevailing Rental Rate. Tenant shall be deemed to have withdrawn its exercise of its rights under this Addendum, whereupon Tenant's rights under this Addendum shall be null and void and of no further force or effect. If Tenant and Landlord disagree on the Prevailing Rental Rate, then Landlord and Tenant shall attempt in good faith to agree upon the Prevailing Rental Rate. If by that date which is four (4) months prior to the commencement of the Extended Term (the "**Option Trigger Date**"). Landlord and Tenant have not agreed in writing as to the Prevailing Rental Rate, the parties shall determine the Prevailing Rental Rate in accordance with the procedure set forth in Paragraph C below.

C. If Landlord and Tenant are unable to reach agreement on the Prevailing Rental Rate by the Option Trigger Date, then within ten (10) days of the Option Trigger Date, Landlord and Tenant shall each simultaneously submit to the other in a sealed envelope its good faith estimate of the Prevailing Rental Rate. If either Landlord or Tenant fails to propose a Prevailing Rental Rate, then the Prevailing Rental Rate proposed by the other party shall prevail. If the higher of such estimates is not more than one hundred five percent (105%) of the lower, then the Prevailing Rental Rate shall be the average of the two. Otherwise, the dispute shall be resolved by arbitration in accordance with the remainder of this Paragraph C. Within seven (7) days after the exchange of estimates, the parties shall select as an arbitrator a licensed real estate broker with at least ten (10) years of experience leasing premises in Class A office buildings in Central San Mateo County (a "**Qualified Arbitrator**"). If the parties cannot agree on a Qualified Arbitrator, then within a second period of seven (7) days, each shall select a Qualified Arbitrator and within ten (10) days thereafter the two appointed Qualified Arbitrators shall select a third Qualified Arbitrator (which third Qualified Arbitrator shall not previously have represented either party hereto) and the third Qualified Arbitrator shall be the sole arbitrator (the "**Sole Arbitrator**"). If one party shall fail to select a Qualified Arbitrator within the second seven (7)-day period, then the Qualified Arbitrator chosen by the other party shall be the Sole Arbitrator. Within thirty (30) days alter submission of the matter to the Sole Arbitrator, the Sole Arbitrator shall determine the Prevailing Rental Rate by choosing whichever of the estimates

submitted by Landlord and Tenant the Sole Arbitrator judges to be more accurate. The Sole Arbitrator shall notify Landlord and Tenant of his or her decision, which shall be final and binding. If the Sole Arbitrator believes that expert advice would materially assist him or her. the Sole Arbitrator may retain one or more qualified persons to provide expert advice. The fees of the arbitrator selected by each party shall be borne by that party. The fees of the Sole Arbitrator and the expenses of the arbitration proceeding, including the fees of any expert witnesses retained by the Sole Arbitrator, shall be shared equally by Landlord and Tenant.

D. If Tenant timely notifies Landlord that Tenant accepts Landlord's determination of the Prevailing Rental Rate, or following resolution of the Prevailing Rental Rate via mutual agreement or via arbitration, whichever shall be applicable, then, on or before the commencement date of the Extended Term. Landlord and Tenant shall execute an amendment to this Lease prepared by Landlord extending the Term on the same terms provided in this Lease, except as follows:

(i) Base Rent shall be adjusted to ninety-five percent (95%) of the Prevailing Rental Rate (which shall he the rental rate set forth in Landlord's determination of the Prevailing Rental Rate, the rental rate determined by mutual agreement or the Prevailing Rental Rate determined by arbitration, as the case may he, but in no event less than the Base Rent payable by Tenant immediately prior to the expiration of the initial Term of this Lease):

(ii) Tenant shall have no further renewal option unless expressly granted by Landlord in writing: and

(iii) Landlord shall lease the Premises lo Tenant in their then-current condition, and Landlord shall not provide to Tenant any allowances (e.g. improvement allowance) or other tenant inducements, or pay any leasing commissions.

E. Tenant's rights under this Addendum shall terminate if (1) this Lease or Tenant's right to possession of the Premises is terminated. (2) Tenant assigns any of its interest in this Lease or sublets any portion of the Premises, or (3) Tenant fails to timely exercise its option under this Addendum, time being of the essence with respect to Tenant's exercise thereof. Tenant shall have no other right to extend the Term of the Lease under this Addendum unless Landlord and Tenant otherwise agree in writing.

4. Condition of Premises for the Extended Term. If Tenant timely and properly exercises this Option, in strict accordance with the terms contained herein. Tenant shall accept the Premises in its then "As-Is" condition and, accordingly. Landlord shall not be required to perform any additional improvements to the Premises. Tenant shall not be responsible for brokerage commissions payable to a broker procured or hired by Tenant in connection with the Option if Landlord has agreed in writing to pay such commission.

5. Limitations On, and Conditions To. Extension Option. This Option is personal to Tenant and may not be assigned, voluntarily or involuntarily, separate from or as part of the Lease. At Landlord's option, all rights of Tenant under this Option shall terminate and be of no force or effect if any of the following individual events occur or any combination thereof occur: (1) Tenant has been in default at any time during the initial Term of the Lease, or is in default of any provision of the Lease on the date Landlord receives the Option Notice; and/or (2) Tenant has assigned its rights and obligations under all or part of the Lease or Tenant has subleased all or part of the Premises: and/or (3) Tenant's financial condition is unacceptable to Landlord at the time the Option Notice is delivered to Landlord; and/or (4) Tenant has failed to exercise properly this Option in a timely manner in strict accordance with the provisions of this Addendum; and/or (5) Tenant no longer has possession of alt or any part of the Premises under the Lease, or if the Lease has been terminated earlier, pursuant to the terms and provisions of the Lease.

6. Time is of the Essence. Time is of the essence with respect to each and every time period described in this Addendum.

Addendum 2
Right of First Offer

This Addendum 2 ("Addendum 2") is incorporated as a part of that certain Industrial Lease dated December 10, 2009 (the "Lease"), by and between AMB Property L.P., a Delaware limited partnership ("Landlord"), and Pacific Biosciences of California, Inc., a Delaware corporation dba Pac Bio, Inc. ("Tenant"), for the leasing of those certain premises commonly known as 1394 Willow Road. Menlo Park, California, as more particularly described in **Exhibit A** to the Lease (the "Premises"). Any capitalized terms used herein and not otherwise defined herein shall have the meaning ascribed to such terms as set forth in the Lease.

During the first three (3) years of the initial Term of the Lease only, Tenant shall have a right of first offer to lease (the "Offer") one or more of the following premises: (a) 1380 Willow Road consisting of 33,792 rentable square feet (but not less than all 33,792 rentable square feet); (b) 1003-1005 Hamilton Court consisting of 54,586 rentable square feet (but not less than all 54,586 rentable square feet); and (c) 1010-1024 Hamilton Court consisting of 21,240 rentable square feet (but not less than all 21,240 rentable square feet) (each, an "Expansion Space" and collectively, "Expansion Spaces"). A description of each of the Expansion Spaces is attached hereto and incorporated herein by this reference as Schedule I to this Addendum 2. Tenant's Right of First Offer, as granted herein, is subject to the following conditions:

i. The Right of First Offer shall be void if, at the time of exercise of the Right of First Offer, Tenant is then currently in Default under the Lease beyond the expiration of applicable cure periods;

ii. The Right of First Offer shall be void if there has occurred a material and adverse change to Tenant's financial condition;

iii The Right of First Offer is subject to the rights and options of the existing tenants (and their successors and assigns) presently occupying the Expansion Spaces; and

iv. The Right of First Offer is a one-time right with respect to each Expansion Space and not a continuing right. For example, if an Offer refers to the Expansion Space at 1380 Willow Road, and Tenant does not deliver an Election Notice to Landlord for such Expansion Space, Landlord shall no longer be obligated to re-offer such Expansion Space at 1380 Willow Road but Tenant's Right of First Offer shall remain in effect and valid with respect to the Expansion Spaces located at 1003 - 1005 Hamilton Court and 1010 - 1024 Hamilton Court.

So long as the above conditions are satisfied, in the event any of the Expansion Spaces become vacant and Landlord desires to lease such Expansion Space(s), Landlord shall notify Tenant thereof, in writing ("Landlord's Notice"). Tenant shall have five (5) business days after delivery of such notice to notify Landlord, in writing (the "Election Notice"), of Tenant's election to lease the Expansion Space(s) referenced in Landlord's Notice upon the terms and conditions set forth in this Lease. If Tenant elects not to lease all of such Expansion Space(s) so referenced or Tenant fails to notify Landlord of Tenant's election to lease all such Expansion Space(s) within the time specified herein, it shall be deemed that (i) Tenant has elected not to lease said Expansion Space(s); (ii) Landlord may thereafter market such Expansion Space(s) to third parties; and (iii) all rights of Tenant in and to this Right of First Offer shall terminate and thereafter be of no further force or effect with respect to such referenced Expansion Space(s). Time is of the essence herein.

In the event Tenant properly and timely exercises this Right of First Offer as herein provided, Tenant shall deliver to Landlord a non-refundable deposit in the amount equivalent to one month's Base Rent for the Expansion Space(s), and the parties shall have ten (10) working days after Landlord receives the Election Notice from Tenant in which to execute an amendment to this Lease setting forth the agreed-upon terms. Such amendment to this Lease, shall provide for, among other things, the addition of the applicable Expansion Space(s) to the Premises, the adjustment of the Base Rent and the percentage of Tenant's Share. Upon full execution of an amendment for such Expansion Space(s), the non-refundable deposit shall be credited toward Base Rent for such Expansion Space(s), as agreed upon by the parties. If the parties fail to timely execute and deliver such amendment, Landlord shall retain the non-refundable deposit and Tenant shall have no rights, title or interest therein. Notwithstanding the foregoing, Landlord shall (a) return to Tenant the non-refundable deposit if in the amendment to the Lease Landlord solely (and without Tenant's consent or approval) deviates from the terms proposed by Landlord for the leasing of the applicable Expansion Space(s) to Tenant as set forth in Landlord's Notice and (b) be obligated to return the non-refundable deposit if Landlord's failure to execute and deliver the amendment is due to Landlord's default under this Addendum 2.

The Right of First Offer shall terminate and be of no force or effect if, at any time. (i) Tenant is in Default under this Lease beyond the expiration of applicable cure periods or (ii) the Lease has been assigned or the Premises are being subleased, except in each case to an Affiliate, at the time the Right of First Offer is offered to Tenant. The Right of First Offer is personal to Tenant and may not be assigned, voluntarily or involuntarily, separate from or as a part of the Lease, except to an Affiliate. If

Tenant does not timely and properly elect to exercise the Right of First Offer granted herein with respect to an offered Expansion Space, based upon the terms proposed by Landlord as set forth in Landlord's Notice, all rights, title and interest of Tenant in and to the Right of First Offer with respect to such Expansion Space shall terminate and be of no further force or effect.

Exhibit 10.14

Industrial Lease

Willow Park
Menlo Park, California

AMB Property, L.P., a Delaware limited partnership,

as Landlord,

and

Pacific Biosciences of California, Inc., a Delaware corporation
dba Pac Bio, Inc.,

as Tenant

Table of Contents

Glossary

The following terms in the Lease are defined in the paragraphs opposite the terms.

Term	Defined in Paragraph
Additional Equipment	16.34
Additional Rent	4.1
Affiliates	12.9
Alteration/Alterations	7.3
Applicable Requirements	6.3
Approved Final Drawings	Exhibit G
Architect	Exhibit F
Base Rent	1.4
Basic Provisions	1
Brokers	1.13
Building	1.2
Building Operating Expenses	4.2(b)
Building Standards	Exhibit G
Change Order	Exhibit G
Change Requests	Exhibit G
Code	12.8
Commencement Date	1.3
Commencement Date Certificate	3.3
Common Areas	2.2
Common Area Operating Expenses	4.2(b)
condemnation	14
Construction Documents	Exhibit F
Contractor	Exhibit F
Cubicles and Equipment	16.32
CUP	6.5
Default	13.1
Equipment Area	16.35
Excess Option Term Tenant Improvement Costs	Exhibit G
Expiration Date	1.3
Extended Term	Addendum 1
Final Drawings	Exhibit G
Force Majeure Delays	Exhibit G
General Contractor	Exhibit G
Generator Equipment	16.35
Hamilton Court Lease	1.4
Hazardous Substance	6.2(a)
HVAC	4.2(a)(x)
Industrial Center	1.2
Initial Plans	Exhibit G
Initial Tenant Improvement Costs	Exhibit F
Initial Tenant Improvements	Exhibit F
Landlord	1.1
Landlord Entities	6.2(c)
Landlord Response Period	12.2
Lease	1.1
Lenders	6.4
Mortgage	16.18(a)
nondisturbance agreement	16.18(c)
Operating Expenses	4.2
Option	Addendum 1
Option Notice	Addendum 1
Option Term Tenant Improvement Allowance	Exhibit G
Option Term Tenant Improvement Costs	Exhibit G
Option Term Tenant Improvements	Exhibit G
Party/Parties	1.1
Permitted Use	1.8
Phase	1.2
Phase Operating Expenses	4.2(b)
Plans and Specifications	Exhibit F
Premises	1.2
Prevailing Party	16.13
Proposed Effective Date	12.2
Real Property Taxes	10.2
Renovations	16.29
Rent	4.1
Reportable Use	6.2(a)
Requesting Party	15.1

AMB Property Corporation
Industrial Lease

1. Basic Provisions ("Basic Provisions").

1.1 Parties. This Lease ("Lease") dated September 24, 2009, is made by and between AMB Property. L.P., a Delaware limited partnership ("Landlord") and Pacific Biosciences of California, Inc., a Delaware corporation dba Pac Bio, Inc. ("Tenant") (collectively, the "Parties" or individually, a "Party").

1.2 Premises. The premises ("Premises"), which are the subject of this Lease, are located in the industrial center commonly known as Willow Park (the "Industrial Center"). The Premises consist of an approximately 22,267 square foot building ("Building") commonly known as 1392 Hamilton Avenue, Menlo Park, California and as depicted on **Exhibit A**. The Building is also identified on **Exhibit A**. The phase ("Phase"), which is also identified on **Exhibit A**, consists of a portion of the Industrial Center in which the Building is located.

If the Premises are all of the Building, there shall, for purposes of this Lease, be no distinction between the words "Premises" or "Building." Tenant shall have nonexclusive rights to the Common Areas (as defined in Paragraph 2.2 below) but shall not have any rights to the roof, exterior walls, or utility raceways of the Building or to any other buildings in the Industrial Center, except to the extent required by the terms of Paragraph 7.1 of this Lease. The Industrial Center consists of the Premises, the Building, the Phase, the Common Areas, the land upon which they are located, and all other buildings and improvements within the boundaries of the Industrial Center.

1.3 Term. One (1) year ("Term") commencing on September 30, 2009 ("Commencement Date") and ending September 30, 2010 ("Expiration Date").

1.4 Base Rent. Base monthly rent ("Base Rent") shall be payable as follows:

Months of Term	Base Rent Rate Per Square Foot Per Month	Monthly Base Rent
01-08*	$ 0	$ 0
09-12	$ 0.75	$ 16,700.25

* In the event Landlord and Tenant have not executed and delivered a lease for any of 1394 Hamilton Court, 1380 Willow Road or 1003-1005 Hamilton Court, Menlo Park, California (the "Hamilton Court Lease") on or before January 1, 2010, then, Tenant shall pay to Landlord no later than January 5, 2010, (i) an amount equal to Eleven Thousand One Hundred Thirty Three and 50/00 Dollars ($11,133.50) as monthly Base Rent for the month of December 2009 and (ii) monthly Base Rent for January 2010. In addition, monthly Base Rent thereafter continuing through May 31, 2010. shall be Eleven Thousand One Hundred Thirty Three and 50/100 Dollars ($11,133.50).

1.5 Tenant's Share of Operating Expenses ("Tenant's Share").

(a)	Common Area Operating Expenses	2.2%
(b)	Building Operating Expenses	100%
(c)	Phase Operating Expenses	13.6%

1.6 Tenant's Estimated Monthly Rent Payment. Following is the estimated monthly Rent payment to Landlord pursuant to the provisions of this Lease. This estimate is made at the inception of the Lease and is subject to adjustment pursuant to the provisions of this Lease. The Estimated Total Monthly Payment, set forth below, shall be paid upon the execution of this Lease.

(a)	Base Rent (Paragraph 4.1)	$ 16,700.25
(b)	Operating Expenses (Paragraph 4.2, excluding Real Property Taxes, Landlord Insurance, and HVAC)	$ 3,790.54
(c)	Landlord Insurance (Paragraph 8.3)	$ 351.29
(d)	Real Property Taxes (Paragraph 10)	$ 2,019.34
	Estimated Total Monthly Payment	$ 22,861.42

1.7 Security Deposit. $22,861.42 ("Security Deposit").

1.8 Permitted Use ("Permitted Use"). General office, manufacturing, wet laboratory and other research and development uses consistent with biotechnology and medical device companies, but only to the extent permitted by the City in which the Premises are located and all agencies and governmental authorities having jurisdiction of the Premises.

1.9 Guarantor. None

1.10 Addenda. Attached hereto are the following Addenda, all of which constitute a part of this Lease:

Addendum 1: Option to Extend

1.11 Exhibits. Attached hereto are the following Exhibits, all of which constitute a part of this Lease:

Exhibit A:	Description of Premises.
Exhibit B:	Commencement Date Certificate.
Exhibit C:	Tenant Move-in and Lease Renewal Environmental Questionnaire
Exhibit D:	Move Out Standards
Exhibit E:	Rules and Regulations
Exhibit F:	Initial Tenant Improvements
Exhibit G:	Option Term Tenant Improvements
Exhibit H:	List of Cubicles and Equipment
Exhibit I:	Location of Communications Conduit
Exhibit J:	CUP

1.12 Address for Rent Payments. All amounts payable by Tenant to Landlord shall, until further notice from Landlord, be paid to Landlord at the following address:

AMB Property, L.P.
c/o AMB Property Corporation
P.O. Box 6156
Hicksville, NY 11802-6156

1.13 Brokers. Tenant represents that it has not dealt with any real estate brokers or agents other than NAI BT Commercial representing Landlord and Cornish & Carey Commercial representing Tenant (collectively, the "Brokers"). The Brokers shall receive commissions pursuant to a separate listing agreement with Landlord.

2. Premises and Common Areas.

2.1 Letting. Landlord hereby leases to Tenant and Tenant hereby leases from Landlord the Premises upon all of (he terms, covenants, and conditions, set forth in this Lease. Any statement of square footage set forth in this Lease or that may have been used in calculating Base Rent and/or Operating Expenses is an approximation which Landlord and Tenant agree is reasonable, and the Base Rent and Tenant's Share based thereon is not subject to revision whether or not the actual square footage is more or less. Tenant accepts the Premises in its present "As-Is" condition, state of repair and operating order. Landlord shall deliver the Premises, clean room, roof and lights in good working order and repair with the existing building operating systems, including electrical, mechanical, plumbing, lighting and sprinkler systems in good working order and repair as of the Commencement Date of the Lease and Tenant shall have a warranty period of sixty (60) days after the Commencement Date to confirm such condition. Tenant's failure to notify Landlord in writing within such sixty (60) day period of any deficiencies in such systems shall be deemed Tenant's approval of the condition thereof. Landlord also agrees that Landlord shall install a new exhaust system for the Premises as soon as reasonably practicable following Tenant's written request to Landlord, as more particularly set forth in **Exhibit F-4** attached hereto and incorporated herein by this reference. Landlord shall use commercially reasonable efforts to install such exhaust system prior to the Commencement Date so long as the timing of Tenant's delivery of written notice to Landlord provides Landlord with a commercially reasonable amount of time to do so. The specifications of such system shall be subject to the reasonable approval of Landlord and Tenant.

2.2 Common Areas - Definition. "Common Areas" are all areas and facilities outside the Premises and within the exterior boundary line of the Industrial Center and interior utility raceways within the Premises that are provided and designated by the Landlord from time to time for the general nonexclusive use of Landlord, Tenant, and other tenants of the Industrial Center and their respective employees, suppliers, shippers, tenants, contractors, and invitees.

2.3 Common Areas - Tenant's Rights. Landlord hereby grants to Tenant, for the benefit of Tenant and its employees, suppliers, shippers, contractors, customers, and invitees, during the term of this Lease, the nonexclusive right to use, in common with others entitled to such use, the Common Areas as they exist from time to time, subject to any rights, powers, and privileges reserved by Landlord under the terms hereof or under the terms of any rules and regulations or covenants, conditions, and restrictions governing the use of the Industrial Center.

2.4 Common Areas - Rules and Regulations. Landlord shall have the exclusive control and management of the Common Areas and shall have the right, from time to time, to establish, modify, amend, and enforce reasonable Rules and Regulations with respect thereto in accordance with Paragraph 16.19.

2.5 Common Area Changes. Landlord shall have the right, in Landlord's sole discretion, from time to time:

(a) To make changes to the Common Areas, including, without limitation, changes in the locations, size, shape, and number of driveways, entrances, parking spaces, parking areas, loading and unloading areas, ingress, egress, direction of traffic, landscaped areas, walkways, and utility raceways;

(b) To close temporarily any of the Common Areas for maintenance purposes so long as reasonable access to the Premises remains available;

(c) To designate other land outside the boundaries of the Industrial Center to be a part of the Common Areas;

(d) To add additional buildings and improvements to the Common Areas;

(e) To use the Common Areas while engaged in making additional improvements, repairs, or alterations to the Industrial Center, or any portion thereof; and

(f) To do and perform such other acts and make such other changes in, to, or with respect to the Common Areas and Industrial Center as Landlord may, in the exercise of sound business judgment, deem to be appropriate.

2.6 Parking. At no additional cost to Tenant, Tenant may use Tenant's Share of the undesignated vehicle parking spaces, on an unreserved and unassigned basis, on those portions of the Common Areas designated by Landlord for such parking. Landlord shall exercise reasonable efforts to ensure that such spaces are available to Tenant for its use, but Landlord shall not be required to enforce Tenant's right to use the same. Tenant shall not use more parking spaces than such number. Such parking spaces shall be used only for parking by vehicles no larger than full sized passenger automobiles or pick-up trucks and in no event shall Tenant or any of Tenant's Entities park or permit any parking of vehicles overnight. Tenant shall not permit or allow any vehicles that belong to or are controlled by Tenant or Tenant's employees, suppliers, shippers, customers or invitees to be loaded, unloaded or parked in areas other than those designated by Landlord for such activities. If Tenant permits or allows any of the prohibited activities described herein, then Landlord shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove or tow away the vehicle involved and charge the cost to Tenant, which cost shall be immediately payable as additional rent upon demand by Landlord. Landlord may change the number of parking spaces and configuration of the parking areas at any time, and may assign reserved parking spaces to any tenant, in Landlord's sole discretion; provided. Landlord shall not reduce Tenant's Share of undesignated vehicle parking spaces.

2.7 Access. Subject to emergencies. Applicable Requirements (defined below) and the terms of Paragraphs 9 and 14, Landlord shall use its commercially reasonable efforts to provide access to Tenant through that certain gale which separates Adams Court and the Phase, twenty four (24) hours a day, seven (7) days a week.

2.8 Communications Conduit. As soon as reasonably practicable, Landlord shall install a communications conduit from the exterior of the Building to the perimeter of the Phase as shown on **Exhibit I** attached hereto and incorporated herein by this reference.

3. Term.

3.1 Term. The Commencement Date, Expiration Date, and Term of this Lease are as specified in Paragraph 1.3.

3.2 Delay in Possession. If for any reason Landlord cannot deliver possession of the Premises to Tenant by the Commencement Date, Landlord shall not be subject to any liability therefor, nor shall such failure affect the validity of this Lease or the obligations of Tenant hereunder. In such case, Tenant shall not, except as otherwise provided herein, be obligated to pay Rent or perform any other obligation of Tenant under the terms of this Lease until Landlord delivers possession of the Premises to Tenant.

3.3 Commencement Date Certificate. At the request of Landlord, Tenant shall execute and deliver to Landlord a completed certificate ("Commencement Date Certificate") in the form attached hereto as **Exhibit B**.

4. Rent.

4.1 Base Rent. Tenant shall pay to Landlord Base Rent and other monetary obligations of Tenant to Landlord under the terms of this Lease (such other monetary obligations are herein referred to as "Additional Rent") in lawful money of the United States, without offset or deduction, in advance on or before the first day of each month of the Term; provided, Tenant shall not be obligated to pay Base Rent for the first eight (S) months of the Term except as provided in Paragraph 1.4 above. Base Rent and Additional Rent for any period during the term hereof which is for less than one full month shall be prorated based upon the actual number of days of the month involved. Payment of Base Rent and Additional Rent shall be made to Landlord at its address stated herein or to such other persons or at such other addresses as Landlord may from time to time designate in writing to Tenant. Base Rent and Additional Rent are collectively referred to as "Rent." All monetary obligations of Tenant to Landlord under the terms of this Lease are deemed to be Rent.

4.2 Operating Expenses. Tenant shall pay to Landlord on the first (1st) day of each month during the Term hereof, in addition to the Base Rent as and when set forth above in Section 4.1, Tenant's Share of all Operating Expenses in accordance with the following provisions.

(a) "Operating Expenses" are all costs incurred by Landlord relating to the ownership and/or operation of the Industrial Center, Phase. Building, and Premises including, but not limited to, the following:

(i) Expenses relating to the ownership, management, maintenance, repair, replacement and/or operation of the Common Areas, including, without limitation, parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways, driveways, rail spurs, landscaped areas, striping, bumpers, irrigation systems, drainage systems, lighting facilities, fences and gales, exterior signs, and/or tenant directories.

(ii) Water, gas, electricity, telephone, and other utilities not paid for directly by tenants of the Industrial Center.

(iii) Trash disposal, snow removal, security and the management and administration of any and ail portions of the Industrial Center, including, without limitation, a property management fee, accounting, auditing, billing, postage, salaries and benefits for clerical and supervisory employees, whether located at the Industrial Center or off-site, payroll taxes and legal and accounting costs and all fees, licenses and permits related to the ownership, operation and management of the Industrial Center;

(iv) Reserves set aside for maintenance, repair and replacements of improvements within the Industrial Center.

(v) Real Property Taxes.

(vi) Premiums and all applicable deductibles for the insurance policies maintained by Landlord under paragraph 8 below.

(vii) Environmental monitoring and insurance programs.

(viii) Monthly amortization of capital improvements to any portion of the Industrial Center which are not expensed by Landlord, including any capital improvements made pursuant to Paragraph 7.2 below which are subject to reimbursement under this Paragraph 4.2. The monthly amortization of any such capital improvement shall be the sum of the (a) quotient obtained by dividing the cost of the capital improvement by Landlord's reasonable estimate of the number of months of useful life of such improvement plus (b) an amount equal to the cost of the capital improvement with interest thereon at the lesser of 10% per annum or the maximum interest rate permitted by law.

(ix) Maintenance of the Industrial Center, including, but not limited to, painting, caulking, and repair and replacement of Building components, including, but not limited to, roof membrane, elevators, and fire detection and sprinkler systems.

(x) Heating, ventilating, and air conditioning systems ("HVAC") the costs for which are not the sole responsibility of Tenant or another tenant of the Industrial Center.

(b) Tenant's Share of Operating Expenses that are not specifically attributed to the Premises, Building or Phase ("Common Area Operating Expenses") shall be that percentage shown in Paragraph 1.5(a). Tenant's Share of Operating Expenses that are attributable to the Building ("Building Operating Expenses") shall be that percentage shown in Paragraph 1.5(b). Tenant's Share of Phase Operating Expenses that are attributable to the Phase ("Phase Operating Expenses") shall be that percentage shown in Paragraph 1.5(c). Landlord, in its sole discretion, shall determine which Operating Expenses are Common Area Operating Expenses, Building Operating Expenses, Phase Operating Expenses or expenses to be entirely borne by Tenant.

(c) The inclusion of the improvements, facilities, and services set forth in Subparagraph 4.2(a) shall not impose any obligation upon Landlord either to have said improvements or facilities or to provide those services.

(d) Tenant shall pay monthly in advance, on the same day that the Base Rent is due. Tenant's Share of the expenses set forth in Paragraph 1.6. Landlord shall deliver to Tenant within 90 days after the expiration of each calendar year a reasonably detailed statement showing Tenant's Share of the actual expenses incurred during the preceding year. If Tenant's estimated payments under this Paragraph 4(d) during the preceding year exceed Tenant's Share as indicated on said statement, Tenant shall be credited the amount of such overpayment against Tenant's Share of expenses next becoming due. If Tenant's estimated payments under this Paragraph 4.2(d) during said preceding year were less than Tenant's Share as indicated on said statement, Tenant shall pay to Landlord the amount of the deficiency within 10 days after delivery by Landlord to Tenant of said statement. At any time following at least ten (10) days written notice to Tenant, Landlord may adjust the amount of the estimated Tenant's Share of expenses to reflect Landlord's estimate of such expenses for the year.

(e) Notwithstanding anything to the contrary contained herein, for purposes of this Lease, the term "Operating Expenses" shall not include the following: (i) costs (including permit, license, and inspection fees) incurred in renovating, improving, decorating, painting, or redecorating vacant space or space for other tenants within the Industrial Center; (ii) legal and auditing fees (other than those fees reasonably incurred in connection with the ownership and operation of all or any portion the Industrial Center); (iii) leasing commissions, advertising expenses, and other costs incurred in connection with the original leasing of the Industrial Center or future re-leasing of any portion of the Industrial Center; (iv) depreciation of the Building or any other improvements situated within the Industrial Center; (v) any items for which Landlord is actually and directly reimbursed by any other tenant of the Industrial Center; (vi) costs of repairs or other work necessitated by fire, windstorm or other casualty (excluding any deductibles) and/or costs of repair or other work necessitated by the exercise of the right of eminent domain to the extent insurance proceeds or a condemnation award, as applicable, is actually received by Landlord for such purposes; provided, such costs of repairs or other work shall be paid by the parties in accordance with the provisions of Sections 7, S and 9 below; (vii) oilier than any interest charges as expressly provided for in this Lease, any interest or payments on any financing for any portion of the Industrial Center, interest and penalties incurred as a result of Landlord's late payment of any invoice (provided that Tenant pays Tenant's Share of expenses to Landlord when due as set forth herein), and any bad debt loss, rent loss or reserves for same; (viii) any payments under a ground lease or master lease; and (ix)) any capital improvements, unless such capital improvements are made (a) in order to replace any building equipment needed to operate the Building or Property at the same quality levels (or levels of efficiency) as prior to the replacement, or (b) with the intention of reducing the costs of the operations of the Building and/or Property, or (c) to comply with government regulations, laws, or ordinances including, but not limited to the Americans with Disabilities Act, which first came into effect following the Commencement Date.

5. Security Deposit. Tenant shall deposit with Landlord upon Tenant's execution hereof the Security Deposit set forth in Paragraph 1.7 as security for Tenant's faithful performance of Tenant's obligations under this Lease. If Tenant fails to pay Base Rent or Additional Rent or otherwise defaults under this Lease (as defined in Paragraph 13.1), Landlord may use the Security Deposit for the payment of any amount due Landlord or to reimburse or compensate Landlord for any liability, cost, expense, loss, or damage (including attorneys' fees) which Landlord may suffer or incur by reason thereof. Tenant shall on demand pay Landlord the amount so used or applied so as to restore the Security Deposit to the amount set forth in Paragraph 1.7. Landlord shall not be required to keep all or any part of the Security Deposit separate from its general accounts. Landlord shall, at the expiration or earlier termination of the Term hereof and after Tenant has vacated the Premises, return to Tenant that portion of the Security Deposit not used or applied by Landlord. No part of the Security Deposit shall be considered to be held in trust, to bear interest, or to be prepayment for any monies to be paid by Tenant under this Lease.

6. Use.

6.1 Permitted Use. Tenant shall use and occupy the Premises only for the Permitted Use set forth in Paragraph 1.8. Tenant shall not commit any nuisance, permit the emission of any objectionable noise or odor, suffer any waste, make any use of the Premises which is contrary to any law or ordinance, or which will invalidate or increase the premiums for any of Landlord's insurance. Tenant shall not service, maintain, or repair vehicles on the Premises, Building, or Common Areas. Tenant shall not store foods, pallets, drums, or any other materials outside the Premises. Tenant's use is subject to, and at all times Tenant shall comply with any and all Applicable Requirements, defined below. Landlord reserves to itself the right, from time to time, to grant, without the consent of Tenant, such easements, rights and dedications that Landlord deems reasonably necessary, and to cause the recordation of parcel or subdivision maps and/or restrictions, so long as such easements, rights, dedications, maps and restrictions, as applicable, do not materially and adversely interfere with Tenant's operations in the Premises. Tenant agrees to sign any documents reasonably requested by Landlord to effectuate any such easements, rights, dedications, maps or restrictions. Tenant shall not initiate, submit an application for, or otherwise request, any land use approvals or entitlements with respect to the Premises or any other portion of the Industrial Center, including without limitation, any variance, conditional use permit or rezoning, without first obtaining Landlord's prior written consent thereto, which consent may be given or withheld in Landlord's sole discretion.

6.2 Hazardous Substances.

(a) Reportable Uses Require Consent. The term, "Hazardous Substance," as used in this Lease, shall mean any product, substance, chemical, material, or waste whose presence, nature, quantity, and/or intensity of existence, use, manufacture, disposal, transportation, spill, release, or effect, either by itself or in combination with other materials expected to be on the Premises, is either: (i) potentially injurious to the public health, safety or welfare, the environment, or the Premises; (ii) regulated or monitored by any governmental authority; or (iii) a basis for potential liability of Landlord to any governmental agency or third party under any applicable statute or common law theory. Hazardous Substance shall include, but not be limited to, hydrocarbons, petroleum, gasoline, crude oil, or any products or by-products thereof. Tenant shall not engage in any activity in or about the Premises which constitutes a Reportable Use (as hereinafter defined) of Hazardous Substances without the express prior written consent of Landlord and compliance in a timely manner (at Tenant's sole cost and expense) with all Applicable Requirements (as defined in Paragraph 6.3). "Reportable Use" shall mean (i) the installation or use of any above or below ground storage tank, (ii) the generation, possession, storage, use, transportation, or disposal of a Hazardous Substance that requires a permit from, or with respect to which a report, notice, registration, or business plan is required to be filed with, any governmental authority, and (iii) the presence in, on, or about the Premises of a Hazardous Substance with respect to which any Applicable Requirements require that a notice be given to persons entering or occupying the Premises or neighboring properties. Notwithstanding the foregoing, Tenant may, without Landlord's prior consent, but upon notice to Landlord and in compliance with all Applicable Requirements, use any ordinary and customary materials reasonably required to be used by Tenant in the normal course of the Permitted Use, so long as such use is not a Reportable Use and does not expose the Premises or neighboring properties to any meaningful risk of contamination or damage, or expose Landlord to any liability therefor. In addition, Landlord may (but without any obligation to do so) condition its consent to any Reportable Use of any Hazardous Substance by Tenant upon Tenant's giving Landlord such additional assurances as Landlord, in its reasonable discretion, deems necessary to protect itself, the public, the Premises, and the environment against damage, contamination, injury, and/or liability therefor, including but not limited to the installation (and, at Landlord's option, removal on or before Lease expiration or earlier termination) of reasonably necessary protective modifications to the Premises (such as concrete encasements) and/or the deposit of an additional Security Deposit.

(b) Duty to Inform Landlord. If Tenant knows, or has reasonable cause to believe, that a Hazardous Substance is located in, under, or about the Premises or the Building, Tenant shall immediately give Landlord written notice thereof, together with a copy of any statement, report, notice, registration, application, permit, business plan, license, claim, action, or proceeding given to. or received from, any governmental authority or private party concerning the presence, spill, release, discharge of, or exposure to such Hazardous Substance. Tenant shall not cause or permit any Hazardous Substance to be spilled or released in, on, under, or about the Premises (including, without limitation, through the plumbing or sanitary sewer system).

(c) Indemnification. Tenant shall indemnify, protect, defend, and hold Landlord, Landlord's affiliates, Lenders, and the officers, directors, shareholders, partners, employees, managers, independent contractors, attorneys, and agents of the foregoing ("Landlord Entities") and the Premises harmless from and against any and all damages, liabilities, judgments, costs, claims, liens, expenses, penalties, loss of permits, and attorneys' and consultants'

fees arising out of or involving any Hazardous Substance on or brought onto the Premises by or for Tenant or by any of Tenant's employees, agents, contractors, servants, visitors, suppliers, or invitees (such employees, agents, contractors, servants, visitors, suppliers, and invitees as herein collectively referred to as "Tenant Entities"). Tenant's obligations under this Paragraph 6.2(c) shall include, but not be limited to, the effects of any contamination or injury to person, property, or the environment created or suffered by Tenant, and the cost of investigation (including consultants' and attorneys' fees and testing), removal, remediation, restoration and/or abatement thereof, or of any contamination therein involved. Tenant's obligations under this Paragraph 6.2(c) shall survive the Expiration Date or earlier termination of this Lease.

6.3 Tenant's Compliance with Requirements. Tenant shall, at Tenant's sole cost and expense, fully, diligently, and in a timely manner comply with all "Applicable Requirements," which term is used in this Lease to mean all laws, rules, regulations, ordinances, directives, covenants, easements, and restrictions of record, permits, the requirements of any applicable fire insurance underwriter or rating bureau, and the recommendations of Landlord's engineers and/or consultants, relating in any manner to the Premises (including but not limited to matters pertaining to (a) industrial hygiene, (b) environmental conditions on. in, under, or about the Premises, including soil and groundwater conditions, and (c) the use, generation, manufacture, production, installation, maintenance, removal, transportation, storage, spill, or release of any Hazardous Substance), now in effect or which may hereafter come into effect. Tenant shall, within 5 days after receipt of Landlord's written request, provide Landlord with copies of all documents and information evidencing Tenant's compliance with any Applicable Requirements, and shall immediately upon receipt notify Landlord in writing (with copies of any documents involved) of any threatened or actual claim, notice, citation, warning, complaint, or report pertaining to or involving failure by Tenant or the Premises to comply with any Applicable Requirements.

6.4 Inspection; Compliance with Law. In addition to Landlord's environmental monitoring and insurance program, the cost of which is included in Operating Expenses, Landlord and the holders of any mortgages, deeds of trust, or ground leases on the Premises ("Lenders") shall have the right to enter the Premises at any time in the case of an emergency, and otherwise at reasonable times, for the purpose of inspecting the condition of the Premises and for verifying compliance by Tenant with this Lease and all Applicable Requirements. Landlord shall be entitled to employ experts and/or consultants in connection therewith to advise Landlord with respect to Tenant's installation, operation, use, monitoring, maintenance, or removal of any Hazardous Substance on or from the Premises. The cost and expenses of any such inspections shall be paid by the party requesting same unless a violation of Applicable Requirements exists or is imminent, or the inspection is requested or ordered by a governmental authority. Tenant shall upon request reimburse Landlord or Landlord's Lender, as the case may be, for the costs and expenses of such inspections.

6.5 Tenant Move-in Questionnaire. Prior to executing this Lease, (i) Tenant has completed, executed and delivered to Landlord Tenant's Move-in and Lease Renewal Environmental Questionnaire (the "Tenant Move-in Questionnaire"), a copy of which is attached hereto as **Exhibit C** and incorporated herein by this reference and (ii) delivered to Landlord a true and correct copy of Tenant's Conditional Use Permit from the City of Menlo Park ("CUP"), which copy is attached hereto as **Exhibit J**. Tenant covenants, represents and warrants to Landlord that the information on the Tenant Move-in Questionnaire and the information regarding the type and quantity of Hazardous Substances shown in the CUP is true and correct and accurately describes the use(s) of Hazardous Substances which will be made and/or used on the Premises by Tenant. Subject to all of the terms and conditions of this Lease, Landlord consents to Tenant's use of such Hazardous Substances.

6.6 Exculpation. Tenant shall neither be liable for nor otherwise obligated to Landlord under any provision of this Lease with respect to (i) any claim, remediation obligation, investigation obligation, liability, cause of action, attorney's fees, consultants' cost, expense or damage resulting from any Hazardous Substance present in, on or about the Premises, the Building or the Industrial Center to the extent neither caused nor otherwise permitted, directly or indirectly, by Tenant or the Tenant Entities; or (ii) the removal, investigation, monitoring or remediation of any Hazardous Substance present in, on or about the Premises, the Building or the Industrial Center caused by any source, including third parties other than Tenant and the Tenant Entities, as a result of or in connection with the acts or omissions of persons other than Tenant or the Tenant Entities; provided, however, Tenant shall be fully liable for and otherwise obligated to Landlord under the provisions of this Lease for all liabilities, costs, damages, penalties, claims, judgments, expenses (including without limitation, attorneys' and experts' fees and costs) and losses to the extent (a) Tenant or any of the Tenant Entities contributes to the presence of such Hazardous Substances or Tenant and/or any of the Tenant Entities exacerbates the conditions caused by such Hazardous Substances, or (b) Tenant and/or the Tenant Entities allows or permits persons over which Tenant or any of the Tenant Entities has control and/or for which Tenant or any of the Tenant Entities are legally responsible for, to cause such Hazardous Substances to be present in, on, under, through or about any portion of the Premises, the Building or the Industrial Center, or does not take all reasonably appropriate actions to prevent such persons over which Tenant or any of the Tenant Entities has control and/or for which Tenant or any of the Tenant Entities are legally responsible from causing the presence of Hazardous Substances in, on, under, through or about any portion of the Premises, the Building or the Industrial Center.

7. Maintenance, Repairs, Trade Fixtures and Alterations.

7.1 Tenant's Obligations. Subject to the provisions of Paragraph 7.2 (Landlord's Obligations), Paragraph 9 (Damage or Destruction), and Paragraph 14 (Condemnation), Tenant shall, at Tenant's sole cost and expense and at all times, keep the Premises and every part thereof in good order, condition, and repair (whether or not such portion of the Premises requiring repair, or the means of repairing the same, are reasonably or readily accessible to Tenant and whether or not the need for such repairs occurs as a result of Tenant's use, any prior use, the elements, or the age of such portion of the Premises) including, without limiting the generality of the foregoing, all equipment or facilities specifically serving the Premises, such as plumbing, heating, ventilating, air conditioning, electrical, lighting facilities, boilers, fired or unfired pressure vessels, fire hose connectors if within the Premises, fixtures, interior walls, interior surfaces of

exterior walls, ceilings, floors, windows, doors, plate glass, and skylights, but excluding any items which are the responsibility of Landlord pursuant to Paragraph 7.2 below. Tenant's obligations shall include restorations, replacements, or renewals when necessary to keep the Premises and all improvements thereon or a part thereof in good order, condition, and state of repair. Subject to the terms of Paragraph 8.4 of this Lease, Tenant shall also be solely responsible for the cost of all repairs and replacements caused by the negligent acts or omissions or intentional misconduct by Tenant or Tenant's employees, contractors, agents, guests or invitees. If Tenant refuses or neglects to perform its obligations under this paragraph to the reasonable satisfaction of Landlord, Landlord may, but without obligation to do so. at any time perform the same without Landlord having any liability to Tenant for any loss or damage that may accrue to Tenant's Property or to Tenant's business by reason thereof. If Landlord performs any such obligations. Tenant shall pay to Landlord, as Additional Rent, Landlord's costs and expenses incurred therefor.

7.2 Landlord's Obligations. Subject to the provisions of Paragraph 6 (Use), Paragraph 7.1 (Tenant's Obligations), Paragraph 9 (Damage or Destruction), and Paragraph 14 (Condemnation), Landlord, at its expense and not subject to the reimbursement requirements of Paragraph 4.2, shall maintain and repair the roof structure, foundations and the structure of the exterior walls of the Building. Landlord, subject to reimbursement pursuant to Paragraph 4.2, shall maintain and repair the Building roof membrane, Common Areas, and utility systems within the Industrial Center which are outside of the Premises. In addition, Landlord may, in Landlord's sole discretion, and at Tenant's sole cost, elect to contract for all or any portion of the maintenance, repair and/or replacement of the HVAC systems serving the Premises.

7.3 Alterations. Tenant shall not install any signs, fixtures, improvements, nor make or permit any other alterations or additions (individually, an "Alteration", and collectively, the "Alterations") to the Premises without the prior written consent of Landlord, except for Alterations that cumulatively cost less than Twenty Five Thousand Dollars ($25,000.00) and which do not affect the Building systems or the structural integrity or structural components of the Premises or the Building. In all events, Tenant shall deliver at least ten (10) days prior notice to Landlord, from the date Tenant intends to commence construction, sufficient to enable Landlord to post a Notice of Non-Responsibility and Tenant shall obtain all permits or other governmental approvals prior to commencing any of such work and deliver a copy of same to Landlord. All Alterations shall be at Tenant's sole cost and expense in accordance with plans and specifications which have been previously submitted to and approved in writing by Landlord, and shall be installed by a licensed, insured, and bonded contractor (reasonably approved by Landlord) in compliance with all applicable Laws (including, but not limited to, the ADA), and all recorded matters and rules and regulations of the Industrial Center. In addition, all work with respect to any Alterations must be done in a good and workmanlike manner. Landlord's approval of any plans, specifications or working drawings for Tenant's Alterations shall not create nor impose any responsibility or liability on the part of Landlord for their completeness, design sufficiency, or compliance with any laws, ordinances, rules and regulations of governmental agencies or authorities. In performing the work of any such Alterations, Tenant shall have the work performed in such a manner as not to obstruct access to the Industrial Center, or the Common Areas for any other tenant of the Industrial Center, and as not to obstruct the business of Landlord or other tenants in the Industrial Center, or interfere with the labor force working in the Industrial Center. Except with respect to the Initial Tenant Improvements set forth in **Exhibit F** attached hereto and the Option Term Tenant Improvements set forth in **Exhibit G** attached hereto, as Additional Rent hereunder, Tenant shall reimburse Landlord, within ten (10) days after demand, for actual and reasonable legal, engineering, architectural, planning and other expenses incurred by Landlord in connection with Tenant's Alterations, plus Tenant shall pay to Landlord a fee equal to one percent (1%) of the total cost of the Alterations. If Tenant makes any Alterations, Tenant agrees to carry "Builder's All Risk" insurance, in an amount approved by Landlord and such other insurance as Landlord may require, it being understood and agreed that all of such Alterations shall be insured by Tenant in accordance with the terms of this Lease immediately upon completion thereof. Tenant shall keep the Premises and the properly on which the Premises are situated free from any liens arising out of any work performed, materials furnished or obligations incurred by or on behalf of Tenant. Tenant shall, prior to construction of any and all Alterations, cause its contractor(s) and/or major subcontractor(s) to provide insurance as reasonably required by Landlord, and Tenant shall provide such assurances to Landlord, including without limitation, waivers of lien, surety company performance bonds as Landlord shall require to assure payment of the costs thereof to protect Landlord and the Industrial Center from and against any loss from any mechanic's, materialmen's or other liens.

7.4 Surrender/Restoration. Tenant shall surrender the Premises by the end of the last day of the Lease term or any earlier termination date, clean and free of debris and in good operating order, condition, and state of repair, ordinary wear and tear excepted and in accordance with the Move Out Standards set forth in **Exhibit D** to this Lease. Without limiting the generality of the above. Tenant shall remove all tenant improvements designated by Landlord in Landlord's sole discretion, personal property, trade fixtures, and floor bolts, patch all floors, and cause all lights to be in good operating condition.

8. Insurance; Indemnity.

8.1 Payment of Premiums and Deductibles. The cost of the premiums and all applicable deductibles for the insurance policies maintained by Landlord under this Paragraph 8 shall be a Common Area Operating Expense reimbursable pursuant to Paragraph 4.2 hereof. Premiums for policy periods commencing prior to, or extending beyond, the term of this Lease shall be prorated to coincide with the corresponding Commencement Date and Expiration Date.

8.2 Tenant's Insurance.

(a) At its sole cost and expense, Tenant shall maintain in full force and effect during the Term of the Lease the following insurance coverages insuring against claims which may arise from or in connection with the Tenant's operation and use of the Premises.

(i) Commercial General Liability insurance with minimum limits of $1,000,000 per occurrence and $3,000,000 general aggregate for bodily injury, personal injury, and property damage. If required by Landlord,

liquor liability coverage will be included. Such insurance shall be endorsed to include Landlord and Landlord Entities as additional insureds, shall be primary and noncontributory with any Landlord insurance, and shall provide severability of interests between or among insureds.

(ii) Workers' Compensation insurance with statutory limits and Employers Liability with a $1,000,000 per accident limit for bodily injury or disease.

(iii) Automobile Liability insurance covering all owned, nonowned, and hired vehicles with a $1,000,000 per accident limit for bodily injury and property damage.

(iv) Property insurance against "all risks'" at least as broad as the current ISO Special Form policy (and Tenant shall not be obligated to carry flood or earthquake coverage provided Tenant agrees that Landlord shall not be liable for any damage or loss arising from flood or earthquake and Tenant waives and releases Landlord from all claims, losses, damages, liabilities, judgments and costs arising from or related to Tenant not carrying such flood or earthquake coverage) for loss to any tenant improvements or betterments, floor and wall coverings, and business personal property on a full insurable replacement cost basis with no coinsurance clause, and Business Income insurance covering at least three (3) months of loss of income and continuing expense.

(b) Tenant shall deliver to Landlord certificates of all insurance reflecting evidence of required coverages prior to initial occupancy, and annually thereafter.

(c) Intentionally Omitted.

(d) All insurance required under Paragraph 8.2 (i) shall be issued by insurers licensed to do business in the state in which the Premises are located and which are rated A:VII or better by Best's Key Rating Guide and (ii) shall be endorsed to provide at least 30-days prior notification of cancellation or material change in coverage to said additional insureds.

8.3 Landlord's Insurance. Landlord may, but shall not be obligated to, maintain risk of direct physical loss property damage insurance coverage, including earthquake and flood, covering the buildings within the Industrial Center. Commercial General Liability insurance, and such other insurance in such amounts and covering such other liability or hazards as deemed appropriate by Landlord. The amount and scope of coverage of Landlord's insurance shall be determined by Landlord from time to time in its sole discretion and shall be subject to such deductible amounts as Landlord may elect. Landlord shall have the right to reduce or terminate any insurance or coverage.

8.4 Waiver of Subrogation. To the extent permitted by law and with permission of their insurance carriers, Landlord and Tenant each waive any right to recover against the other on account of any and all claims Landlord or Tenant may have against the other with respect to property insurance actually carried, or required to be earned hereunder, to the extent of the proceeds realized from such insurance coverage.

8.5 Indemnity. Tenant shall protect, defend, indemnify, and hold Landlord and Landlord Entities harmless from and against any and all loss, claims, liability, or costs (including court costs and attorneys' fees) incurred by reason of:

(a) any damage to any property (including but not limited to property of any Landlord Entity) or death, bodily, or personal injury to any person occurring in or about the Premises, the Building, or the Industrial Center to the extent that such injury or damage shall be caused by or arise from any actual or alleged act, neglect, fault, or omission by or of Tenant, its agents, servants, employees, invitees, contractors, suppliers, subtenants, or visitors;

(b) the conduct or management of any work or anything whatsoever done by the Tenant on or about the Premises or from transactions of the Tenant concerning the Premises;

(c) Tenant's failure to comply with any and all governmental laws, ordinances, and regulations applicable to the condition or use of the Premises or its occupancy; or

(d) any breach or default on the part of Tenant in the performance of any covenant or agreement to be performed pursuant to this Lease.

The provisions of this Paragraph 8.5 shall, with respect to any claims or liability accruing prior to such termination, survive the Expiration Date or earlier termination of this Lease.

8.6 Exemption of Landlord from Liability. Except to the extent caused by the gross active or gross passive negligence or willful misconduct of Landlord, neither Landlord nor Landlord Entities shall be liable for and Tenant waives any claims against Landlord and Landlord Entities for injury or damage to the person or the property of Tenant, Tenant's employees, contractors, invitees, customers or any other person in or about the Premises, Building or Industrial Center from any cause whatsoever, including, but not limited to, damage or injury which is caused by or results from (i) fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, fire sprinklers, wires, appliances, plumbing, heating, ventilating, air conditioning or lighting fixtures or (ii) from the condition of the Premises, other portions of the Building or Industrial Center. Landlord shall not be liable for any damages arising from any act or neglect (passive or active) of any other tenants of Landlord or any subtenant or assignee of such other tenants nor from the failure by Landlord to enforce the provisions of any other lease in the Industrial Center. Notwithstanding Landlord's negligence (active or passive), gross negligence (active or passive), or breach of this Lease, Landlord shall under no circumstances be liable for (a) injury to Tenant's business, for any loss of income or

profit therefrom or any indirect, consequential or punitive damages or (b) any damage to property or injury to persons arising from any act of God or war. violence or insurrection, including, but not limited to. those caused by earthquakes, hurricanes, storms, drought, floods, acts of terrorism, and/or riots.

9. Damage or Destruction.

9.1 Termination Right. Tenant shall give Landlord immediate written notice of any damage to the Premises. Subject to the provisions of Paragraph 9.2, if the Premises or the Building shall be damaged to such an extent that there is substantial interference for a period exceeding two hundred seventy (270) consecutive days with the conduct by Tenant of its business at the Premises, then either party, at any time prior to commencement of repair of the Premises and following ten (10) days written notice to the other party, may terminate this Lease effective thirty (30) days after delivery of such notice to the other party. Further, if any portion of the Premises is damaged and is not fully covered by the aggregate of insurance proceeds received by Landlord and any applicable deductible or if the holder of any indebtedness secured by the Premises requires that the insurance proceeds be applied to such indebtedness, and Tenant does not voluntarily contribute any shortfall thereof to Landlord, then Landlord shall have the right to terminate this Lease by delivering written notice of termination to Tenant within sixty (60) days after the date of notice to Tenant of any such event. Such termination shall not excuse the performance by Tenant of those covenants which under the terms hereof survive termination. Rent shall be abated in proportion to the degree of interference during the period that there is such substantial interference with the conduct of Tenant's business at the Premises. Abatement of rent and Tenant's right of termination pursuant to this provision shall be Tenant's sole remedy with respect to any such damage regardless of the cause thereof.

9.2 Damage Caused by Tenant. Tenant's termination rights under Paragraph 9.1 shall not apply if the damage to the Premises or Building is the result of any act or omission of Tenant or of any of Tenant's agents, employees, customers, invitees, or contractors.

10. Real Property Taxes.

10.1 Payment of Real Property Taxes. Landlord shall pay the Real Property Taxes due and payable during the term of this Lease and, except as otherwise provided in Paragraph 10.3, such payments shall be a Common Area Operating Expense reimbursable pursuant to Paragraph 4.2.

10.2 Real Property Tax Definition. As used herein, the term "Real Properly Taxes" is any form of tax or assessment, general, special, ordinary, or extraordinary, imposed or levied upon (a) the Industrial Center or Building, (b) any interest of Landlord in the Industrial Center or Building, (c) Landlord's right to rent or other income from the Industrial Center or Building, and/or (d) Landlord's business of leasing die Premises. Real Property Taxes include (a) any license fee, commercial rental tax. excise tax, improvement bond or bonds, levy, or tax; (b) any tax or charge which replaces or is in addition to any of such above-described "Real Property Taxes," and (c) any fees, expenses, or costs (including attorneys' fees, expert fees, and the like) incurred by Landlord in protesting or contesting any assessments levied or any tax rate. Notwithstanding the foregoing, Real Property Taxes shall not include any income taxes levied upon Landlord's income from leasing the Premises or any other property in the Industrial Center. Real Property Taxes for tax years commencing prior to, or extending beyond, the term of this Lease shall be prorated to coincide with the corresponding Commencement Date and Expiration Date.

10.3 Additional Improvements. Operating Expenses shall not include Real Property Taxes attributable to improvements placed upon the Industrial Center by other tenants or by Landlord for the exclusive enjoyment of such other tenants. Tenant shall, however, pay to Landlord at the time Operating Expenses are payable under Paragraph 4.2, the entirety of any increase in Real Properly Taxes if assessed by reason of improvements placed upon the Premises by Tenant or at Tenant's request.

10.4 Joint Assessment. If the Building is not separately assessed, Real Property Taxes allocated to the Building shall be a pro rata portion of the Real Property Taxes for all of the land and improvements included within the tax parcel assessed.

10.5 Tenant's Property Taxes. Tenant shall pay prior to delinquency all taxes assessed against and levied upon Tenant's improvements, fixtures, furnishings, equipment, and all personal property of Tenant contained in the Premises or stored within the Industrial Center.

11. Utilities. Tenant shall pay directly for all utilities and services supplied to the Premises, including but not limited to electricity, telephone, security, gas, and cleaning of the Premises, together with any taxes thereon. For any such utility fees or services that are not billed or metered separately to Tenant, including without limitation, water and sewer charges, and garbage and waste disposal (collectively, "Utility Expenses"), Tenant shall pay to Landlord Tenant's Share of Utility Expenses. If Landlord reasonably determines that Tenant's Share of Utility Expenses is not commensurate with Tenant's use of such services, Tenant shall pay to Landlord the amount which is attributable to Tenant's use of the utilities or similar services, as reasonably estimated and determined by Landlord, based upon factors such as size of the Premises and intensity of use of such utilities by Tenant such that Tenant shall pay the portion of such charges reasonably consistent with Tenant's use of such utilities and similar services. If Tenant disputes any such estimate or determination, then Tenant shall either pay the estimated amount or cause the Premises to be separately metered at Tenant's sole expense. Tenant shall also pay Tenant's Share of any assessments, charges, and fees included within any tax bill for the lot on which the Premises are situated, including without limitation, entitlement fees, allocation unit fees, sewer use fees, and any other similar fees or charges.

12. Assignment and Subleasing.

12.1 Prohibition. Tenant shall not, without the prior written consent of Landlord, assign, mortgage, hypothecate, encumber, grant any license or concession, pledge or otherwise transfer this Lease or any interest herein, permit any assignment or other such transfer of this Lease or any interest hereunder by operation of law, sublet the Premises or any part thereof, or permit the use of the Premises by any persons other than Tenant and Tenant's Entities (all of the foregoing are sometimes referred to collectively as "Transfers" and any person to whom any Transfer is made or sought to be made is sometimes referred to as a "Transferee"). No consent to any Transfer shall constitute a waiver of the provisions of this Section, and all subsequent Transfers may be made only with the prior written consent of Landlord, which consent shall not be unreasonably withheld, but which consent shall be subject to the provisions of this Section.

12.2 Request for Consent. If Tenant seeks to make a Transfer, Tenant shall notify Landlord, in writing, and deliver to Landlord at least thirty (30) days (but not more than one hundred eighty (ISO) days) prior to the proposed commencement date of the Transfer (the "Proposed Effective Date") the following information and documents (the "Tenant's Notice"): (i) a description of the portion of the Premises to be transferred (the "Subject Space"); (ii) all of the terms of the proposed Transfer including without limitation, the Proposed Effective Date, the name and address of the proposed Transferee, and a copy of the existing or proposed assignment, sublease or other agreement governing the proposed Transfer; (iii) current financial statements of the proposed Transferee certified by an officer, member, partner or owner thereof, and any such other information as Landlord may then reasonably require, including without limitation, audited financial statements for the previous three (3) most recent consecutive fiscal years; (iv) the Transfer Plans and Specifications (defined below), if any; and (v) such other information as Landlord may then reasonably require. Tenant shall give Landlord the Tenant's Notice by registered or certified mail addressed to Landlord at Landlord's Address specified in the Basic Provisions. Within thirty (30) days after Landlord's receipt of the Tenant's Notice (the "Landlord Response Period*') Landlord shall notify Tenant, in writing, of its determination with respect to such requested proposed Transfer and the election to recapture as set forth below. If Landlord does not elect to recapture pursuant to the provisions hereof and Landlord does consent to the requested proposed Transfer, Tenant may thereafter assign its interests in and to this Lease or sublease all or a portion of the Premises to the same party and on the same terms as set forth in the Tenant's Notice. If Landlord fails to respond to Tenant's Notice within Landlord's Response Period, then, after Tenant delivers to Landlord thirty (30) days written notice (the "Second Response Period") and Landlord fails to respond thereto prior to the end of the Second Response Period, the proposed Transfer shall then be deemed approved by Landlord.

12.3 Criteria for Consent. Tenant acknowledges and agrees that, among other circumstances for which Landlord could reasonably withhold consent to a proposed Transfer, it shall be reasonable for Landlord to withhold its consent where (a) Tenant is or has been in default of its obligations under this Lease beyond applicable notice and cure periods, (b) the use to be made of the Premises by the proposed Transferee is prohibited under this Lease or differs from the uses permitted under this Lease, (c) the proposed Transferee or its business is subject to compliance with additional requirements of the ADA beyond those requirements which are applicable to Tenant, unless the proposed Transferee shall (1) first deliver plans and specifications for complying with such additional requirements (the "Transfer Plans and Specifications") and obtain Landlord's written consent thereto, and (2) comply with all Landlord's conditions contained in such consent, (d) the proposed Transferee does not intend to occupy a substantial portion of the Premises assigned or sublet to it, (e) Landlord reasonably disapproves of the proposed Transferee's business operating ability or history or creditworthiness or the character of the business to be conducted by the proposed Transferee at the Premises, (0 the proposed Transferee is a governmental agency or unit or an existing tenant in the Industrial Center, (g) the proposed Transfer would violate any "exclusive" rights of any occupants in the Industrial Center or cause Landlord to violate another agreement or obligation to which Landlord is a party or otherwise subject, (h) Landlord or Landlord's agent has shown space in the Industrial Center to the proposed Transferee or responded to any inquiries from the proposed Transferee or the proposed Transferee's agent concerning availability of space in the Industrial Center, at any time within the preceding twelve (12) months, (i) Landlord otherwise reasonably determines that the proposed Transfer would have the effect of decreasing the value of the Building or the Industrial Center, or increasing the expenses associated with operating, maintaining and repairing the Industrial Center, (j) either the proposed Transferee, or any person or entity which directly or indirectly, controls, is controlled by, or is under common control with, the proposed Transferee: (i) occupies space in the Building at the time of the request for consent, (ii) is negotiating with Landlord to lease space in the Building at such time, or (in) has negotiated with Landlord during the 12 month period immediately preceding the Tenant's Notice, (k) the rent proposed to be charged by Tenant to the proposed Transferee during the term of such Transfer, calculated using a present value analysis, is less than ninety-five percent (95%) of the rent then being quoted by Landlord, at the proposed time of such Transfer, for comparable space in the Building or any other Building in the Industrial Center for a comparable term, calculated using a present value system, or (1) the proposed Transferee will use, store or handle Hazardous Substances in or about the Premises of a type, nature or quantity not then acceptable to Landlord.

12.4 Effectiveness of Transfer and Continuing Obligations. Prior to the date on which any permitted Transfer becomes effective, Tenant shall deliver to Landlord (i) a counterpart of the fully executed Transfer document, (ii) an executed Certificate substantially in the form of Exhibit C hereto (the "Transferee HazMat Certificate"), and (iii) Landlord's form of Consent to Assignment or Consent to Sublease, as applicable, executed by Tenant and the Transferee in which each of Tenant and the Transferee confirms its obligations pursuant to this Lease. Failure or refusal of a Transferee to execute any such consent instrument shall not release or discharge the Transferee from its obligation to do so or from any liability as provided herein. The voluntary, involuntary or other surrender of this Lease by Tenant, or a mutual cancellation by Landlord and Tenant, shall not work a merger, and any such surrender or cancellation shall, at the option of Landlord, either terminate all or any existing subleases or operate as an assignment to Landlord of any or all of such subleases. Each permitted Transferee shall assume and be deemed to assume this Lease and shall be and remain liable jointly and severally with Tenant for payment of Rent and for the due performance of, and compliance with all the terms, covenants, conditions and agreements herein contained on Tenant's part to be performed or complied with, for the Term of this Lease. No Transfer shall affect the continuing primary liability of Tenant (which, following assignment, shall be joint and several with the assignee), and Tenant shall not be released from performing any of the terms,

covenants and conditions of this Lease. An assignee of Tenant shall become directly liable to Landlord for all obligations of Tenant hereunder, but no Transfer by Tenant shall relieve Tenant of any obligations or liability under this Lease whether occurring before or after such consent, assignment, subletting or other Transfer. The acceptance of any or all of the Rent by Landlord from any other person (whether or not such person is an occupant of the Premises) shall not be deemed to be a waiver by Landlord of any provision of this Lease or to be a consent to any Transfer. Except as set forth in Paragraph 12.9 below, if Tenant is a business entity, the direct or indirect transfer of more than fifty percent (50%) of the ownership interest of the entity (whether in a single transaction or in the aggregate through more than one transaction) shall be deemed a Transfer and shall be subject to all the provisions hereof and in such event, it shall be a condition to Landlord's consent to such ownership change that such entities or persons acquiring such ownership interest assume, as a primary obligor, all rights and obligations of Tenant under this Lease (and such entities and persons shall execute all documents reasonably required to effectuate such assumption). Any and all options, first rights of refusal, tenant improvement allowances and other similar rights granted to Tenant in this Lease, if any, shall not be assignable by Tenant unless expressly authorized in writing by Landlord (which shall be in Landlord's sole discretion). Except as set forth in Paragraph 12.9 below, any transfer made without Landlord's prior written consent, shall, at Landlord's option, be null, void and of no effect, and shall, at Landlord's option, constitute a material default by Tenant of this Lease. As Additional Rent hereunder. Tenant shall pay to Landlord each time it requests a Transfer, an administrative fee in the amount of two thousand five hundred dollars ($2,500) and, in addition, Tenant shall promptly reimburse Landlord for actual legal and other expenses incurred by Landlord in connection with any actual or proposed Transfer.

12.5 Rent Adjustment/Recapture. In the event the proposed Transfer (together with any prior Transfers) is of an amount of square footage equal to or greater than fifty percent (50%) of the Premises, Landlord shall have the right to recapture the Subject Space described in the Tenant's Notice. If such recapture notice is given, it shall serve to terminate this Lease with respect to the proposed Subject Space, or, if the proposed Subject Space covers all the Premises, it shall serve to terminate the entire Term of this Lease, in either case, as of the Proposed Effective Date. However, no termination of this Lease with respect to part or all of the Premises shall become effective without the prior written consent, where necessary, of the holder of each deed of trust encumbering the Premises or any other portion of the Industrial Center. If this Lease is terminated pursuant to the foregoing provisions with respect to less than the entire Premises, the Rent shall be adjusted on the basis of the proportion of rentable square feet retained by Tenant to the rentable square feet originally demised and this Lease as so amended shall continue thereafter in full force and effect.

12.6 Transfer Premium. If Landlord consents to a Transfer, as a condition thereto. Tenant shall pay to Landlord monthly, as Additional Rent, at the same time as the monthly installments of Rent are payable hereunder, fifty percent (50%) of any Transfer Premium, after first deducting commercially reasonable brokerage commissions and reasonable attorneys' fees. The term "Transfer Premium'" shall mean all rent, additional rent and other consideration payable by such Transferee which either initially or over the term of the Transfer exceeds the Rent or pro rata portion of the Rent, as the case may be, for such space reserved in the Lease.

12.7 Waiver. Notwithstanding any Transfer, or any indulgences, waivers or extensions of time granted by Landlord to any Transferee, or failure by Landlord to take action against any Transferee, Tenant agrees that Landlord may, at its option, proceed against Tenant without having taken action against or joined such Transferee, except that Tenant shall have the benefit of any indulgences, waivers and extensions of time granted to any such Transferee.

12.8 Special Transfer Prohibitions. Notwithstanding anything set forth above to the contrary. Tenant may not (a) sublet the Premises or assign this Lease to any person or entity in which Landlord owns an interest, directly or indirectly (by applying constructive ownership rules set forth in Section 856(d)(5) of the Internal Revenue Code (the "Code"); or (b) sublet the Premises or assign this Lease in any other manner which could cause any portion of the amounts received by Landlord pursuant to this Lease or any sublease to fail to qualify as "rents from real property" within the meaning of Section 856(d) of the Code, or which could cause any other income received by Landlord to fail to qualify as income described in Section 856(c)(2) of the Code.

12.9 Affiliates. The assignment or subletting by Tenant of all or any portion of this Lease or the Premises to (i) a parent or subsidiary of Tenant, or (ii) any person or entity which controls, is controlled by or under the common control with Tenant, or (iii) any entity which purchases all or substantially all of the assets of Tenant, or (iv) any entity into which Tenant is merged or consolidated (all such persons or entities described in clauses (i), (ii), (iii) and (iv) being sometimes herein referred to as "Affiliates") shall not be subject to obtaining Landlord's prior consent and no Transfer Premium shall be payable, provided in all instances that:

(a) any such Affiliate was not formed as a subterfuge to avoid the obligations of this Article 12:

(b) Tenant gives Landlord prior notice of any such assignment or sublease to an Affiliate, except solely for those assignments or subleases in connection with which any applicable law precludes Tenant's delivery to Landlord of prior notice of said assignment or sublease then, in all such instances, Tenant shall deliver to Landlord subsequent notice of said assignment or sublease within ten (10) days following the first (1st) day on which Tenant is permitted by law to deliver notice of such assignment or sublease to Landlord;

(c) the successor of Tenant shall have throughout the Term a tangible net worth and net assets, in the aggregate, computed in accordance with generally accepted accounting principles (but excluding goodwill as an asset), which is sufficient to meet the obligations of Tenant under this Lease, as reasonably determined by Landlord:

(d) any such assignment or sublease shall be subject to all of the terms and provisions of this Lease, and such assignee or sublessee (i.e. any such Affiliate), other than in the case of an Affiliate resulting from a merger or consolidation, shall assume, in a written document reasonably satisfactory to Landlord and delivered to Landlord upon or prior to the effective date of such assignment or sublease, all the obligations of Tenant under this Lease; and

(e) Tenant and any guarantor shall remain fully liable for all obligations to be performed by Tenant under this Lease.

13. Default; Remedies.

13.1 Default. The occurrence of any one of the following events shall constitute an event of default on the part of Tenant ("Default"):

(a) The abandonment of the Premises by Tenant;

(b) Failure to pay any installment of Base Rent, Additional Rent, or any other monies due and payable hereunder, said failure continuing for a period of five (5) days after Landlord's delivery of written notice to Tenant that said payment is past due. Tenant agrees that any such written notice delivered by Landlord shall, to the fullest extent permitted by law. serve as the statutorily required notice under applicable law to the extent Tenant fails to cure such failure to pay within such five (5) day period. In addition to the foregoing, Tenant agrees to notice and service of notice as provided for in accordance with applicable statutory requirements;

(c) A general assignment by Tenant for the benefit of creditors;

(d) The filing of a voluntary petition of bankruptcy by Tenant; the filing of a voluntary petition for an arrangement; the filing of a petition, voluntary or involuntary, for reorganization; or the filing of an involuntary petition by Tenant's creditors;

(e) Receivership, attachment, or other judicial seizure of the Premises or all or substantially all of Tenant's assets on the Premises;

(f) Failure of Tenant to maintain insurance as required by Paragraph 8.2;

(g) Any breach by Tenant of its covenants under Paragraph 6.2;

(h) Failure in the performance of any of Tenant's covenants, agreements, or obligations hereunder (except those failures specified as events of Default in other Paragraphs of this Paragraph 13.1 which shall be governed by such other Paragraphs), which failure continues for 10 days after written notice thereof from Landlord to Tenant; provided that, if Tenant has exercised reasonable diligence to cure such failure and such failure cannot be cured within such 10-day period despite reasonable diligence. Tenant shall not be in default under this subparagraph unless Tenant fails thereafter diligently and continuously to prosecute the cure to completion; and

(i) Except as set forth in Paragraph 12.9, any transfer of a substantial portion of the assets of Tenant, unless such transfer or obligation is undertaken or incurred in the ordinary course of Tenant's business, or in good faith for equivalent consideration, or with Landlord's consent.

13.2 Remedies. In the event of any Default by Tenant, Landlord shall have any or all of the following remedies:

(a) Termination. In the event of any Default by Tenant, then in addition to any other remedies available to Landlord at law or in equity and under this Lease, Landlord shall have the immediate option to terminate this Lease and all rights of Tenant hereunder by giving written notice of such intention to terminate. In the event that Landlord shall elect to so terminate this Lease then Landlord may recover from Tenant:

(1) the worth at the time of award of any unpaid Rent and any other sums due and payable which have been earned at the time of such termination; plus

(2) the worth at the time of award of the amount by which the unpaid Rent and any other sums due and payable which would have been earned after termination until the time of award exceeds the amount of such rental loss Tenant proves could have been reasonably avoided; plus

(3) the worth at the time of award of the amount by which the unpaid Rent and any other sums due and payable for the balance of the term of this Lease after the time of award exceeds the amount of such rental loss that Tenant proves could be reasonably avoided; plus

(4) any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course would be likely to result therefrom, including, without limitation, any costs or expenses incurred by Landlord (i) in retaking possession of the Premises; (ii) in maintaining, repairing, preserving, restoring, replacing, cleaning, the Premises or any portion thereof, including such acts for reletting to a new lessee or lessees; (iii) for leasing commissions; or (iv) for any other costs reasonably necessary or reasonably appropriate to relet the Premises; plus

(5) such reasonable attorneys' fees incurred by Landlord as a result of a Default, and costs in the event suit is filed by Landlord to enforce such remedy; and plus

(6) at Landlord's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable law. As used in subparagraphs (1) and (2) above, the "worth at the lime of award" is computed by allowing interest at an annual rate equal to twelve percent (12%) per annum or the maximum rate permitted by law, whichever is less. As used in subparagraph (3) above, the "worth at the time of award" is computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award, plus one percent (I %). Tenant waives redemption or relief from forfeiture under California Code of Civil Procedure Sections 1174 and 1179, or under any other present or future law, in the event Tenant is evicted or Landlord takes possession of the Premises by reason of any Default of Tenant hereunder.

(b) Continuation of Lease. In the event of any Default by Tenant, then in addition to any other remedies available to Landlord at law or in equity and under this Lease, Landlord shall have the remedy described in California Civil Code Section 1951.4 (Landlord may continue this Lease in effect after Tenant's Default and abandonment and recover Rent as it becomes due, provided tenant has the right to sublet or assign, subject only to reasonable limitations).

(c) Re-entry. In the event of any Default by Tenant, Landlord shall also have the right, with or without terminating this Lease, in compliance with applicable law, to re-enter the Premises and remove all persons and property from the Premises; such property may be removed and stored in a public warehouse or elsewhere at the cost of and for the account of Tenant.

(d) Reletting. In the event of the abandonment of the Premises by Tenant or in the event that Landlord shall elect to re-enter or shall take possession of the Premises pursuant to legal proceeding or pursuant to any notice provided by law, then if Landlord does not elect to terminate this Lease as provided in Paragraph a. Landlord may from time to time, without terminating this Lease, relet the Premises or any part thereof for such term or terms and at such rental or rentals and upon such other terms and conditions as Landlord in its sole discretion may deem advisable with the right to make alterations and repairs to the Premises. In the event that Landlord shall elect to so relet, then rentals received by Landlord from such reletting shall be applied in the following order: (1) to reasonable attorneys' fees incurred by Landlord as a result of a Default and costs in the event suit is filed by Landlord to enforce such remedies; (2) to the payment of any indebtedness other than Rent due hereunder from Tenant to Landlord; (3) to the payment of any costs of such reletting; (4) to the payment of the costs of any alterations and repairs to the Premises: (5) to the payment of Rent due and unpaid hereunder; and (6) the residue, if any, shall be held by Landlord and applied in payment of future Rent and other sums payable by Tenant hereunder as the same may become due and payable hereunder. Should that portion of such rentals received from such reletting during any month, which is applied to the payment of Rent hereunder, be less than the Rent payable during the month by Tenant hereunder, then Tenant shall pay such deficiency to Landlord. Such deficiency shall be calculated and paid monthly. Tenant shall also pay to Landlord, as soon as ascertained, any costs and expenses incurred by Landlord in such reletting or in making such alterations and repairs not covered by the rentals received from such reletting; provided, Tenant shall not be obligated to Landlord for any such costs attributable to the removal (or repair following removal) of the Initial Tenant Improvements described in **Exhibit F**.

(e) Termination. No re-entry or taking of possession of the Premises by Landlord pursuant to this Addendum shall be construed as an election to terminate this Lease unless a written notice of such intention is given to Tenant or unless the termination thereof is decreed by a court of competent jurisdiction. Notwithstanding any reletting without termination by Landlord because of any Default by Tenant, Landlord may at any time after such reletting elect to terminate this Lease for any such Default.

(f) Cumulative Remedies. The remedies herein provided are not exclusive and Landlord shall have any and all other remedies provided herein or by law or in equity.

(g) No Surrender. No act or conduct of Landlord, whether consisting of the acceptance of the keys to the Premises, or otherwise, shall be deemed to be or constitute an acceptance of the surrender of the Premises by Tenant prior to the expiration of the Term, and such acceptance by Landlord of surrender by Tenant shall only flow from and must be evidenced by a written acknowledgment of acceptance of surrender signed by Landlord. The surrender of this Lease by Tenant, voluntarily or otherwise, shall not work a merger unless Landlord elects in writing that such merger take place, but shall operate as an assignment to Landlord of any and all existing subleases, or Landlord may, at its option, elect in writing to treat such surrender as a merger terminating Tenant's estate under this Lease, and thereupon Landlord may terminate any or all such subleases by notifying the sublessee of its election so to do within five (5) days after such surrender.

(h) Notice Provisions Tenant agrees that any notice given by Landlord pursuant to Paragraph 13.1 of the Lease shall satisfy the requirements for notice under California Code of Civil Procedure Section 1161, and Landlord shall not be required to give any additional notice in order to be entitled to commence an unlawful detainer proceeding. Should Landlord prepare any notice to Tenant for failure to pay rent, additional rent or perform any other obligation under the Lease, Tenant shall pay to Landlord, without any further notice from Landlord, the additional sum of $75.00 which the parties hereby agree represents a fair and reasonable estimate of the costs Landlord will incur by reason of preparing such notice.

13.3 Late Charges. Tenant hereby acknowledges that late payment by Tenant to Landlord of Rent and other sums due hereunder will cause Landlord to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges. Accordingly, if any installment of Rent or other sum due from Tenant shall not be received by Landlord or Landlord's designee within 4 days after such amount shall be due, then, without any requirement for notice to Tenant, Tenant shall pay to Landlord a late charge equal to 5% of such overdue amount. The parties hereby agree that such late charge

represents a fair and reasonable estimate of the costs Landlord will incur by reason of late payment by Tenant. Acceptance of such late charge by Landlord shall in no event constitute a waiver of Tenant's Default with respect to such overdue amount, nor prevent Landlord from exercising any of the other rights and remedies granted hereunder. In addition, should Landlord be unable to negotiate any payment made by Tenant on the first attempt by Landlord and without any notice to Tenant, Tenant shall pay to Landlord a fee of $50.00 per item which the parties hereby agree represents a fair and reasonable estimate of the costs Landlord will incur by reason of Landlord's inability to negotiate such item(s).

14. Condemnation. If the Premises or any portion thereof are taken under the power of eminent domain or sold under the threat of exercise of said power (all of which are herein called "condemnation"), this Lease shall terminate as to the part so taken as of the date the condemning authority takes title or possession, whichever first occurs. If more than 10% of the floor area of the Premises, or more than 25% of the portion of the Common Areas designated for Tenant's parking, is taken by condemnation, Tenant may, at Tenant's option, to be exercised in writing within 10 days after Landlord shall have given Tenant written notice of such taking (or in the absence of such notice, within 10 days after the condemning authority shall have taken possession), terminate this Lease as of the date the condemning authority takes such possession. If Tenant does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the Premises remaining, except that the Base Rent shall be reduced in the same proportion as the rentable floor area of the Premises taken bears to the total rentable floor area of the Premises. No reduction of Base Rent shall occur if the condemnation does not apply to any portion of the Premises. Any award for the taking of all or any part of the Premises under the power of eminent domain or any payment made under threat of the exercise of such power shall be the property of Landlord; provided, however, that Tenant shall be entitled to any compensation, separately awarded to Tenant, for Tenant's relocation expenses and/or loss of Tenant's trade fixtures. In the event that this Lease is not terminated by reason of such condemnation, Landlord shall to the extent of its net severance damages in the condemnation matter, repair any damage to the Premises caused by such condemnation authority. Tenant shall be responsible for the payment of any amount in excess of such net severance damages required to complete such repair.

15. Estoppel Certificate and Financial Statements.

15.1 Estoppel Certificate. Each party (herein referred to as "Responding Party'") shall within 10 business days after written notice from the other Party (the "Requesting Party") execute, acknowledge, and deliver to the Requesting Party, to the extent it can truthfully do so. an estoppel certificate in a form reasonably acceptable to the Responding Party, or any of Landlord's lenders or any prospective purchasers of the Premises or the Industrial Center as the case may be, plus such additional information, confirmation, and statements as be reasonably requested by the Requesting Party.

15.2 Financial Statement. If Landlord desires to finance, refinance, or sell the Building, Industrial Center, or any part thereof, Tenant shall deliver to any potential lender or purchaser designated by Landlord such financial statements of Tenant as are prepared by Tenant in the ordinary course of business, including hut not limited to Tenant's financial statements for the past 3 years (if then available). All such financial statements shall be received by Landlord and such lender or purchaser in confidence and shall be used only for the purposes herein set forth. Landlord agrees to execute and Landlord shall use its commercially reasonable efforts to cause Landlord's lender or purchaser to execute a non-disclosure agreement reasonably acceptable to such parties related to such financial statements of Tenant.

16. Additional Covenants and Provisions.

16.1 Severability. The invalidity of any provision of this Lease, as determined by a court of competent jurisdiction, shall not affect the validity of any other provision hereof.

16.2 Interest on Past-Due Obligations. Any monetary payment due Landlord hereunder not received by Landlord within 10 days following the date on which it was due shall bear interest from the date due at 12% per annum, but not exceeding the maximum rate allowed by law in addition to the late charge provided for in Paragraph 13.3.

16.3 Time of Essence. Time is of the essence with respect to the performance of all obligations to be performed or observed by the Parties under this Lease.

16.4 Landlord Liability. Tenant, its successors, and assigns shall not assert nor seek to enforce any claim for breach of this Lease against any of Landlord's assets other than Landlord's interest in the Industrial Center. Tenant agrees to look solely to such interest for the satisfaction of any liability or claim against Landlord under this Lease. In no event whatsoever shall Landlord (which term shall include, without limitation, any general or limited partner, trustees, beneficiaries, officers, directors, or stockholders of Landlord) ever be personally liable for any such liability.

16.5 Entire Agreement. It is understood and acknowledged that there are no oral agreements between the parties hereto affecting this Lease and this Lease supersedes and cancels any and all previous negotiations, arrangements, brochures, agreements and understandings, if any, between the parties hereto or displayed by Landlord to Tenant with respect to the subject matter thereof, and none thereof shall be used to interpret or construe this Lease. This Lease and any side letter or separate agreement executed by Landlord and Tenant in connection with this Lease and dated of even date herewith contain all of the terms, covenants, conditions, warranties and agreements of the parties relating in any manner to the rental, use and occupancy of the Premises, shall be considered to be the only agreement between the parties hereto and their representatives and agents, and none of the terms, covenants, conditions or provisions of this Lease can be modified, deleted or added to except in writing signed by the parties hereto. All negotiations and oral agreements acceptable to both parties have been merged into and are included herein. There are no other representations or warranties between the parties, and all reliance with respect to representations is based totally upon the representations

and agreements contained in this Lease. The parties acknowledge that (i) each party and/or its counsel have reviewed and revised this Lease, and (ii) no rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall be employed in the interpretation or enforcement of this Lease or any amendments or exhibits to this Lease or any document executed and delivered by either party in connection with this Lease.

16.6 Notice Requirements. All notices required or permitted by this Lease shall be in writing and may be delivered in person (by hand, messenger, or courier service) or may be sent by regular, certified, or registered mail or U.S. Postal Service Express Mail, with postage prepaid, or by facsimile transmission during normal business hours, and shall be deemed sufficiently given if served in a manner specified in this Paragraph 16.6. The addresses noted adjacent to a Party's signature on this Lease shall be that Party's address for delivery or mailing of notice purposes. Either Party may by written notice to the other specify a different address for notice purposes, except that upon Tenant's taking possessing of the Premises, the Premises shall constitute Tenant's address for the purpose of mailing or delivering notices to Tenant. A copy of all notices required or permitted to be given to Landlord hereunder shall be concurrently transmitted to such party or parties at such addresses as Landlord may from time to time hereafter designate by written notice to Tenant.

16.7 Date of Notice. Any notice sent by registered or certified mail, return receipt requested, shall be deemed given on the date of delivery shown on the receipt card, or if no delivery date is shown, the postmark thereon. If sent by regular mail, the notice shall be deemed given 48 hours after the same is addressed as required herein and mailed with postage prepaid. Notices delivered by United States Express Mail or an overnight courier that guarantees next day delivery shall be deemed given 24 hours after delivery of the same to the United States Postal Service or courier. If any notice is transmitted by facsimile transmission or similar means, the same shall be deemed served or delivered upon telephone or facsimile confirmation of receipt of the transmission thereof, provided a copy is also delivered via hand or overnight delivery or certified mail. If notice is received on a Saturday, Sunday, or legal holiday, it shall be deemed received on the next business day.

16.8 Waivers. No waiver by Landlord of a Default by Tenant shall be deemed a waiver of any other term, covenant, or condition hereof, or of any subsequent Default by Tenant of the same or any other term, covenant, or condition hereof. In addition the acceptance by Landlord of any rent or other payment after it is due, whether or not a notice of default has been served or any action (including, without limitation, an unlawful detainer action) has been filed by Landlord thereon, shall not be deemed a waiver of Landlord's rights to proceed on any notice of default or action which has been filed against Tenant based upon Tenant's breach of the Lease.

16.9 Holdover. Tenant has no right to retain possession of the Premises or any part thereof beyond the expiration or earlier termination of this Lease. If Tenant holds over with the consent of Landlord: (a) the Base Rent payable shall be increased to 150% of the Base Rent applicable during the month immediately preceding such expiration or earlier termination; (b) Tenant's right to possession shall terminate on 30 days notice from Landlord; and (c) all other terms and conditions of this Lease shall continue to apply. Nothing contained herein shall be construed as a consent by Landlord to any holding over by Tenant. Tenant shall indemnify, defend, and hold Landlord harmless from and against any and all claims, demands, actions, losses, damages, obligations, costs, and expenses, including, without limitation, attorneys' fees incurred or suffered by Landlord by reason of Tenant's failure to surrender the Premises on the expiration or earlier termination of this Lease in accordance with the provisions of this Lease.

16.10 Cumulative Remedies. No remedy or election hereunder shall be deemed exclusive but shall, wherever possible, be cumulative with all other remedies in law or in equity.

16.11 Binding Effect: Choice of Law. This Lease shall be binding upon the Parties, their personal representatives, successors, and assigns, and be governed by the laws of the State in which the Premises are located. Any litigation between the Parties hereto concerning this Lease shall be initiated in the county in which the Premises are located.

16.12 Landlord. The covenants and obligations contained in this Lease on the part of Landlord are binding on Landlord, its successors, and assigns only during their respective period of ownership of an interest in the Building. In the event of any transfer or transfers of such title to the Building, Landlord (and, in the case of any subsequent transfers or conveyances, the then grantor) shall be concurrently freed and relieved from and after the date of such transfer or conveyance, without any further instrument or agreement, of all liability with respect to the performance of any covenants or obligations on the part of Landlord contained in this Lease thereafter to be performed.

16.13 Attorneys' Fees and Other Costs. If any Party brings an action or proceeding to enforce the terms hereof or declare rights hereunder, the Prevailing Party (as hereafter defined) in any such proceeding shall be entitled to reasonable attorneys" fees. The term "Prevailing Party'" shall include, without limitation, a Party who substantially obtains or defeats the relief sought. Landlord shall be entitled to attorneys' fees, costs, and expenses incurred in the preparation and service of notices of Default (as defined in this Lease) and consultations in connection therewith, whether or not a legal action is subsequently commenced in connection with such Default or resulting breach. Tenant shall reimburse Landlord on demand for all reasonable legal, engineering, and other professional services expenses incurred by Landlord in connection with all requests by Tenant or any lender of Tenant for consent, waiver or approval of any kind.

16.14 Landlord's Access; Showing Premises; Repairs. Landlord and Landlord's agents shall have the right to enter the Premises at any time, in the case of an emergency, and otherwise at reasonable times upon reasonable notice for the purpose of showing the same to prospective purchasers, lenders, or tenants, and making such alterations, repairs, improvements, or additions to the Premises or to the Building, as Landlord may reasonably deem necessary, provided, in no event shall Tenant be obligated to disclose or provide access to Tenant's proprietary or confidential information in

connection with such inspections. Landlord may at any time place on or about the Premises or Building any ordinary "For Sale" signs, and Landlord may at any time during the last 180 days of the term hereof place on or about the Premises any ordinary "For Lease" signs. All such activities of Landlord shall be without abatement of rent or liability to Tenant.

16.15 Signs. Tenant shall not place any signs at or upon the exterior of the Premises or the Building, except that Tenant may, with Landlord's prior written consent, install (but not on the roof) such signs as are similar to the signs of other tenants at the Industrial Center so long as such signs are in a location designated by Landlord and comply with sign ordinances and the signage criteria established for the Industrial Center by Landlord.

16.16 Termination; Merger. Unless specifically stated otherwise in writing by Landlord, the voluntary or other surrender of this Lease by Tenant, the mutual termination or cancellation hereof, or a termination hereof by Landlord for Default by Tenant, shall automatically terminate any sublease or lesser estate in the Premises; provided, however, Landlord shall, in the event of any such surrender, termination, or cancellation, have the option to continue any one or all of any existing subtenancies. Landlord's failure within 10 days following any such event to make a written election to the contrary by written notice to the holder of any such lesser interest shall constitute Landlord's election to have such event constitute the termination of such interest.

16.17 Quiet Possession. Upon payment by Tenant of the Base Rent and Additional Rent for the Premises and the performance of all of the covenants, conditions, and provisions on Tenant's part to be observed and performed under this Lease, Tenant shall have quiet possession of the Premises for the entire term hereof, subject to all of the provisions of this Lease.

16.18 Subordination; Attornment: Non-Disturbance.

(a) Subordination. This Lease shall be subject and subordinate to any ground lease, mortgage, deed of trust, or other hypothecation or mortgage (collectively, "Mortgage") now or hereafter placed by Landlord upon the real property of which the Premises are a part, to any and all advances made on the security thereof, and to all renewals, modifications, consolidations, replacements, and extensions thereof. Tenant agrees that any person holding any Mortgage shall have no duty, liability, or obligation to perform any of the obligations of Landlord under this Lease. In the event of Landlord's default with respect to any such obligation, Tenant will give any Lender, whose name and address have previously been furnished in writing to Tenant, notice of a default by Landlord. Tenant may not exercise any remedies for default by Landlord unless and until Landlord and the Lender shall have received written notice of such default and a reasonable time (not less than 90 days) shall thereafter have elapsed without the default having been cured. If any Lender shall elect to have this Lease superior to the lien of its Mortgage and shall give written notice thereof to Tenant, this Lease shall be deemed prior to such Mortgage. The provisions of a Mortgage relating to the disposition of condemnation and insurance proceeds shall prevail over any contrary provisions contained in this Lease.

(b) Attornment. Subject to the nondisturbance provisions of subparagraph (c) of this Paragraph 16.18, Tenant agrees to attorn to a Lender or any other party who acquires ownership of the Premises by reason of a foreclosure of a Mortgage. In the event of such foreclosure, such new owner shall not: (i) be liable for any act or omission of any prior landlord or with respect to events occurring prior to acquisition of ownership, (ii) be subject to any offsets or defenses which Tenant might have against any prior Landlord, or (iii) be liable for security deposits or be bound by prepayment of more than one month's rent.

(c) Non-Disturbance. With respect to a Mortgage entered into by Landlord after the execution of this Lease, Tenant's subordination of this Lease shall be subject to receiving assurance (a "nondisturbance agreement") from the Mortgage holder that Tenant's possession and this Lease will not be disturbed so long as Tenant is not in default and attorns to the record owner of the Premises.

(d) Self-Executing. The agreements contained in this Paragraph 16.18 shall be effective without the execution of any further documents; provided, however, that upon written request from Landlord or a Lender in connection with a sale, financing, or refinancing of Premises, Tenant and Landlord shall execute such further writings as may be reasonably required to separately document any such subordination or nonsubordination, attornment, and/or nondisturbance agreement, as is provided for herein. Landlord is hereby irrevocably vested with full power to subordinate this Lease to a Mortgage.

16.19 Rules and Regulations. Tenant agrees that it will abide by, and to cause its employees, suppliers, shippers, customers, tenants, contractors, and invitees to abide by, all reasonable rules and regulations ("Rules and Regulations") which Landlord may make from time to time for the management, safety, care, and cleanliness of the Common Areas, the parking and unloading of vehicles, and the preservation of good order, as well as for the convenience of other occupants or tenants of the Building and the Industrial Center and their invitees. The current Rules and Regulations are attached hereto as **Exhibit E**. Landlord shall not be responsible to Tenant for the noncompliance with said Rules and Regulations by other tenants of the Industrial Center.

16.20 Security Measures. Tenant acknowledges that the rental payable to Landlord hereunder does not include the cost of guard service or other security measures. Landlord has no obligations to provide same. Tenant assumes all responsibility for the protection of the Premises, Tenant, its agents, and invitees and their property from the acts of third parties.

16.21 Reservations. Landlord reserves the right to grant such easements that Landlord deems necessary and to cause the recordation of parcel maps, so long as such easements and maps do not unreasonably interfere with the use of the Premises by Tenant. Tenant agrees to sign any documents reasonably requested by Landlord to effectuate any

such easements or maps. Tenant further agrees that Landlord may at any time following the execution of this Lease, either directly or through Landlord's agents, identify Tenant's name in any marketing materials relating to the Building or Landlord's portfolio and/or make press releases or other announcements regarding the leasing of the Premises by Tenant, and Tenant hereby waives any and all claims in connection therewith.

16.22 Conflict. Any conflict between the printed provisions of this Lease and the typewritten or handwritten provisions shall be controlled by the typewritten or handwritten provisions.

16.23 Offer. Preparation of this Lease by either Landlord or Tenant or Landlord's agent or Tenant's agent and submission of same to Tenant or Landlord shall not be deemed an offer to lease. This Lease is not intended to be binding until executed and delivered by all Parties hereto.

16.24 Amendments. This Lease may be modified only in writing, signed by the parties in interest at the time of the modification.

16.25 Multiple Parties. Except as otherwise expressly provided herein, if more than one person or entity is named herein as Tenant, the obligations of such persons shall be the joint and several responsibility of all persons or entities named herein as such Tenant.

16.26 Authority. Each person signing on behalf of Landlord or Tenant warrants and represents that she or he is authorized to execute and deliver this Lease and to make it a binding obligation of Landlord or Tenant.

16.27 Recordation. Tenant shall not record this Lease or a short form memorandum hereof.

16.28 Confidentiality. Tenant acknowledges that the content of this Lease and any related documents are confidential information. Tenant shall keep and maintain such confidential information strictly confidential and shall not disclose such confidential information to any person or entity other than Tenant's financial, legal and space planning consultants.

16.29 Landlord Renovations. Tenant acknowledges that Landlord may from time to time, at Landlord's sole option, renovate, improve, develop, alter, or modify (collectively, the "Renovations") portions of the Building, Premises, Common Areas and the Industrial Center, including without limitation, systems and equipment, roof, and structural portions of the same. In connection with such Renovations. Landlord may, among other things, erect scaffolding or other necessary structures in the Building, limit or eliminate access to portions of the Industrial Center, including portions of the Common Areas, or perform work in the Building, which work may create noise, dust or leave debris in the Building. Tenant hereby agrees that such Renovations and Landlord's actions in connection with such Renovations shall in no way constitute a constructive eviction of Tenant nor entitle Tenant to any abatement of Rent. Landlord shall have no responsibility, or for any reason be liable to Tenant, for any direct or indirect injury to or interference with Tenant's business arising from the Renovations, nor shall Tenant be entitled to any compensation or damages from Landlord for loss of the use of the whole or any part of the Premises or of Tenant's Property, Alterations or improvements resulting from the Renovations or Landlord's actions in connection with such Renovations, or for any inconvenience or annoyance occasioned by such Renovations or Landlord's actions in connection with such Renovations.

16.30 WAIVER OF JURY TRIAL. THE PARTIES HERETO SHALL AND THEY HEREBY DO WAIVE TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM BROUGHT BY EITHER OF THE PARTIES HERETO AGAINST THE OTHER ON ANY MATTERS WHATSOEVER ARISING OUT OF OR IN ANY WAY RELATED TO THIS LEASE, THE RELATIONSHIP OF LANDLORD AND TENANT, TENANT'S USE OR OCCUPANCY OF THE PREMISES, THE BUILDING OR THE INDUSTRIAL CENTER, AND/OR ANY CLAIM OF INJURY. LOSS OR DAMAGE.

16.31 Termination Right. Tenant shall have an option (the "Termination Option") to terminate this Lease at any time during the initial Term or Extended Term (as defined in Addendum 2 to this Lease); provided, Tenant shall have no right to terminate this Lease unless (i) Tenant is terminating this Lease for the purpose of relocating Tenant's operations to another premises within the Industrial Center and (ii) Tenant has executed and delivered to Landlord a lease for such other premises within the Industrial Center consisting of at least 22,267 square feet. In the event this Lease is not so terminated by Tenant, this Lease shall continue in full force and effect. The Termination Option is granted subject to the following additional terms and conditions:

(a) Tenant delivers to Landlord a written notice of Tenant's election to exercise the Termination Option ("Termination Notice") at least ninety (90) days prior to the effective date of such termination. The Lease shall terminate on the date set forth in Tenant's notice so long as such date is at least ninety (90) days following the delivery to Landlord of such written notice (the "Termination Date");

(b) Tenant shall not have been in default of its obligations under this Lease beyond any applicable cure periods at any time during the Term;

(c) If Tenant timely and properly exercises the Termination Option, (i) all Rent payable under this Lease shall be paid through and apportioned as of the Termination Date; (ii) neither party shall have any rights, estates, liabilities, or obligations under this Lease for the period accruing after the Termination Date, except those which, by the provisions of this Lease, expressly survive the expiration or termination of the Lease; (iii) Tenant shall surrender and vacate the Premises and deliver possession thereof to Landlord on or before the Termination Date in the condition required under this Lease for surrender of the Premises; and (iv) Landlord and Tenant shall enter into a written agreement reflecting the termination of this Lease upon the terms provided for herein, which agreement shall be executed within thirty (30) days after Tenant exercises the Termination Option and delivers to Landlord the Termination Notice required

above. It is the parties' intention that nothing contained herein shall impair, diminish or otherwise prevent Landlord from recovering from Tenant such additional sums as may be necessary for payment of Tenant's Share of Operating Expenses and any other sums due and payable under this Lease (provided such sums relate to items accrued prior to the expiration or earlier termination of the Lease), including without limitation, any sums required to repair any damage to the Premises and/or restore the Premises to the condition required under the provisions of this Lease.

(d) The Termination Option shall automatically terminate and become null and void upon the earlier to occur of (i) the default by Tenant beyond any applicable cure periods of its obligations under this Lease at any time during the Term; (ii) the termination of Tenant's right to possession of the Premises; (iii) the assignment by Tenant of this Lease, in whole or in part, regardless of whether Landlord consents to such assignment: (iv) the sublease by Tenant of all or any part of the Premises demised under this Lease, regardless of whether Landlord consents to such sublease; (v) the recapture by Landlord of any space under Paragraph 12 of this Lease; or (vi) the failure of Tenant to timely or properly exercise the Termination Option as contemplated herein. This Termination Option is personal to Tenant and may not be assigned, voluntarily or involuntarily, to any party or entity, separate from or as part of the Lease.

16.32 Cubicles and Equipment. Landlord and Tenant acknowledge and agree that Landlord shall lease to Tenant during the Term, at no additional cost, that certain furniture, equipment and cubicles identified on Exhibit H attached hereto and incorporated herein by this reference (the foregoing are collectively, "Cubicles and Equipment"). Such leasing is on an "AS-IS. WITH ALL FAULTS" basis and subject to all of the terms of this Lease (including, without limitation, Paragraph S of this Lease), without recourse, representation or warranty of any kind or nature, express or implied, including without limitation, habitability, merchantability or fitness for a particular purpose. At the expiration or earlier termination of this Lease, the Cubicles and Equipment shall be returned and surrendered to Landlord in the same or substantially similar condition and repair as when delivered to Tenant, reasonable wear and tear excepted. Tenant shall be obligated to repair, maintain and insure the Cubicles and Equipment, and Tenant shall not have the right or ability to (a) remove or materially modify the Cubicles and Equipment or (b) assign or sublet any of the Cubicles and Equipment except in conjunction with this Lease and the Premises. Tenant shall pay any taxes, assessments and insurance premiums attributable to the Cubicles and Equipment.

16.33 HVAC Units. On or before the Commencement Date, Landlord shall provide to Tenant a list of all HVAC units that serve the Premises such list to include, to the extent available, unit number, maker of unit, type of unit, model number, serial number and size of unit.

16.34 Additional Equipment. Landlord and Tenant acknowledge and agree that Landlord shall lease to Tenant during the Term, at no additional cost, the existing Dl water system. Generator Equipment (defined below), fume hoods, compressor, phone system, data and phone wiring infrastructure and security system (collectively, "Additional Equipment"). Tenant shall be responsible for the cost and performance of maintenance and monitoring of such security system by external alarm service providers. Such leasing of the Additional Equipment is on an "AS-IS, WITH ALL FAULTS" basis and subject to all of the terms of this Lease (including, without limitation, Paragraph 8 of this Lease), without recourse, representation or warranty of any kind or nature, express or implied, including without limitation, habitability, merchantability or fitness for a particular purpose. At the expiration or earlier termination of this Lease, the Additional Equipment shall be returned and surrendered to Landlord in the same or substantially similar condition and repair as when delivered to Tenant, reasonable wear and tear excepted. Tenant shall be obligated to repair, maintain and insure the Additional Equipment, and Tenant shall not have the right or ability to (a) remove or materially modify the Additional Equipment or (b) assign or sublet any of the Additional Equipment except in conjunction with this Lease and the Premises. Tenant shall pay any taxes, assessments and insurance premiums attributable to the Additional Equipment.

16.35 Generator. Tenant shall have the right (but only to the extent permitted by the City of Menlo Park and all agencies and governmental authorities having jurisdiction thereof), at Tenant's sole cost and expense, to maintain and operate the currently existing emergency generator, UPS battery systems and related appurtenances (collectively, the "Generator Equipment") in the location such Generator Equipment is currently located ("Equipment Area"), provided:

(a) Tenant shall, at its sole cost and expense, obtain all licenses and permits necessary to operate and maintain the Generator Equipment within the Equipment Area. Tenant shall obtain Landlord's prior written consent before making any modifications to the Equipment Area.

(b) No additional Base Rent shall be paid by Tenant for use of the Equipment Area or Generator Equipment: provided, Tenant shall be solely responsible to pay for all utilities, including without limitation, electricity, used in connection with the Generator Equipment or Equipment Area.

(c) The Generator Equipment shall remain the property of Landlord and Tenant shall not remove the Generator Equipment upon the expiration or earlier termination of this Lease. Prior to expiration or earlier termination of this Lease, Landlord may require that Tenant perform, at Tenant's sole expense, an environmental site assessment reasonably acceptable to Landlord to determine the extent of any contamination and Tenant shall, at Tenant's sole expense, clean up, remove, and remediate all Hazardous Substances that may have been caused by Tenant's use of the Generator Equipment.

(d) Each of the other provisions of this Lease shall be applicable to the Equipment Area and the use of the Generator Equipment by Tenant, including without limitation, Paragraphs 6, 7 and 8 of the Lease.

(e) Anything to the contrary contained herein notwithstanding, if, during the Term, as such Term may be extended, Landlord, in its reasonable judgment, believes that the Generator Equipment poses a human health or environmental hazard that cannot be remediated or has not been remediated within ten (30) days after Tenant has been notified thereof, then Tenant shall immediately cease all operation of the Generator Equipment.

(f) Tenant shall not use the Generator Equipment, the Equipment Area or any other portion of the Industrial Center in any way which interferes with the use of the Industrial Center by Landlord, or other tenants or licensees of Landlord or any other occupant. Such interference shall be deemed a material breach by the Tenant under the Lease, and Tenant shall, within five (5) days of written notice from Landlord, be responsible for terminating said interference. In the event any such interference does not cease within five (5) days of Landlord's written notice, Tenant acknowledges that continuing interference may cause irreparable injury and, Tenant shall immediately cease all operation of the Generator Equipment.

(g) Tenant shall indemnify, defend (by counsel reasonably acceptable to Landlord) and hold harmless Landlord and all of Landlord's Entities from any and all claims, demands, losses, liabilities, damages, judgments, costs and expenses (including reasonable attorneys' fees) any of such Landlord's Entities may suffer or incur arising out of or related to the use, operation and maintenance of the Generator Equipment or any portion thereof by Tenant.

(h) Tenant shall maintain all reports, inventory and other records, test results, permits and all other data and information required under Applicable Requirements for the use, maintenance and operation of the Generator Equipment, and upon request of Landlord, shall provide a copy of all such reports, records, test results and other information without cost or expense to Landlord.

The parties hereto have executed this Lease at the place and on the dates specified below their respective signatures.

LANDLORD

AMB PROPERTY, L.P.,
a Delaware limited partnership

By: AMB PROPERTY CORPORATION,
a Maryland corporation, its general partner

By: /s/ Amy A. Pallas
Amy A. Pallas

Its: Vice President, Leasing & Mktg Director
Date: 9/24/09

TENANT

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.,
a Delaware corporation, dba Pac Bio, Inc.

By: /s/ Carol J. Tillis
Its: VP Finance
Date: 9-24-09

By: 
Its: Secretary
Date: 9/24/09

Tenant's Address:

After the Commencement Date
The Premises Address

Prior to the Commencement Date

Landlord's Address:

AMB Property, L.P., a Delaware limited partnership
c/o AMB Property Corporation
Pier l, Bay 1
San Francisco, California 94111

With a copy to:

1360 Willow Road, Suite 100
Menlo Park, California 94025

If Tenant is a CORPORATION, the authorized officers must sign on behalf of the corporation and indicate the capacity in which they are signing. The Lease must be executed by the chairman of the board, president or vice-president, and the secretary, assistant secretary, chief financial officer or any assistant treasurer, unless the bylaws or a resolution of the board of directors shall otherwise provide, in which event, the bylaws or a certified copy of the resolution, as the case may be, must be attached to this Lease.

Exhibit A
Description of Premises

This exhibit, entitled “Premises”, is and shall constitute **Exhibit A** to that certain Industrial Lease dated September 24, 2009 (the “Lease”), by and between AMB Property, L.P., a Delaware limited partnership (“Landlord”) and Pacific Biosciences of California, Inc., a Delaware corporation dba Pac Bio, Inc. (“Tenant”) for the leasing of certain premises commonly known as 1392 Hamilton Avenue, Menlo Park, California (the “Premises”).

The Premises consist of the rentable square footage of space specified in the Basic Provisions and has the address specified in the Basic Provisions. The Premises are a part of and are contained in the Building specified in the Basic Provisions. If set forth below (or attached), the cross-hatched area depicts the Premises within the Industrial Center:

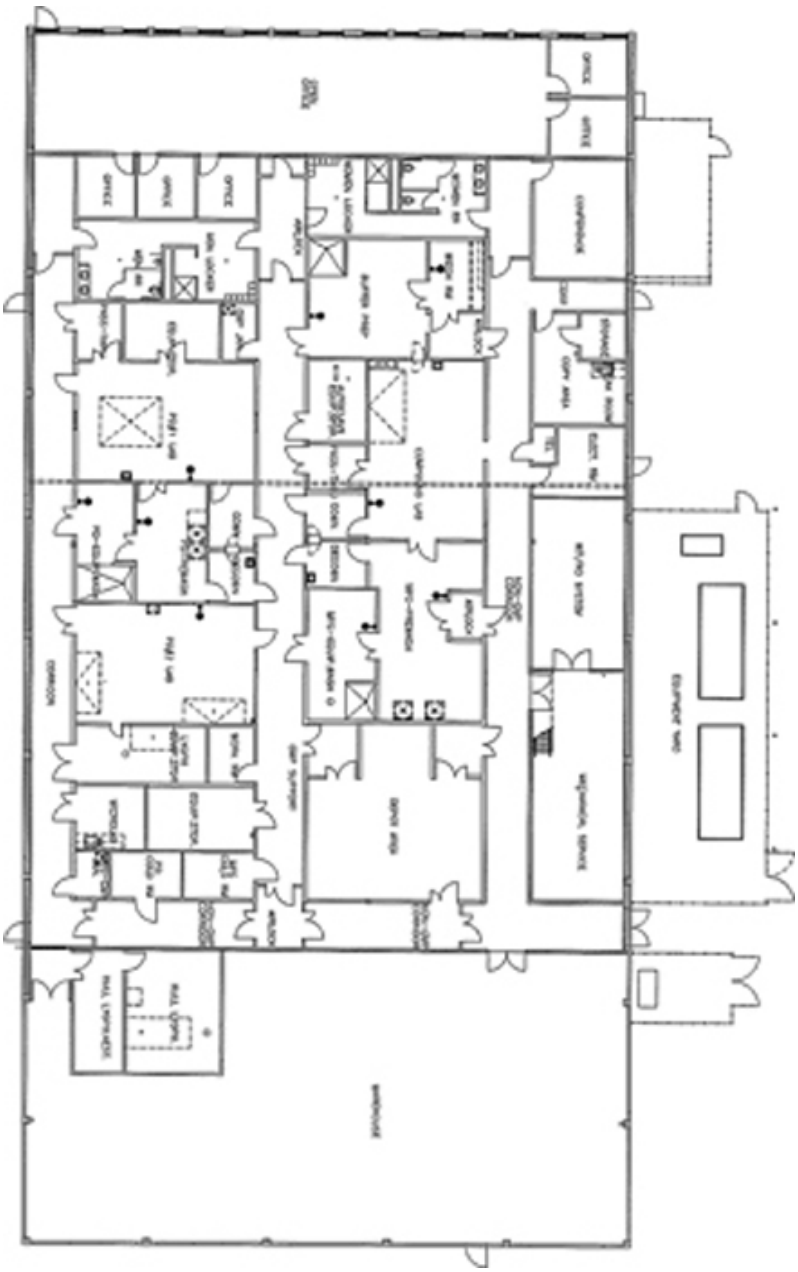


Exhibit B
Commencement Date Certificate

Landlord: AMB Property, L.P., a Delaware limited partnership

Tenant: Pacific Biosciences of California, Inc.,
a Delaware corporation dba Pac Bio, Inc.

Lease Date: September 24, 2009

Premises: 1392 Hamilton Avenue, Menlo Park, California 94025

Tenant hereby accepts the Premises as being in the condition required under the Lease.

The Commencement Date of the Lease is _____, ____.

The Expiration Date of the Lease is _____, ____.

LANDLORD

AMB PROPERTY, L.P.,
a Delaware limited partnership

By: AMB PROPERTY CORPORATION,
a Maryland corporation, its general partner

By: /s/ Amy A. Pallas
Amy A. Pallas

Its: Vice President, Leasing & Mktg Director
Date: 9/24/09

TENANT

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.,
a Delaware corporation, dba Pac Bio, Inc.

By: /s/ Carol J. Tillis
Its: VP Finance
Date: 9-24-09

By: 
Its: Secretary
Date: 9/24/09

Tenant's Address:

After the Commencement Date
The Premises Address

Prior to the Commencement Date

_____

_____

_____

Landlord's Address:

AMB Property, L.P., a Delaware limited partnership
c/o AMB Property Corporation
Pier 1, Bay 1
San Francisco, California 94111

With a copy to:

1360 Willow Road, Suite 100
Menlo Park, California 94025

If Tenant is a CORPORATION, the authorized officers must sign on behalf of the corporation and indicate the capacity in which they are signing. The document must be executed by the chairman of the board, president or vice-president, and the secretary, assistant secretary, chief financial officer or any assistant treasurer, unless the bylaws or a resolution of the board of directors shall otherwise provide, in which event, the bylaws or a certified copy of the resolution, as the case may be, must be attached to this document.

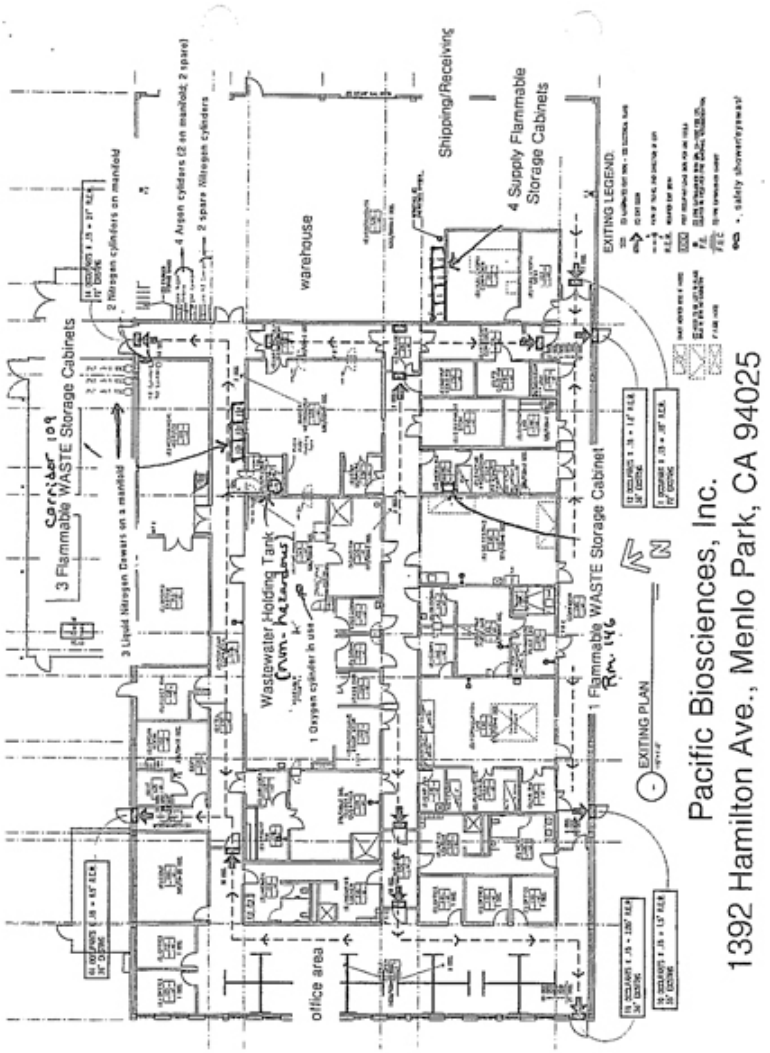

Pacific Biosciences, Inc.
1392 Hamilton Ave., Menlo Park, CA 94025
EXITING PLAN
N
EXITING LEGEND:
Warehouse
Shipping/Receiving
4 Supply Flammable Storage Cabinets
3 Flammable WASTE Storage Cabinets
Wastewater Holding Tank
1 Flammable WASTE Storage Cabinet
office area

Exhibit D
Move Out Standards

This "Move Out Standards" (**Exhibit D**) is dated September 24, 2009, for the reference purposes only and is made between AMB Property, L.P., a Delaware limited partnership ("Landlord"), and Pacific Biosciences of California, Inc., a Delaware corporation dba Pac Bio, Inc. ("Tenant"), to be a part of that certain Industrial Lease (the "Lease") concerning certain premises more commonly known as 1392 Hamilton Avenue, Menlo Park, California (the "Premises"). Landlord and Tenant agree that the Lease is hereby modified and supplemented as follows:

At the expiration or earlier termination of this Lease, and in addition to any other provisions of the Lease regarding surrender of the Premises, Tenant shall surrender the Premises in the same condition as they were upon delivery of possession thereto under the Lease, reasonable wear and tear excepted, and shall deliver all keys to Landlord. Before surrendering the Premises, Tenant shall remove all of its personal property and trade fixtures and such alterations or additions to the Premises made by Tenant as may be specified for removal by Landlord. If Tenant fails to remove its personal property, fixtures or alterations or additions upon the expiration or earlier termination of the Lease, the same shall be deemed abandoned and shall become the property of Landlord. Tenant shall be liable to Landlord for all costs and damages incurred by Landlord in removing, storing or selling such property, fixtures, alterations or additions and in restoring the Premises to the condition required pursuant to the Lease.

Notwithstanding anything to the contrary in the Lease, Tenant shall surrender the Premises, at the time of the expiration or earlier termination of the Lease, in a condition that shall include, but is not limited to, the following:

1.	Lights:	Office and warehouse lights will be fully operational with all bulbs functioning.
2.	Dock Levelers & Roll-Up Doors (if any):	Should be in good working condition.
3.	Dock Seals (if any):	Free of tears and broken backboards repaired.
4.	Warehouse Floor:	Free of stains and swept with no racking bolts and other protrusions left in the floor. Cracks should be repaired with an epoxy or polymer.
5.	Tenant-Installed Equipment & Wiring:	Removed and space returned to move-in condition when originally leased. (Remove air lines, junction boxes, conduit, etc.)
6.	Walls:	Sheetrock (drywall) damage should be patched and fire-taped so that there are no holes in either office or warehouse.
7.	Roof:	Any tenant-installed equipment must be removed and roof penetrations properly repaired by licensed roofing contractor. Active leaks must be fixed and latest landlord maintenance and repairs recommendation must have been followed.
8.	Signs:	All exterior signs must be removed and holes patched and paint touched up as necessary. All window signs should likewise be removed.
9.	Heating & Air Conditioning System:	A written report from a licensed HVAC contractor within the last three months stating that all evaporative coolers and HVAC systems arc operational and in good and safe operating condition.
10.	Overall Cleanliness:	Clean windows, sanitize bathroom(s), vacuum carpet and remove any and all debris from office and warehouse. Remove all pallets and debris from exterior of Premises.
11.	Upon Completion:	Contact Landlord's property manager to coordinate date of turning off power, turning in keys, and obtain final Landlord inspection of Premises which, in turn, will facilitate refund of security deposit.

Landlord and Tenant agree that **Exhibit F-4** contains further details regarding the condition in which the Premises shall be surrendered by Tenant at the expiration or earlier termination of the Term.

Exhibit E
Rules & Regulations

This Exhibit (**Exhibit E**) is dated September 24, 2009, for the reference purposes only and is made between AMB Property, L.P., a Delaware limited partnership ("Landlord"), and Pacific Biosciences of California, Inc., a Delaware corporation dba Pac Bio, Inc. ("Tenant"), to be a part of that certain Industrial Lease (the "Lease") concerning certain premises more commonly known as 1392 Hamilton Avenue, Menlo Park, California (the "Premises"). The terms, conditions and provisions of this **Exhibit E** are hereby incorporated into and are made a part of the Lease. Any capitalized terms used herein and not otherwise defined herein shall have the meaning ascribed to such terms as set forth in the Lease.

1. No advertisement, picture or sign of any sort shall be displayed on or outside the Premises or the Building without the prior written consent of Landlord. Landlord shall have the right to remove any such unapproved item without notice and at Tenant's expense.

2. Tenant shall not regularly park motor vehicles (other than Tenant's company owned or leased vehicles) in designated parking areas after the conclusion of normal daily business activity.

3. Tenant shall not use any method of heating or air conditioning other than that supplied by Landlord without the prior written consent of Landlord.

4. All window coverings installed by Tenant and visible from the outside of the Building require the prior written approval of Landlord.

5. Tenant shall not use, keep or permit to be used or kept any foul or noxious gas or substance or any flammable or combustible materials on or around the Premises, the Building or the Industrial Center, except as consented to by Landlord in writing as set forth in Paragraph 6 of the Lease.

6. Tenant shall not alter any lock or install any new exterior locks or bolts on any door at the Premises without providing Landlord with a duplicate key for such locks promptly following installation.

7. Tenant may make up to ten (10) duplicate keys without the prior consent of Landlord.

8. Tenant shall park motor vehicles in those general parking areas as designated by Landlord except for loading and unloading. During those periods of loading and unloading, Tenant shall not unreasonably interfere with traffic flow within the Industrial Center and loading and unloading areas of other Tenants.

9. Tenant shall not disturb, solicit or canvas any occupant of the Building or Industrial Center and shall cooperate to prevent same.

10. No person shall go on the roof without Landlord's permission.

11. Business machines and mechanical equipment belonging to Tenant which cause noise or vibration that may be transmitted to the structure of the Building, to such a degree as to be objectionable to Landlord or other Tenants, shall be placed and maintained by Tenant, at Tenant's expense, on vibration eliminators or other devices sufficient to eliminate noise or vibration.

12. All goods, including material used to store goods, delivered to the Premises of Tenant shall be immediately moved into the Premises and shall not be left in parking or receiving areas overnight.

13. Tractor trailers which must be unhooked or parked with dolly wheels beyond the concrete loading areas must use steel plates or wood blocks under the dolly wheels to prevent damage to the asphalt paving surfaces. No parking or storing of such trailers will be permitted in the auto parking areas of the Industrial Center or on streets adjacent thereto.

14. Forklifts which operate on asphalt paving areas shall only use tires that do not damage the asphalt.

15. Tenant is responsible for the storage and removal of all trash and refuse. All such trash and refuse shall be contained in suitable receptacles stored behind screened enclosures at locations approved by Landlord.

16. Tenant shall not store or permit the storage or placement of goods, or merchandise or pallets or equipment of any sort outside of the Premises nor in or around the Building, the Industrial Center or any of the Common Areas of the foregoing. No displays or sales of merchandise shall be allowed in the parking lots or other Common Areas.

17. Tenant shall not permit any animals, including, but not limited to, any household pets, to be brought or kept in or about the Premises, the Building, the Industrial Center or any of the Common Areas of the foregoing.

18. Tenant shall not permit any motor vehicles to be washed on any portion of the Premises or in the Common Areas of the Industrial Center, nor shall Tenant permit mechanical work or maintenance of motor vehicles to be performed on any portion of the Premises or in the Common Areas of the Industrial Center.

Exhibit F
Initial Tenant Improvements

This Exhibit (**Exhibit F**) is dated September 24, 2009, for reference purposes only and is made by and between AMB Property, L.P., a Delaware limited partnership ("Landlord"), and Pacific Biosciences of California, Inc. a Delaware corporation dba Pac Bio. Inc. ("Tenant"), to be a part of that certain Industrial Lease ("Lease") concerning certain premises more commonly known as 1392 Hamilton Avenue. Menlo Park, California (the "Premises"). Landlord and Tenant agree that the Lease is hereby modified and supplemented as follows:

1. Tenant To Construct Initial Tenant Improvements. Subject to the provisions below, Tenant shall be solely responsible for the planning, construction and completion of certain interior tenant improvements ("Initial Tenant Improvements") to the Premises in accordance with the terms and conditions of this **Exhibit F**. The Initial Tenant Improvements shall not include any of Tenant's personal property, trade fixtures, furnishings, equipment or similar items.

2. Tenant Improvement Plans.

A. Plans and Specifications. Tenant has retained Dennis Kobza & Associates, a licensed and insured architect ("Architect") who has prepared working architectural and engineering plans and specifications ("Plans and Specifications") for the Initial Tenant Improvements, which Plans and Specifications are attached hereto as **Exhibit F-l** and incorporated herein by this reference. Such Plans and Specifications are dated September 14, 2009 and have been approved by Landlord.

B. Construction Documents. Landlord shall reasonably approve or disapprove any changes to the Plans and Specifications within five (5) days after Landlord receives changes to the Plans and Specifications and, if disapproved, Landlord shall return the revised Plans and Specifications to Tenant who shall make all necessary revisions within ten (10) days after Tenant's receipt thereof. This procedure shall be repeated until Landlord approves, in writing, any changes to the Plans and Specifications. The term "Construction Documents," as used in this Exhibit, means (i) the revised Plans and Specifications once approved by Landlord, if the Plans and Specifications arc modified following the date of this Lease and (ii) the Plans and Specifications, if not modified following the date of this Lease.

C. Miscellaneous. All deliveries of the Plans and Specifications, any changes to the Plans and Specifications and Construction Documents shall be delivered by messenger service, by personal hand delivery or by overnight parcel service. While Landlord has the right to approve all such plans and specifications, Landlord's interest in doing so is to protect the Premises, the Building and Landlord's interest. Accordingly, Tenant shall not rely upon Landlord's approvals and Landlord shall not be the guarantor of, nor responsible for, the adequacy and correctness or accuracy of such plans and specifications, or the compliance thereof with Applicable Requirements, and Landlord shall incur no liability of any kind by reason of granting such approvals.

D. Building Standard Work. The Construction Documents shall provide that the Initial Tenant Improvements to be constructed in accordance therewith must be at least equal, in quality, to Landlord's building standard materials, quantities and procedures then in use by Landlord.

E. Construction Agreements. Tenant hereby covenants and agrees that a provision shall be included in each and every agreement made with the Architect and the Contractor with respect to the Initial Tenant Improvements specifying that Landlord shall be a third party beneficiary thereof, including without limitation, a third party beneficiary of all covenants, representations, indemnities and warranties made by the Architect and/or Contractor.

F. Miscellaneous Work and Condition of Space. Attached to this **Exhibit F** as **Exhibit F-4** (which is attached hereto and incorporated herein by this reference), are the following: (i) a plan of the Premises, which shows the Premises in its condition existing as of the date of this Lease, (ii) certain exhaust work to be performed by Landlord at Landlord's sole cost, (iii) certain work Tenant intends to perform at the Premises and (iv) a plan of the Premises which shows the condition in which the Premises shall be surrendered by Tenant at the expiration or earlier termination of the Term (provided, Landlord and Tenant agree that such plan is in addition to the other terms of the Lease regarding surrender of the Premises by Tenant, including the Move Out Standards attached to the Lease as **Exhibit D**).

3. Permits. Tenant at its sole cost and expense shall obtain all governmental approvals of the Construction Documents to the full extent necessary for the issuance of a building permit for the Initial Tenant Improvements based upon such Construction Documents. Tenant at its sole cost and expense shall also cause to be obtained all other necessary approvals and permits from all governmental agencies having jurisdiction or authority for the construction and installation of the Initial Tenant Improvements in accordance with the approved Construction Documents. Tenant at its sole cost and expense shall undertake all steps necessary to insure that the construction of the Initial Tenant Improvements is accomplished in strict compliance with all Applicable Requirements.

4. Construction.

A. Tenant shall be solely responsible for the construction, installation and completion of the Initial Tenant Improvements in accordance with the Construction Documents approved by Landlord and is solely responsible for the payment of all amounts when payable in connection therewith without any cost or expense to Landlord. Tenant shall diligently proceed with the construction, installation and completion of the Initial Tenant Improvements in accordance with the Construction Documents and the completion schedule reasonably approved by Landlord. No material changes shall be made to the Construction Documents and the completion schedule approved by Landlord without Landlord's prior written consent, which consent shall not be unreasonably withheld or delayed.

B. Tenant at its sole cost and expense shall employ OPI Builders, a licensed, insured and bonded general contractor ("Contractor") to construct the Initial Tenant Improvements in accordance with the Construction Documents.

The budget provided by Contractor is attached hereto as **Exhibit F-2** and incorporated herein by this reference. The construction contracts between Tenant and the Contractor and between the Contractor and subcontractors shall be subject to Landlord's prior written approval, which approval shall not be unreasonably withheld or delayed. Proof that the Contractor is licensed in California, is bonded as required under California law, and has the insurance specified in **Exhibit F-3**, attached hereto and incorporated herein by this reference, shall be provided to Landlord at the time that Tenant requests approval of the Contractor from Landlord. Tenant shall comply with or cause the Contractor to comply with all other terms and provisions of **Exhibit F-3**.

C. Prior to the commencement of the construction and installation of the Initial Tenant Improvements, Tenant shall provide the following to Landlord, all of which shall be to Landlord's reasonable satisfaction:

(i) Any changes to the budget and cost breakdown for the Initial Tenant Improvements attached hereto as **Exhibit F-2**.

(ii) Estimated completion schedule for the Initial Tenant Improvements.

(iii) Copies of all required approvals and permits from governmental agencies having jurisdiction or authority for the construction and installation of the Initial Tenant Improvements.

(iv) Evidence of Tenant's procurement of insurance required to be obtained pursuant to the provisions of Paragraphs 4.B and 4.G.

D. Landlord shall at all reasonable times have a right to inspect the Initial Tenant Improvements (provided Landlord does not materially interfere with the work being performed by the Contractor or its subcontractors) and Tenant shall immediately cease work upon written notice from Landlord if the Initial Tenant Improvements are not in compliance with the Construction Documents approved by Landlord. If Landlord shall give notice of faulty construction or any other deviation from the Construction Documents, Tenant shall cause the Contractor to make corrections promptly. However, neither the privilege herein granted to Landlord to make such inspections, nor the making of such inspections by Landlord, shall operate as a waiver of any rights of Landlord to require good and workmanlike construction and improvements constructed in accordance with the Construction Documents.

E. Tenant shall pay and discharge promptly and fully all claims for labor done and materials and services furnished in connection with the Initial Tenant Improvements. The Initial Tenant Improvements shall not be commenced until five (5) business days after Landlord has received notice from Tenant stating the date the construction of the Initial Tenant Improvements is to commence so that Landlord can post and record any appropriate Notice of Non-responsibility.

F. Tenant acknowledges and agrees that the agreements and covenants of Tenant in the Lease shall be fully applicable to Tenant's construction of the Initial Tenant Improvements.

G. Tenant shall maintain, and cause to be maintained, during the construction of the Initial Tenant Improvements, at its sole cost and expense, insurance of the types and in the amounts specified in **Exhibit F-3** and in the Lease, together with builders' risk insurance for the amount of the completed value of the Initial Tenant Improvements on an all-risk non-reporting form covering all improvements under construction, including building materials, and other insurance in amounts and against such risks as the Landlord shall reasonably require in connection with the Initial Tenant Improvements.

H. No materials, equipment or fixtures shall be delivered to or installed upon the Premises pursuant to any agreement by which another party has a security interest or rights to remove or repossess such items, without the prior written consent of Landlord, which consent shall not be unreasonably withheld.

I. Landlord reserves the right to establish reasonable rules and regulations for the use of the Building during the course of construction of the Initial Tenant Improvements, including, but not limited to, construction parking, storage of materials, hours of work, use of elevators, and clean-up of construction related debris.

J. Upon completion of the Initial Tenant Improvements, Tenant shall deliver to Landlord the following, all of which shall be to Landlord's reasonable satisfaction:

(i) Any certificates required for occupancy by the City of Menlo Park.

(ii) A Certificate of Completion signed by the Architect who prepared the Construction Documents, reasonably approved by Landlord.

(iii) A cost breakdown itemizing all expenses for the Initial Tenant Improvements, together with invoices and receipts for the same or other evidence of payment.

(iv) Final and unconditional mechanic's lien waivers for all the Initial Tenant Improvements.

(v) A Notice of Completion for execution by Landlord, which certificate once executed by Landlord shall be recorded by Tenant in the official records of the county of San Mateo, and Tenant shall then deliver to Landlord a true and correct copy of the recorded Notice of Completion.

(vi) A true and complete copy of all as-built plans and drawings for the Initial Tenant Improvements.

5. Definition of Initial Tenant Improvement Costs.

A. "Initial Tenant Improvement Costs" means all reasonable costs and expenses associated with the design, preparation, approval, planning, construction and installation of the Initial Tenant Improvements, including all of the following:

(i) All costs of the Plans and Specification s and Construction Documents, and engineering costs associated with completion of the State of California energy utilization calculations under Title 24 legislation:

(ii) All costs of obtaining building permits and other necessary authorizations from local governmental authorities;

(iii) All costs of interior design and finish schedule plans and specifications including as-built drawings, if applicable;

(iv) All direct and indirect costs of procuring, constructing and installing the Initial Tenant Improvements in the Premises, including, but not limited to, the construction fee for overhead and profit and the cost of all on-site supervisory and administrative staff, office, equipment and temporary services rendered by the Contractor in connection with the construction of the Initial Tenant Improvements; provided, however, that the construction fee for overhead and profit, the cost of all on-site supervisory and administrative staff, office, equipment and temporary services shall not exceed amounts which are reasonable and customary for such items in the local construction industry;

(v) All fees payable to the Architect and any engineer if they are required to redesign any portion of the Initial Tenant Improvements following Tenant's and Landlord's approval of the Construction Documents;

(vi) Utility connection fees;

(vii) Inspection fees and filing fees payable to local governmental authorities, if any;

(viii) All costs of all permanently affixed equipment and non-trade fixtures provided for in the Construction Documents, including the cost of installation; and,

(ix) A construction management fee payable to Landlord in the amount of one percent (1%) of the Initial Tenant Improvement Costs.

6. Termination. If the Lease is terminated prior to the date on which the Initial Tenant Improvements are completed, for any reason due to the default of Tenant hereunder, in addition to any other remedies available to Landlord under the Lease. Tenant shall pay to Landlord as Additional Rent under the Lease, within five (5) days of receipt of a statement therefor, any and all costs incurred by Landlord and not reimbursed or otherwise paid by Tenant through the date of termination in connection with the Initial Tenant Improvements to the extent planned, installed and/or constructed as of such date of termination, including, but not limited to, any costs related to the removal of all or any portion of the Initial Tenant Improvements and restoration costs related thereto.

7. Lease Provisions: Conflict. The terms and provisions of the Lease, insofar as they are applicable, in whole or in part, to this **Exhibit F**, are hereby incorporated herein by reference. In the event of any conflict between the terms of the Lease and this **Exhibit F**, the terms of this **Exhibit F** shall prevail. Any amounts payable by Tenant lo Landlord hereunder shall be deemed to be Additional Rent under the Lease and, upon any default in the payment of same, Landlord shall have all rights and remedies available to it as provided for in the Lease.

Exhibit F-1
Architect's Plans

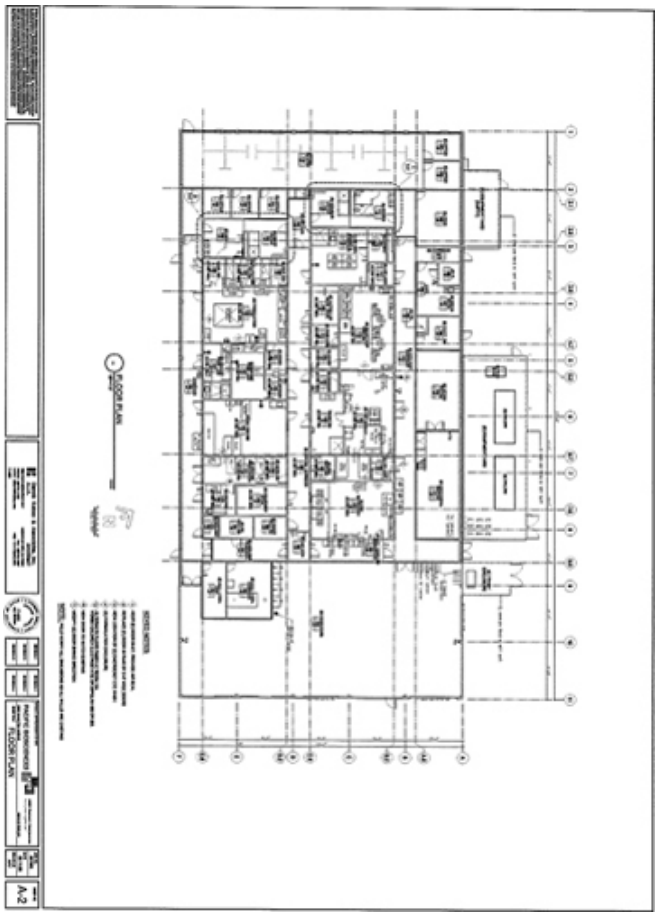


Exhibit F-1, Page 1

Exhibit G
Option Term Tenant Improvements

This Exhibit (**Exhibit G**) is dated September 24, 2009, for the reference purposes only and is made between AMB Property. L.P., a Delaware limited partnership ("Landlord"), and Pacific Biosciences of California, Inc., a Delaware corporation dba Pac Bio, Inc. ("Tenant"), to be a part of that certain Industrial Lease (the "Lease") concerning certain premises more commonly known as 1392 Hamilton Avenue, Menlo Park, California (the "Premises"). Landlord and Tenant agree that the Lease is hereby modified and supplemented as follows:

1. Option Term Tenant Improvements. Subject to the conditions set forth below, in the event Tenant exercises the Option described in Addendum 1, during the Extended Term, Landlord agrees to construct and install certain improvements ("Option Term Tenant Improvements") in the Building of which the Premises are a part in accordance with the Approved Final Drawings (defined below) and pursuant to the terms of this **Exhibit G**.

2. Definition. "Option Term Tenant Improvements" as used in the Lease shall include only those interior improvements to be made to the Premises as specified in the Approved Final Drawings (defined below) and agreed to by Tenant and Landlord in accordance with the provisions hereof. "Option Term Tenant Improvements" shall specifically not include (i) any alterations, additions or improvements installed or constructed by Tenant, (ii) any of Tenant's trade fixtures, racking, security equipment, equipment, furniture, furnishings, telephone and/or data equipment, telephone and/or data lines or other personal property, and (iii) any supplemental fire protection improvements or equipment, including without limitation, in-rack fire sprinklers, hose racks, reels, smoke vents, and draft curtains (collectively, "Tenant's Installations").

3. Tenant's Initial Plans; the Work. Subject to Section 1 above, Tenant desires Landlord to perform certain Option Term Tenant Improvements in the Premises. The Option Term Tenant Improvements shall be in substantial accordance with a plan(s) and scope of work (collectively, the "Initial Plans") which will be prepared by an Architect mutually agreeable to both Landlord and Tenant, after the parties meet and confer to agree upon a scope of work. Within fifteen (15) business days from the date Landlord and Tenant meet to discuss the scope of work, Landlord shall endeavor to deliver to Tenant the Initial Plans. A copy of the Initial Plans shall be executed or initialed by each of the parties, as soon as practicable thereafter. Such work, as shown in the Initial Plans and as more fully detailed in the Approved Final Drawings (as defined and described in Section 4 below), shall be hereinafter referred to as the "Work". Not later than five (5) days after the Initial Plans are prepared and delivered to Tenant, Tenant or Tenant's Entities shall furnish to Landlord such additional plans, drawings, specifications and finish details as Landlord may reasonably request to enable Landlord's architects and engineers, as applicable, to prepare mechanical, electrical and plumbing plans and to prepare the Final Drawings, including, but not limited to, a final telephone layout and special electrical connections, if any. All plans, drawings, specifications and other details describing the Work which have been, or are hereafter, furnished by or on behalf of Tenant shall be subject to Landlord's approval, which approval shall not be unreasonably withheld. Landlord shall not be deemed to have acted unreasonably if it withholds its approval of any plans, specifications, drawings or other details or of any Change Request (hereafter defined in Section 11 below) because, in Landlord's reasonable opinion, the work as described in any such item, or any Change Request, as the case may be: (a) is likely to adversely affect Building systems, the structure of the Building or the safety of the Building or its occupants; (b) might impair Landlord's ability to furnish services to Tenant or other tenants in the Building; (c) would increase the cost of operating the Building or the Industrial Center; (d) would violate any Applicable Requirements; (e) contains or uses Hazardous Substances; (f) would adversely affect the appearance of the Building or the Industrial Center; (g) might adversely affect another tenant's premises or such other tenant's use and enjoyment of such premises; (h) is prohibited by any ground lease affecting the Building and/or the Industrial Center, any recorded matters or any mortgage, trust deed or other instrument encumbering the Building and/or the Industrial Center; (i) is likely to be substantially delayed because of unavailability or shortage of labor or materials necessary to perform such work or the difficulties or unusual nature of such work; (j) is not, at a minimum, in accordance with Landlord's Building Standards (defined below); or (k) would increase the Option Term Tenant Improvement Costs (defined in Section 9 below) by more than twenty percent (20%) from the cost originally estimated and anticipated by the parties. The foregoing reasons, however, shall not be the only reasons for which Landlord may withhold its approval, whether or not such other reasons are similar or dissimilar to the foregoing. Neither the approval by Landlord of the Work or the Initial Plans or any other plans, specifications, drawings or other items associated with the Work nor Landlord's performance. supervision or monitoring of the Work shall constitute any warranty or covenant by Landlord to Tenant of the adequacy of the design for Tenant's intended use of the Premises. Tenant agrees to, and does hereby, assume full and complete responsibility to ensure that the Work and the Approved Final Drawings are adequate to fully meet the needs and requirements of Tenant's intended operations of its business within the Premises and Tenant's use of the Premises.

4. Final Drawings and Approved Final Drawings. If necessary for the performance of the Work, and to the extent not already included as part of the Initial Plans attached hereto, Landlord shall prepare or cause to be prepared final working drawings and specifications for the Work (the "Final Drawings") based on and consistent with the Initial Plans and the other plans, specifications, drawings, finish details or other information furnished by Tenant or Tenant's Entities to Landlord and approved by Landlord pursuant to Section 3 above. Tenant shall cooperate diligently with Landlord and the architect, engineer and other representatives and Tenant shall furnish within five (5) days after any request therefor, all information required by Landlord or Landlord's architect, engineer or other representatives for completion of the Final Drawings. So long as the Final Drawings are substantially consistent with the Initial Plans, Tenant shall approve the Final Drawings within five (5) days after receipt of same from Landlord. Tenant's failure to approve or disapprove such Final Drawings within the foregoing five (5) day time period, shall be conclusively deemed to be approval of same by Tenant. If Tenant reasonably disapproves of any mailers included in the Final Drawings because such items are not substantially consistent with the Initial Plans, Tenant shall, within the aforementioned five (5) day period, deliver lo Landlord written notice of its disapproval and Tenant shall specify in such written notice, in sufficient detail as Landlord may reasonably require, the matters disapproved, the reasons for such disapproval, and the specific changes or revisions necessary to be made to the Final Drawings to cause such drawings to substantially

conform to the Initial Plans. Any additional costs associated with such requested changes or revisions shall be included as part of the Option Term Tenant Improvement Costs (defined below). The foregoing procedure shall be followed by the parties until the Final Drawings are acceptable to both Landlord and Tenant. Landlord and Tenant shall indicate their approval of the Final Drawings by initialing each sheet of the Final Drawings and delivering to one another a true and complete copy of such initialed Final Drawings (the "Approved Final Drawings"). A true and complete copy of the Approved Final Drawings shall be executed or initialed by each of the parties, as soon as practicable thereafter. Any changes or revisions to the Approved Final Drawings requested by Tenant must first be approved by Landlord, which approval shall not be unreasonably withheld, subject to the provisions of Section 3 above. If Landlord approves such requested changes or revisions, Landlord shall cause the Approved Final Drawings to be revised accordingly and Landlord and Tenant shall initial each sheet of the Approved Final Drawings as revised. Landlord and Tenant hereby covenant to each other to cooperate with each other and to act reasonably in the preparation and approval of the Final Drawings and the Approved Final Drawings.

5. Performance of Work. As soon as practicable after Tenant and Landlord initial a true and complete copy of the Approved Final Drawings, Landlord shall submit the Approved Final Drawings to the governmental authorities having rights of approval over the Work and shall apply for the necessary approvals and building permits. Subject lo the satisfaction of all conditions precedent and subsequent to its obligations under this document, and further subject to the provisions of Section 10 hereof, as soon as practicable after Landlord or its representatives have received all necessary approvals and building permits, Landlord will put the Approved Final Drawings out for bid to one or more licensed, bonded and insured general contractors which are reasonably acceptable to Tenant. The Option Term Tenant Improvements shall be constructed by a general contractor selected by Landlord and reasonably acceptable to Tenant (the "General Contractor"). Landlord shall commence construction, or cause the commencement of construction by the General Contractor, of the Option Term Tenant Improvements, as soon as practicable after selection of the General Contractor. Except as hereinafter expressly provided to the contrary, Landlord shall cause the performance of the Work using (except as may be stated or otherwise shown in the Approved Final Drawings) building standard materials, quantities and procedures then in use by Landlord ("Building Standards").

6. Substantial Completion. Landlord and Tenant shall cause the General Contractor to Substantially Complete (defined below) the Option Term Tenant Improvements in accordance with the Approved Final Drawings within a commercially reasonable lime, subject to delays due to (a) acts or events beyond its control including, but not limited to, acts of God, earthquakes, strikes, lockouts, boycotts, casualties, discontinuance of any utility or other service required for performance of the Work, moratoriums, governmental agencies, delays on the part of governmental agencies and weather, (b) the lack of availability or shortage of specialized materials used in the construction of the Option Term Tenant Improvements, (c) any matters beyond the control of Landlord, the General Contractor or any subcontractors, (d) any changes required by the fire department, building and/or planning department, building inspectors or any other agency having jurisdiction over the Building, the Work and/or the Option Term Tenant Improvements (except to the extent such changes are directly attributable to Tenant's use or Tenant's specialized tenant improvements, in which event such delays are considered Tenant Delays) (the events and matters set forth in Subsections (a), (b), (c) and (d) are collectively referred to as "Force Majeure Delays"), or (e) any Tenant Delays (defined in Section 7 below). The Option Term Tenant Improvements shall be deemed substantially complete on the earlier of the date that the General Contractor issues to Landlord a notice of substantial completion or the date that the building officials of the applicable governmental agency(s) issues its final approval of the construction of the Option Term Tenant Improvements whether in the form of the issuance of a final permit, certificate of occupancy or the written approval evidencing its final inspection on the building permit(s) ("Substantial Completion", or "Substantially Completed", or "Substantially Complete"). Tenant hereby acknowledges and agrees that the term "Substantial Completion" of the Option Term Tenant Improvements as used herein will not include the completion of any work associated with Tenant's Installations, including without limitation, Tenant's high-pile storage requirements, Tenant's racking systems, and work related to any requirements of governmental and regulatory agencies with respect to any of Tenant's Installations. Landlord and Tenant acknowledge and agree that the Option Term Tenant Improvements will be installed and constructed by Landlord in the Premises during the period of Tenant's occupancy of the Premises; however the completion of such Option Term Tenant Improvements therein shall not affect Tenant's obligation to pay Rent and to perform all of Tenant's covenants and obligations under the Lease. Tenant hereby expressly (i) agrees that Tenant shall have no right or claim to any abatement, offset or other deduction of the amount of Rent payable by Tenant for the Premises due to the installation and construction of any of the Option Term Tenant Improvements, (ii) grants Landlord access to any and all of the Premises to perform the Option Term Tenant Improvements, (iii) waives any rights or claims Tenant may have at law or in equity with respect to any interference with Tenant's conduct of its operations in and about the Premises during the pendency of the work associated with the Option Term Tenant Improvements, (iv) agrees to use commercially reasonable efforts to not interfere, and to not allow any of Tenant's Entities to interfere, with Landlord and its contractors, representatives and consultants in the performance of the work associated with the completion of the Option Term Tenant Improvements, and (v) agrees that Tenant's employees, agents, contractors, consultants, workmen, mechanics, suppliers and invitees shall fully cooperate, work in harmony and not, in any manner, unreasonably interfere with Landlord or Landlord's agents or representatives in performing any of the aforementioned work and any additional work related thereto, Landlord's work in other areas of the Building or the Industrial Center, or the general operation of the Building. Subject to the provisions of the Lease, the Option Term Tenant Improvements shall belong to Landlord and shall be deemed to be incorporated into the Premises for all purposes of the Lease, unless Landlord, in writing, indicates otherwise to Tenant.

7. Tenant Delays. The following events or occurrences, among other events or occurrences attributable to Tenant and/or any of Tenant's Entities or Tenant's intended use of the Premises (collectively, "Tenant Delays"), shall delay Substantial Completion: (a) delays related to changes made or requested by Tenant to the Work and/or the Approved Final Drawings; (b) the failure of Tenant to furnish all or any plans, drawings, specifications, finish details or other information required under Sections 3 and 4 above; (c) the failure of Tenant to comply with the requirements of Section 10 below; (d) Tenant's requirements for special work or materials, finishes, or installations other than the Building Standards or Tenant's requirements for special construction or phasing; (e) any changes required by the fire department, building or planning department, building inspectors or any other agency having jurisdiction over the Building, the Work and/or the Option Term Tenant Improvements if such changes are directly attributable to Tenant's use or Tenant's specialized tenant improvements; (f) the completion of any work associated with Tenant's Installations, including without limitation, Tenant's high-pile storage requirements, Tenant's racking systems, and work related to any

requirements of governmental and regulatory agencies with respect to any of Tenant's Installations; (g) the performance of any additional work pursuant to a Change Request that is requested by Tenant; (h) the performance of work in or about the Premises by any person, firm or corporation employed by or on behalf of Tenant, including, without limitation, any failure to complete or any delay in the completion of such work; and/or (i) any and all delays caused by or arising from acts or omissions of Tenant and/or Tenant's Entities, in any manner whatsoever, including, but not limited to, any and ail revisions to the Approved Final Drawings. Any delays in the construction of the Option Term Tenant Improvements due to any of the events described above, shall in no way extend or affect Tenant's Rent payments under the terms of the Lease. It is the intention of the parties that all of such delays will be considered Tenant Delays for which Tenant shall be wholly and completely responsible for any and all consequences related to such delays, including, without limitation, any costs and expenses attributable to increases in labor or materials.

8. Option Term Tenant Improvement Allowance. In the event Tenant exercises the Option set forth in Addendum 1, Landlord shall provide an allowance for (he planning and construction of the Option Term Tenant Improvements for the Work to be performed in the Premises during the Extended Term, as described in the Initial Plans and the Approved Final Drawings, in the amount of Three Hundred Thirty Four Thousand and Five Dollars ($334,005.00) (the "Option Term Tenant Improvement Allowance"); provided, however. Tenant may utilize the Option Term Tenant Improvement Allowance for the Option Term Tenant Improvement Costs or to reimburse Tenant for the Initial Tenant Improvement Costs described in **Exhibit F** to this Lease. Tenant shall not be entitled to any credit, abatement or payment from Landlord in the event that the amount of the Option Term Tenant Improvement Allowance specified above exceeds the actual Option Term Tenant Improvement Costs (and/or Initial Tenant Improvement Costs). The Option Term Tenant Improvement Allowance shall only be used for tenant improvements typically installed by Landlord in buildings similar to that of which the Premises are located. The Option Term Tenant Improvement Allowance shall be the maximum contribution by Landlord for the Option Term Tenant Improvement Costs (and Initial Tenant Improvement Costs) and shall be subject to the provisions of Section 10 below. Landlord shall have no obligation to credit to Tenant all or any portion of the Option Term Tenant Improvement Allowance unless Tenant timely complies with all time requirements hereunder such that all work is completed and the Option Term Tenant Improvement Allowance is to be paid or credited, as applicable, within twenty four (24) months following the commencement of the Extended Term (as defined in Addendum 1 to this Lease).

9. Option Term Tenant Improvement Costs. The Option Term Tenant Improvements' cost (the "Option Term Tenant Improvement Costs") shall mean and include any and all costs and expenses of the Work, including, without limitation, all of the following:

(a) All costs of preliminary space planning and final architectural and engineering plans and specifications (including, without limitation, the scope of work, all plans and specifications, the Initial Plans, the Final Drawings and the Approved Final Drawings) for the Option Term Tenant Improvements, and architectural fees, engineering costs and fees, and other costs associated with completion of said plans;

(b) All costs of obtaining building permits and other necessary authorizations and approvals from the City of Menlo Park and other applicable agencies and jurisdictions;

(c) All costs of interior design and finish schedule plans and specifications including as-built drawings;

(d) All direct and indirect costs of procuring, constructing and installing the Option Term Tenant Improvements in the Premises, including, but not limited to, the construction fee for overhead and profit, the cost of all on-site supervisory and administrative staff, office, equipment and temporary services rendered by Landlord's consultants and the General Contractor in connection with construction of the Option Term Tenant Improvements, and all labor (including overtime) and materials constituting the Work;

(e) All fees payable to the General Contractor, architect and Landlord's engineering firm if they are required by Tenant to redesign any portion of the Option Term Tenant Improvements following Tenant's approval of the Approved Final Drawings: and

(f) A construction management fee payable to Landlord in an amount equal to three percent (3%) of all of the expenses or the Work, including, without limitation, direct and indirect costs of designing, procuring, constructing and installing the Option Term Tenant Improvements in the Premises and the Building.

10. Excess Option Term Tenant Improvement Costs. The term "Excess Option Term Tenant Improvement Costs" as used herein shall mean and refer to the aggregate of (i) all costs related to any and all Change Requests/Change Orders, and (ii) the amount by which the actual Option Term Tenant Improvement Costs (exclusive of all costs referred to in item (i) above) exceed the Option Term Tenant Improvement Allowance, subject to the terms of Sections 1 and 8 above and the remaining provisions of this Section 10. Tenant shall faithfully pay all of the Excess Option Term Tenant Improvement Costs to Landlord, in cash, within ten (10) days of Landlord's delivery to Tenant of a written demand therefor together with a reconciliation of such costs. No Work shall be commenced until Tenant has fully complied with the preceding provisions of this Section 10. If Tenant fails to remit the sums so demanded by Landlord pursuant to Section 8 above and this Section 10 within the time periods required, Landlord may, at its option, declare Tenant in default under the Lease.

11. Change Requests. No changes or revisions to the Approved Final Drawings shall be made by either Landlord or Tenant unless approved in writing by both parties. Upon Tenant's request and submission by Tenant (at Tenant's sole cost and expense) of the necessary information and/or plans and specifications for any changes or revisions to the Approved Final Drawings and/or for any work other than the Work described in the Approved Final Drawings ("Change Requests") and the approval by Landlord of such Change Request(s), which approval Landlord agrees shall not be unreasonably withheld, Landlord shall perform the additional work associated with the approved Change Request(s), at Tenant's sole cost and expense, subject, however, to the following provisions of this Section 11. Prior to commencing any additional work related to the approved Change Request(s), Landlord shall submit to Tenant a written statement of the cost of such additional work and a proposed tenant change order therefor ("Change Order") in the standard form then in use by Landlord. Tenant shall execute and deliver to Landlord such Change Order and shall pay the entire cost of such additional work in the following described manner. Any costs related to such approved Change Request(s), Change Order and any delays associated therewith, shall be added to the Option Term Tenant Improvement Costs and shall be paid for by Tenant as and with any Excess Option Term Tenant Improvement Costs as set forth in Section 10 above. The

billing for such additional costs lo Tenant shall be accompanied by evidence of the amounts billed as is customarily used in the business. Costs related to approved Change Requests and Change Orders shall include without limitation, any architectural or design fees. Landlord's construction fee for overhead and profit, the cost of all on-site supervisory and administrative staff, office, equipment and temporary services rendered by Landlord and/or Landlord's consultants, and the General Contractor's price for effecting the change. If Tenant fails to execute or deliver such Change Order, or to pay the costs related thereto, then Landlord shall not be obligated to do any additional work related to such approved Change Request(s) and/or Change Orders, and Landlord may proceed to perform only the Work, as specified in the Approved Final Drawings. Landlord shall equitably adjust the amount of the Option Term Tenant Improvement Costs for any deletions in the scope of the Work.

12. Termination. If the Lease is terminated for any reason due to the default of Tenant hereunder, in addition to any other remedies available to Landlord under the Lease, Tenant shall pay to Landlord as Additional Rent under the Lease, within five (5) days of receipt of a statement therefor, on a pro rata basis based upon the number of months of the Extended Term then remaining on the Lease as of the date of such default over the total number of months in the Extended Term, any and all costs incurred by Landlord and not reimbursed or otherwise paid by Tenant through the date of termination in connection with the Option Term Tenant Improvements to the extent planned, installed and/or constructed as of such date of termination, including, but not limited to, any costs related to the removal of all or any portion of the Option Term Tenant Improvements and restoration costs related thereto. Subject to the provisions of the Lease, upon the expiration or earlier termination of the Lease, Tenant shall not be permitted to remove the Option Term Tenant Improvements it being the intention of the parties that the Option Term Tenant Improvements are to be considered incorporated into the Building. From and after the date on which the Lease is terminated, Tenant and Landlord shall have no further rights, obligations or claims with respect to each other arising from the Lease, except for those obligations of Tenant under the Lease which expressly survive and continue after the termination or expiration of the Lease.

13. Lease Provisions; Conflict. The terms and provisions of the Lease, insofar as they are applicable, in whole or in part, to this **Exhibit G**, are hereby incorporated herein by reference. In the event of any conflict between the terms of the Lease and this **Exhibit G**, the terms of this **Exhibit G** shall prevail. Any amounts payable by Tenant to Landlord under this **Exhibit G** shall be deemed to be Additional Rent under the Lease and, upon any default in the payment of same, Landlord shall have all rights and remedies available to it as provided for in the Lease.

Exhibit H
List of Cubicles and Equipment

16 cubicles
32 overheads
16 box box pedestal
16 box box file pedestal
3 break room tables
7 break room chairs
2 pest control bug zappers
2 two drawer lateral file cabinets

Conference Room 103
Conference room table
20 chairs

Room 102
1 desk
1 overhead
2 chairs

Room 101
1 desk
1 table
1 filing cabinet 5 drawer
2 chairs

Room 131
1 bookshelf
1 desk
1 chair

Room 132
1 bookshelf
2 chairs
1 cork board

Room 133
1 desk
1 two drawer lateral
1 chair
1 bookshelf

3 boilers B1, B2 and B3

1 air compressor – atlas copco SF8 with 2 air dryers

1 Dl/Ro system

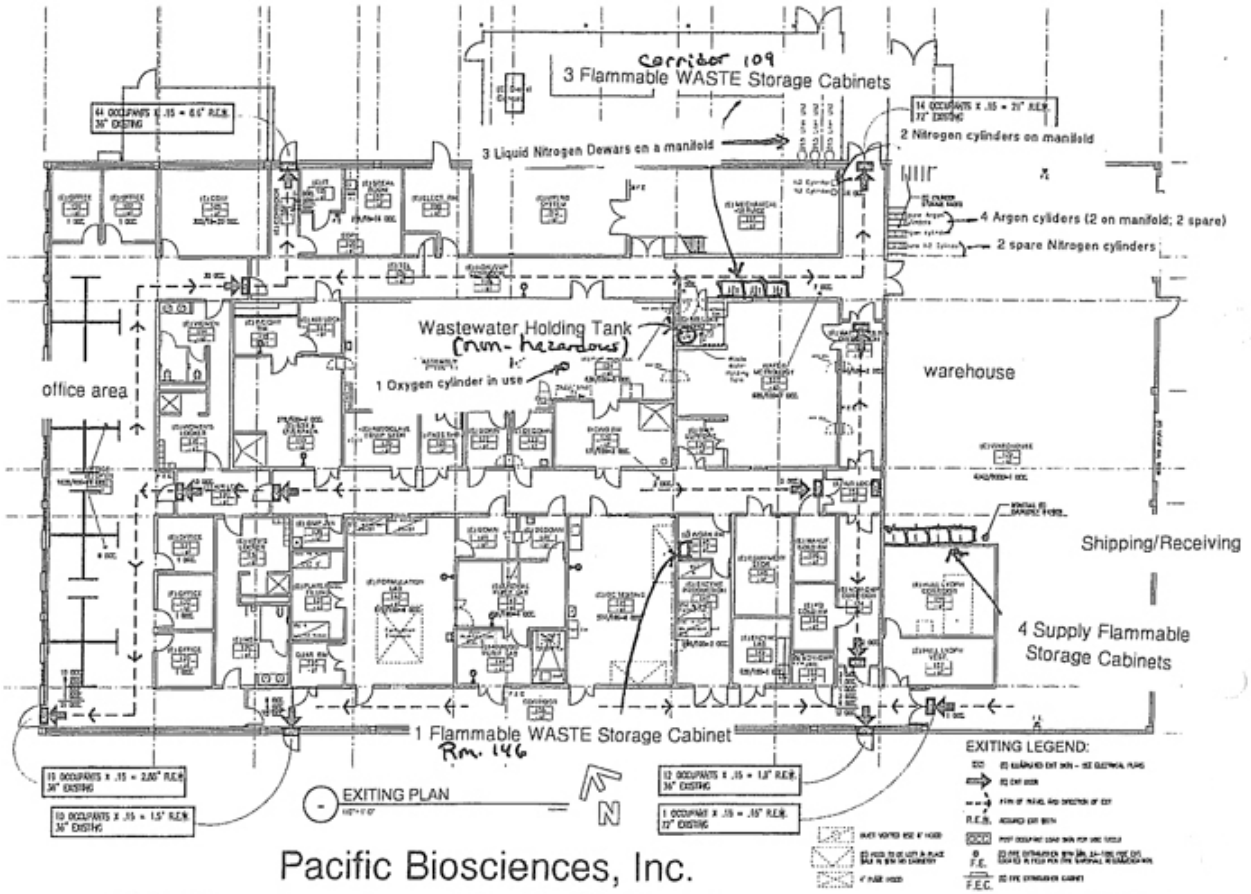
1 WFI system

1 water heater

1 autoclave

1 siemens bldg management system with computer

1 lyophilizer



Pacific Biosciences, Inc.

1392 Hamilton Ave., Menlo Park, CA 94025

Addendum 1
Option to Extend

This Addendum 1 (the "Addendum") is incorporated as a part of that certain Industrial Lease dated September 24, 2009 (the "Lease"), by and between AMB Property, L.P., a Delaware limited partnership ("Landlord"), and Pacific Biosciences of California, Inc., a Delaware corporation dba Pac Bio, Inc. ("Tenant"), for the leasing of those certain premises commonly known as 1392 Hamilton Avenue, Menlo Park, California, as more particularly described in **Exhibit A** to the Lease (the "Premises"). Any capitalized terms used herein and not otherwise defined herein shall have the meaning ascribed to such terms as set forth in the Lease.

1. Grant of Extension Option. Subject to the provisions, limitations and conditions set forth in Paragraph 5 below, Tenant shall have an Option ("Option") to extend the initial Term of the Lease so that the Term is coterminus with the term of the Hamilton Court Lease ("Extended Term"); provided, in the event the Hamilton Court Lease is not executed and delivered by Landlord and Tenant on or before January 1, 2010, the Option contained in this Addendum 2 shall be to extend the initial Term of the Lease for a period of three (3) years and the term "Extended Term" shall mean such three (3) year period.

2. Tenant's Option Notice. Tenant shall have the right to deliver written notice to Landlord of its intent to exercise this Option (the "Option Notice"). If Landlord does not receive the Option Notice from Tenant on a date which is not less than one hundred twenty (120) days prior to the end of the initial Term of the Lease, all rights under this Option shall automatically terminate and shall be of no further force or effect. Upon the proper exercise of this Option, subject to the provisions, limitations and conditions set forth in Paragraph 5 below, the initial Term of the Lease shall be extended for the Extended Term.

3. Monthly Base Rent for the Extended Term; Tenant Improvement Allowance.

(a) The monthly Base Rent for the Premises for the first (1st) year of the Extended Term shall be Thirty One Thousand One Hundred Seventy Three and 80/100 Dollars ($31,173.80) and such Base Rent shall increase annually during the Extended Term by an amount equal to three percent (3%) of the Base Rent paid during the immediately preceding annual period.

(b) Subject to the terms of **Exhibit G** to this Lease, the Option Term Tenant Improvement Allowance may be partially or wholly utilized by Tenant during the Extended Term.

(c) Tenant shall have no other right to extend the Term of the Lease under this Addendum unless Landlord and Tenant otherwise agree in writing.

4. Condition of Premises for the Extended Term. If Tenant timely and properly exercises this Option, in strict accordance with the terms contained herein, Tenant shall accept the Premises in its then "As-Is" condition and, accordingly, Landlord shall not be required to perform any additional improvements to the Premises. Tenant shall not be responsible for brokerage commissions payable to a broker procured or hired by Tenant in connection with the Option if Landlord has agreed to pay such commission.

5. Limitations On, and Conditions To, Extension Option. This Option is personal to Tenant and may not be assigned, voluntarily or involuntarily, separate from or as part of the Lease. At Landlord's option, all rights of Tenant under this Option shall terminate and be of no force or effect if any of the following individual events occur or any combination thereof occur: (1) Tenant has been in default at any time during the initial Term of the Lease, or is in default of any provision of the Lease on the date Landlord receives the Option Notice; and/or (2) Tenant has assigned its rights and obligations under all or part of the Lease or Tenant has subleased all or part of the Premises; and/or (3) Tenant's financial condition is unacceptable to Landlord at the time the Option Notice is delivered to Landlord; and/or (4) Tenant has failed to exercise properly this Option in a timely manner in strict accordance with the provisions of this Addendum; and/or (5) Tenant no longer has possession of all or any part of the Premises under the Lease, or if the Lease has been terminated earlier, pursuant to the terms and provisions of the Lease.

6. Time is of the Essence. Time is of the essence with respect to each and every time period described in this Addendum.

EXHIBIT 10.15

First Amendment to Lease Agreement

This First Amendment to Lease Agreement (the "Amendment") is made and entered into as of May 19, 2010, by and between AMB Property L.P., a Delaware limited partnership ("Landlord"), and Pacific Biosciences of California, Inc., a Delaware corporation dba Pac Bio, Inc. ("Tenant"), with reference to the following facts.

Recitals

A. Landlord and Tenant have entered into that certain Lease Agreement dated as of September 24, 2009 (the "Lease"), for the leasing of certain premises consisting of approximately 22,267 rentable square feet located at 1392 Willow Road, Menlo Park, California (the "Premises") as such Premises are more fully described in the Lease.

B. Landlord and Tenant now wish to amend the Lease to provide for, among other things, the extension of the Term of the Lease, all upon and subject to each of the terms, conditions, and provisions set forth herein.

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, Landlord and Tenant agree as follows:

1. Recitals: Landlord and Tenant agree that the above recitals are true and correct and are hereby incorporated herein as though set forth in full.

2. Term: The Term of the Lease shall be extended from October 1, 2010 to September 30, 2013 (the "Extended Term").

3. Base Rent: The Basic Lease Information and Section 4 of the Lease are hereby modified to provide that during the Extended Term of the Lease the monthly Base Rent payable by Tenant to Landlord, in accordance with the provisions of Section 4 of the Lease shall be in accordance with the following schedule:

Period	Monthly Base Rent
October 1, 2010 - September 30, 2011	$ 31,173.80
October 1, 2011 - September 30, 2012	$ 32,109.01
October 1, 2012 - September 30, 2013	$ 33,072.28

4. Option to Extend the Term: The parties hereby acknowledge and agree that Tenant did exercise the Option to Extend the Term of the Lease in accordance with the terms and conditions set forth in Addendum 1 of the Lease. Tenant further acknowledges and agrees that the Option to Extend the Lease as set forth in Addendum 1 is of no further force and effect, and Tenant does not have any additional rights under the Lease to further extend the Term of the Lease.

5. Condition of Premises: Tenant acknowledges and agrees that its possession of the Premises after September 30, 2010 is a continuation of Tenant's possession of the Premises under the Lease. Tenant is familiar with the condition of the Premises, and agrees to accept the Premises in their existing condition "AS IS", without any obligation of Landlord to remodel, improve or alter the Premises, to perform any other construction or work of improvement upon the Premises, or to provide Tenant with any construction or refurbishing allowance, accept as set forth is Paragraph 6 set forth below and Exhibit G of the Lease.

6. Option Term Tenant Improvements: In accordance with the Terms of Exhibit G of the Lease Tenant may elect to use the Option Term Tenant Improvement Allowance as more fully described in Exhibit G of the Lease.

7. Brokers: Tenant warrants that it has had no dealing with any real estate broker or agent in connection with the negotiation of this Amendment whose commission shall be payable by Landlord other than Cornish & Carey representing Tenant and Cassidy Turley/ BT Commercial representing Landlord. If Tenant has dealt with any other person, real estate broker or agent with respect to this Amendment, Tenant shall be solely responsible for the payment of any fee due to said person or firm, and Tenant shall indemnify, defend and hold Landlord free and harmless against any liability, claim, judgment, damages with respect thereto, including attorneys' fees and costs.

8. Effect of Amendment; Except as modified herein, the terms and conditions of the Lease shall remain unmodified and continue in full force and effect. In the event of any conflict between the terms and conditions of the Lease and this Amendment, the terms and conditions of this Amendment shall prevail.

9. Definitions: Unless otherwise defined in this Amendment, all terms not defined in this Amendment shall have the meaning set forth in the Lease.

10. Authority: Subject to the provisions of the Lease, this Amendment shall be binding upon and inure to the benefit of the parties hereto, their respective heirs, legal representatives, successors and assigns. Each party hereto and the persons signing below warrant that the person signing below on such party's behalf is authorized to do so and to bind such party to the terms of this Amendment.

11. The terms and provisions of the Lease are hereby incorporated in this Amendment.

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date and year first above written.

LANDLORD

AMB PROPERTY, L.P.,
a Delaware limited partnership

By: AMB PROPERTY CORPORATION,
its General Partner

By /s/ Douglas P. McGregor
Douglas P. McGregor

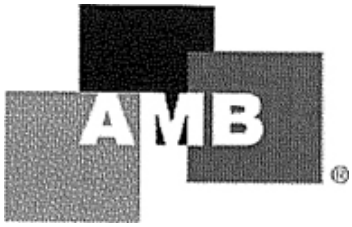
Its: Vice President, Regional Manager
Date: 5/25/2010

TENANT

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.,
a Delaware corporation dba Pac Bio, Inc.

By /s/ Hugh Martin
Its: President
Date:

By:
Its: Secretary
Date:



Industrial Lease

Willow Park
Menlo Park, California

AMB Property, L.P., a Delaware limited partnership,

as Landlord,

and

Pacific Biosciences of California, Inc., a Delaware corporation
dba Pac Bio, Inc.,

as Tenant

Table of Contents

Glossary

The following terms in the Lease are defined in the paragraphs opposite the terms.

Term	Defined in Paragraph
Access Notice	Exhibit F
Additional Rent	4.1
Affiliates	12.9
Alteration/Alterations	7.3
Applicable Requirements	6.3
Approved Final Drawings	Exhibit F
Base Rent	1.4
Basic Provisions	1
Brokers	1.13
Building	1.2
Building Operating Expenses	4.2(b)
Building Standards	Exhibit F
Change Order	Exhibit F
Change Requests	Exhibit F
Clean Room Equipment	16.31
Code	12.8
Commencement Date	1.3
Commencement Date Certificate	3.3
Common Areas	2.2
Common Area Operating Expenses	4.2(b)
Completion Date	Exhibit F
condemnation	14
Contractor	Exhibit F
CUP	6.2
Default	13.1
Election Notice	Addendum 2
Excess Tenant Improvement Costs	Exhibit F
Existing Tenant	1.3
Expansion Space/Expansion Spaces	Addendum 2
Expiration Date	1.3
Extended Term	Addendum 1
Fair Market Rental Rate	Addendum 1
Final Drawings	Exhibit F
Force Majeure Delays	Exhibit F
General Contractor	Exhibit F
Generator Equipment	16.33
Hazardous Substance	6.2(a)
HVAC	4.2(a)(x)
Industrial Center	1.2
Initial Plans	Exhibit F
Landlord	1.1
Landlord Entities	6.2(c)
Landlord’s Notice	Addendum 2
Landlord Response Period	12.2
Lease	1.1
Lenders	6.4
Mortgage	16.18(a)
nondisturbance agreement	16.18(c)
Offer	Addendum 2
Operating Expenses	4.2
Option	Addendum 1
Option Notice	Addendum 1
Tenant Improvement Allowance	Exhibit F
Tenant Improvement Costs	Exhibit F
Tenant Improvements	Exhibit F
Party/Parties	1.1
Permitted Use	1.8
Phase	1.2
Phase Operating Expenses	4.2(b)
Premises	1.2
Prevailing Party	16.13
Proposed Effective Date	12.2
Real Property Taxes	10.2
Renovations	16.29
Rent	4.1
Rent Commencement Date	4.1
Reportable Use	6.2(a)

AMB Property Corporation
Industrial Lease

1. Basic Provisions ("Basic Provisions").

1.1 Parties. This Lease ("Lease") dated February 8, 2010, is made by and between AMB Property, L.P., a Delaware limited partnership ("Landlord") and Pacific Biosciences of California, Inc., a Delaware corporation dba Pac Bio, Inc. ("Tenant") (collectively, the "Parties" or individually, a "Party").

1.2 Premises. The premises ("Premises"), which are the subject of this Lease, are located in the industrial center commonly known as Willow Park (the "Industrial Center"). The Premises consist of an approximately 33,792 square foot building ("Building") commonly known as 1380 Willow Road, Menlo Park, California and as depicted on **Exhibit A.** The Building is also identified on **Exhibit A**. The phase ("Phase"), which is also identified on **Exhibit A**, consists of a portion of the Industrial Center in which the Building is located.

If the Premises are all of the Building, there shall, for purposes of this Lease, be no distinction between the words "Premises" or "Building." Tenant shall have nonexclusive rights to the Common Areas (as defined in Paragraph 2.2 below) but shall not have any rights to the roof, exterior walls, or utility raceways of the Building or to any other buildings in the Industrial Center, except to the extent required by the terms of Paragraph 7.1 of this Lease. The Industrial Center consists of the Premises, the Building, the Phase, the Common Areas, the land upon which they are located, and all other buildings and improvements within the boundaries of the Industrial Center.

1.3 Term. Approximately sixty four (64) months and three (3) days ("Term") commencing on February 8, 2010 ("Commencement Date") and ending sixty (60) months following the Rent Commencement Date (defined below) ("Expiration Date").

1.4 Base Rent. Base monthly rent ("Base Rent") shall be payable as follows:

Months of Term	Monthly Base Rent
Rent Commencement Date - 05	$ 0
06-12	$ 55,757.00
13-24	$ 57,429.50
25-36	$ 59,152.39
37-48	$ 60,926.96
49-60	$ 62,754.77

1.5 Tenant's Share of Operating Expenses ("Tenant's Share").

(a)	Common Area Operating Expenses	3.39%	(33,792 SF/996,375 SF)
(b)	Building Operating Expenses	100%	
(c)	Phase Operating Expenses	0%	

1.6 Tenant's Estimated Monthly Rent Payment. Following is the estimated monthly Rent payment to Landlord pursuant to the provisions of this Lease. This estimate is made at the inception of the Lease and is subject to adjustment pursuant to the provisions of this Lease. The Estimated Total Monthly Payment, set forth below, shall be paid to Landlord no later than the Commencement Date.

(a)	Base Rent (Paragraph 4.1)	$55,757.00
(b)	Operating Expenses (Paragraph 4.2, excluding Real Properly Taxes, Landlord Insurance, and HVAC)	$ 4,206.00
(c)	Landlord Insurance (Paragraph 8.3)	$ 576.00
(d)	Real Property Taxes (Paragraph 10)	$ 4,776.00
	Estimated Total Monthly Payment	$65,315.00

1.7 Security Deposit. $62,754.77 ("Security Deposit").

1.8 Permitted Use ("Permitted Use"). General office, manufacturing, gym (for less than 10% of the building), wet laboratory and other research and development uses, including such uses consistent with biotechnology and medical device companies, but only to the extent permitted by the City in which the Premises are located and all agencies and governmental authorities having jurisdiction of the Premises.

1.9 Guarantor. None

1.10 Addenda. Attached hereto are the following Addenda, all of which constitute a part of this Lease:

Addendum 1: Option to Extend
Addendum 2: Right of First Offer

1.11 Exhibits. Attached hereto are the following Exhibits, all which constitute a part of the Lease:

Exhibit A:	Description of Premises.
Exhibit B:	Commencement Date Certificate.
Exhibit C:	Tenant Move-in and Lease Renewal Environmental Questionnaire
Exhibit D:	Move Out Standards
Exhibit E:	Rules and Regulations
Exhibit F:	Tenant Improvements
Exhibit G:	Clean Room Equipment

1.12 Address for Rent Payments. All amounts payable by Tenant to Landlord shall, until further notice from Landlord, be paid to Landlord at the following address:

AMB Property, L.P.
c/o AMB Property Corporation
P.O. Box 6156
Hicksville, NY 11802-6156

1.13 Brokers. Tenant represents that it has not dealt with any real estate brokers or agents other than NAI BT Commercial representing Landlord and Cornish & Carey Commercial representing Tenant (collectively, the "Brokers"). The Brokers shall receive commissions pursuant to a separate listing agreement with Landlord.

2. Premises and Common Areas.

2.1 Letting. Landlord hereby leases to Tenant and Tenant hereby leases from Landlord the Premises upon all of the terms, covenants, and conditions, set forth in this Lease. Any statement of square footage set forth in this Lease or that may have been used in calculating Base Rent and/or Operating Expenses is an approximation which Landlord and Tenant agree is reasonable, and the Base Rent and Tenant's Share based thereon is not subject to revision whether or not the actual square footage is more or less. Except as set forth in Exhibit F attached hereto, Tenant accepts the Premises in its present "As-Is" condition, state of repair and operating order. Landlord shall deliver the Premises, clean room, HVAC systems serving the lab, roof and lights in good working order and repair with the existing building operating systems, including electrical, mechanical, plumbing, lighting and sprinkler systems in good working order and repair as of the Rent Commencement Date (defined below) and Tenant shall have a warranty period of sixty (60) days after the Rent Commencement Date to confirm such condition. Tenant's failure to notify Landlord in writing within such sixty (60) day period of any deficiencies in such systems shall be deemed Tenant's approval of the condition thereof.

2.2 Common Areas - Definition. "Common Areas" are all areas and facilities outside the Premises and within the exterior boundary line of the Industrial Center and interior utility raceways within the Premises that are provided and designated by the Landlord from time to time for the general nonexclusive use of Landlord, Tenant, and other tenants of the Industrial Center and their respective employees, suppliers, shippers, tenants, contractors, and invitees.

2.3 Common Areas - Tenant's Rights. Landlord hereby grants to Tenant, for the benefit of Tenant and its employees, suppliers, shippers, contractors, customers, and invitees, during the term of this Lease, the nonexclusive right to use, in common with others entitled to such use, the Common Areas as they exist from time to time, subject to any rights, powers, and privileges reserved by Landlord under the terms hereof or under the terms of any rules and regulations or covenants, conditions, and restrictions governing the use of the Industrial Center.

2.4 Common Areas - Rules and Regulations. Landlord shall have the exclusive control and management of the Common Areas and shall have the right, from time to time, to establish, modify, amend, and enforce reasonable Rules and Regulations with respect thereto in accordance with Paragraph 16.19.

2.5 Common Area Changes. Landlord shall have the right, in Landlord's sole discretion, from time to time:

(a) To make changes to the Common Areas, including, without limitation, changes in the locations, size, shape, and number of driveways, entrances, parking spaces, parking areas, loading and unloading areas, ingress, egress, direction of traffic, landscaped areas, walkways, and utility raceways;

(b) To close temporarily any of the Common Areas for maintenance purposes so long as reasonable access to the Premises remains available;

(c) To designate other land outside the boundaries of the Industrial Center to be a part of the Common Areas;

(d) To add additional buildings and improvements to the Common Areas;

(e) To use the Common Areas while engaged in making additional improvements, repairs, or alterations to the Industrial Center, or any portion thereof; and

(f) To do and perform such other acts and make such other changes in, to, or with respect to the Common Areas and Industrial Center as Landlord may, in the exercise of sound business judgment, deem to be appropriate.

2.6 Parking. At no additional cost to Tenant, Tenant may use Tenant's Share of the undesignated vehicle parking spaces, on an unreserved and unassigned basis, on those portions of the Common Areas designated by Landlord for such parking. Landlord shall exercise reasonable efforts to ensure that such spaces are available to Tenant for its use, but Landlord shall not be required to enforce Tenant's right to use the same. Tenant shall not use more parking spaces than such number. Such parking spaces shall be used only for parking by vehicles no larger than full sized passenger automobiles or pick-up trucks and in no event shall Tenant or any of Tenant's Entities park or permit any parking of vehicles overnight. Tenant shall not permit or allow any vehicles that belong to or are controlled by Tenant or Tenant's employees, suppliers, shippers, customers or invitees to be loaded, unloaded or parked in areas other than those designated by Landlord for such activities. If Tenant permits or allows any of the prohibited activities described herein, then Landlord shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove or tow away the vehicle involved and charge the cost to Tenant, which cost shall be immediately payable as additional rent upon demand by Landlord. Landlord may change the number of parking spaces and configuration of the parking areas at any time, and may assign reserved parking spaces to any tenant, in Landlord's sole discretion; provided, Landlord shall not reduce Tenant's Share of undesignated vehicle parking spaces.

2.7 Access. Subject to emergencies, Applicable Requirements (defined below) and the terms of Paragraphs 9 and 14, Landlord shall use its commercially reasonable efforts to provide access to Tenant (i) through that certain gate which separates Adams Court and the Phase, twenty four (24) hours a day, seven (7) days a week and (ii) to the Premises twenty four (24) hours a day, seven (7) days a week.

3. Term.

3.1 Term. The Commencement Date, Expiration Date, and Term of this Lease are as specified in Paragraph 1.3.

3.2 Delay in Possession. If for any reason Landlord cannot deliver possession of the Premises to Tenant by the Commencement Date, Landlord shall not be subject to any liability therefor, nor shall such failure affect the validity of this Lease or the obligations of Tenant hereunder. In such case, Tenant shall not, except as otherwise provided herein, be obligated to pay Rent or perform any other obligation of Tenant under the terms of this Lease until Landlord delivers possession of the Premises to Tenant.

3.3 Commencement Pate Certificate. At the request of Landlord, Tenant shall execute and deliver to Landlord a completed certificate ("Commencement Date Certificate") in the form attached hereto as **Exhibit B.**

4. Rent.

4.1 Base Rent. Tenant shall pay to Landlord Base Rent and other monetary obligations of Tenant to Landlord under the terms of this Lease (such other monetary obligations are herein referred to as "Additional Rent") in lawful money of the United States, without offset or deduction, in advance on or before the first day of each month of the Term commencing on the later of Substantial Completion of all of the Tenant Improvements or May 1, 2010 ("Rent Commencement Date"); provided, Tenant shall not be obligated to pay Base Rent for the first five (5) months following the Rent Commencement Date. Base Rent and Additional Rent for any period during the term hereof which is for less than one full month shall be prorated based upon the actual number of days of the month involved. Payment of Base Rent and Additional Rent shall be made to Landlord at its address stated herein or to such other persons or at such other addresses as Landlord may from time to time designate in writing to Tenant. Base Rent and Additional Rent are collectively referred to as "Rent." All monetary obligations of Tenant to Landlord under the terms of this Lease are deemed to be Rent.

4.2 Operating Expenses. Commencing on the Rent Commencement Date, Tenant shall pay to Landlord on the first (1st) day of each month during the Term hereof, in addition to the Base Rent as and when set forth above in Section 4.1, Tenant's Share of all Operating Expenses in accordance with the following provisions.

(a) "Operating Expenses" are all costs incurred by Landlord relating to the ownership and/or operation of the Industrial Center, Phase, Building, and Premises including, but not limited to, the following:

(i) Expenses relating to the ownership, management, maintenance, repair, replacement and/or operation of the Common Areas, including, without limitation, parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways, driveways, rail spurs, landscaped areas, striping, bumpers, irrigation systems, drainage systems, lighting facilities, fences and gates, exterior signs, and/or tenant directories.

(ii) Water, gas, electricity, telephone, and other utilities not paid for directly by tenants of the Industrial Center.

(iii) Trash disposal, snow removal, security and the management and administration of any and all portions of the Industrial Center, including, without limitation, a property management fee, accounting, auditing, billing, postage, salaries and benefits for clerical and supervisory employees, whether located at the Industrial Center or off-site, payroll taxes and legal and accounting costs and all fees, licenses and permits related to the ownership, operation and management of the Industrial Center;

(iv) Reserves set aside for maintenance, repair and replacements of improvements within the Industrial Center.

(v) Real Property Taxes.

(vi) Premiums and all applicable deductibles for the insurance policies maintained by Landlord under paragraph 8 below.

(vii) Environmental monitoring and insurance programs.

(viii) Monthly amortization of capital improvements to any portion of the Industrial Center which are not expensed by Landlord, including any capital improvements made pursuant to Paragraph 7.2 below which are subject to reimbursement under this Paragraph 4.2. The monthly amortization of any such capital improvement shall be the sum of the (a) quotient obtained by dividing the cost of the capital improvement by Landlord's reasonable estimate of the number of months of useful life of such improvement plus (b) an amount equal to the cost of the capital improvement with interest thereon at the lesser of 10% per annum or the maximum interest rate permitted by law.

(ix) Maintenance of the Industrial Center, including, but not limited to, painting, caulking, and repair and replacement of Building components, including, but not limited to, roof membrane, elevators, and fire detection and sprinkler systems.

(x) Heating, ventilating, and air conditioning systems ("HVAC") the costs for which are not the sole responsibility of Tenant or another tenant of the Industrial Center.

(b) Tenant's Share of Operating Expenses that are not specifically attributed to the Premises, Building or Phase ("Common Area Operating Expenses") shall be that percentage shown in Paragraph 1.5(a). Tenant's Share of Operating Expenses that are attributable to the Building ("Building Operating Expenses") shall be that percentage shown in Paragraph 1.5(b). Tenant's Share of Phase Operating Expenses that are attributable to the Phase ("Phase Operating Expenses") shall be that percentage shown in Paragraph 1.5(c). Landlord, in its sole discretion, shall determine which Operating Expenses are Common Area Operating Expenses, Building Operating Expenses, Phase Operating Expenses or expenses to be entirely borne by Tenant.

(c) The inclusion of the improvements, facilities, and services set forth in Subparagraph 4.2(a) shall not impose any obligation upon Landlord either to have said improvements or facilities or to provide those services.

(d) Tenant shall pay monthly in advance, on the same day that the Base Rent is due, Tenant's Share of the expenses set forth in Paragraph 1.6. Landlord shall deliver to Tenant within 90 days after the expiration of each calendar year a reasonably detailed statement showing Tenant's Share of the actual expenses incurred during the preceding year. If Tenant's estimated payments under this Paragraph 4(d) during the preceding year exceed Tenant's Share as indicated on said statement, Tenant shall be credited the amount of such overpayment against Tenant's Share of expenses next becoming due. If Tenant's estimated payments under this Paragraph 4.2(d) during said preceding year were less than Tenant's Share as indicated on said statement, Tenant shall pay to Landlord the amount of the deficiency within 10 days after delivery by Landlord to Tenant of said statement. At any time following at least ten (10) days written notice to Tenant, Landlord may adjust the amount of the estimated Tenant's Share of expenses to reflect Landlord's estimate of such expenses for the year.

(e) Notwithstanding anything to the contrary contained herein, for purposes of this Lease, the term "Operating Expenses" shall not include the following: (i) costs (including permit, license, and inspection fees) incurred in renovating, improving, decorating, painting, or redecorating vacant space or space for other tenants within the Industrial Center; (ii) legal and auditing fees (other than those fees reasonably incurred in connection with the ownership and operation of all or any portion the Industrial Center); (iii) leasing commissions, advertising expenses, and other costs incurred in connection with the original leasing of the Industrial Center or future re-leasing of any portion of the Industrial Center; (iv) depreciation of the Building or any other improvements situated within the Industrial Center; (v) any items for which Landlord is actually and directly reimbursed by any other tenant of the Industrial Center; (vi) costs of repairs or other work necessitated by fire, windstorm or other casualty (excluding any deductibles) and/or costs of repair or other work necessitated by the exercise of the right of eminent domain to the extent insurance proceeds or a condemnation award, as applicable, is actually received by Landlord for such purposes; provided, such costs of repairs or other work shall be paid by the parties in accordance with the provisions of Sections 7, 8 and 9 below; (vii) other than any interest charges as expressly provided for in this Lease, any interest or payments on any financing for any portion of the Industrial Center, interest and penalties incurred as a result of Landlord's late payment of any invoice (provided that Tenant pays Tenant's Share of expenses to Landlord when due as set forth herein), and any bad debt loss, rent loss or reserves for same; (viii) any payments under a ground lease or master lease; and (ix)) any capital improvements, unless such capital improvements are made (a) in order to replace any building equipment needed to operate the Building or Industrial Center at the same quality levels (or levels of efficiency) as prior to the replacement, or (b) with the intention of reducing the costs of the operations of the Building and/or Industrial Center, or (c) to comply with government regulations, laws, or ordinances including, but not limited to the Americans with Disabilities Act, which First came into effect following the Commencement Date.

5. Security Deposit. Tenant shall deposit with Landlord upon Tenant's execution hereof the Security Deposit set forth in Paragraph 1.7 as security for Tenant's faithful performance of Tenant's obligations under this Lease. If Tenant fails to pay Base Rent or Additional Rent or otherwise defaults under this Lease (as defined in Paragraph 13.1), Landlord may use the Security Deposit for the payment of any amount due Landlord or to reimburse or compensate Landlord for any liability, cost, expense, loss, or damage (including attorneys' fees) which Landlord may suffer or incur by reason thereof. Tenant shall on demand pay Landlord the amount so used or applied so as to restore the Security Deposit to the amount set forth in Paragraph 1.7. Landlord shall not be required to keep all or any part of the Security Deposit separate from its general accounts. Landlord shall, at the expiration or earlier termination of the Term hereof and after Tenant has

vacated the Premises, return to Tenant that portion of the Security Deposit not used or applied by Landlord. No part of the Security Deposit shall be considered to be held in trust, to bear interest, or to be prepayment for any monies to be paid by Tenant under this Lease.

6. Use.

6.1 Permitted Use. Tenant shall use and occupy the Premises only for the Permitted Use set forth in Paragraph 1.8. Tenant shall not commit any nuisance, permit the emission of any objectionable noise or odor, suffer any waste, make any use of the Premises which is contrary to any law or ordinance, or which will invalidate or increase the premiums for any of Landlord's insurance. Tenant shall not service, maintain, or repair vehicles on the Premises, Building, or Common Areas. Tenant shall not store foods, pallets, drums, or any other materials outside the Premises. Tenant's use is subject to, and at all times Tenant shall comply with any and all Applicable Requirements, defined below. Landlord reserves to itself the right, from lime to time, to grant, without the consent of Tenant, such easements, rights and dedications that Landlord deems reasonably necessary, and to cause the recordation of parcel or subdivision maps and/or restrictions, so long as such easements, rights, dedications, maps and restrictions, as applicable, do not materially and adversely interfere with Tenant's operations in the Premises. Tenant agrees to sign any documents reasonably requested by Landlord to effectuate any such easements, rights, dedications, maps or restrictions. Tenant shall not initiate, submit an application for, or otherwise request, any land use approvals or entitlements with respect to the Premises or any other portion of the Industrial Center, including without limitation, any variance, conditional use permit or rezoning, without first obtaining Landlord's prior written consent thereto, which consent may be given or withheld in Landlord's sole discretion.

6.2 Hazardous Substances.

(a) Reportable Uses Require Consent. The term, "Hazardous Substance," as used in this Lease, shall mean any product, substance, chemical, material, or waste whose presence, nature, quantity, and/or intensity of existence, use, manufacture, disposal, transportation, spill, release, or effect, either by itself or in combination with other materials expected to be on the Premises, is either: (i) potentially injurious to the public health, safety or welfare, the environment, or the Premises; (ii) regulated or monitored by any governmental authority; or (iii) a basis for potential liability of Landlord to any governmental agency or third party under any applicable statute or common law theory. Hazardous Substance shall include, but not be limited to, hydrocarbons, petroleum, gasoline, crude oil, or any products or by-products thereof. Tenant shall not engage in any activity in or about the Premises which constitutes a Reportable Use (as hereinafter defined) of Hazardous Substances without the express prior written consent of Landlord and compliance in a timely manner (at Tenant's sole cost and expense) with all Applicable Requirements (as defined in Paragraph 6.3). "Reportable Use" shall mean (i) the installation or use of any above or below ground storage tank, (ii) the generation, possession, storage, use, transportation, or disposal of a Hazardous Substance that requires a permit from, or with respect to which a report, notice, registration, or business plan is required to be filed with, any governmental authority, and (iii) the presence in, on, or about the Premises of a Hazardous Substance with respect to which any Applicable Requirements require that a notice be given to persons entering or occupying the Premises or neighboring properties. Notwithstanding the foregoing, Tenant may, without Landlord's prior consent, but upon notice to Landlord and in compliance with all Applicable Requirements, use any ordinary and customary materials reasonably required to be used by Tenant in the normal course of the Permitted Use, so long as such use is not a Reportable Use and does not expose the Premises or neighboring properties to any meaningful risk of contamination or damage, or expose Landlord to any liability therefor. In addition, Landlord may (but without any obligation to do so) condition its consent to any Reportable Use of any Hazardous Substance by Tenant upon Tenant's giving Landlord such additional assurances as Landlord, in its reasonable discretion, deems necessary to protect itself, the public, the Premises, and the environment against damage, contamination, injury, and/or liability therefor, including but not limited to the installation (and, at Landlord's option, removal on or before Lease expiration or earlier termination) of reasonably necessary protective modifications to the Premises (such as concrete encasements) and/or the deposit of an additional Security Deposit.

(b) Duty to Inform Landlord. If Tenant knows, or has reasonable cause to believe, that a Hazardous Substance is located in, under, or about the Premises or the Building, Tenant shall immediately give Landlord written notice thereof, together with a copy of any statement, report, notice, registration, application, permit, business plan, license, claim, action, or proceeding given to, or received from, any governmental authority or private party concerning the presence, spill, release, discharge of, or exposure to such Hazardous Substance. Tenant shall not cause or permit any Hazardous Substance to be spilled or released in, on, under, or about the Premises (including, without limitation, through the plumbing or sanitary sewer system).

(c) Indemnification. Tenant shall indemnify, protect, defend, and hold Landlord, Landlord's affiliates, Lenders, and the officers, directors, shareholders, partners, employees, managers, independent contractors, attorneys, and agents of the foregoing ("Landlord Entities") and the Premises harmless from and against any and all damages, liabilities, judgments, costs, claims, liens, expenses, penalties, loss of permits, and attorneys' and consultants' fees arising out of or involving any Hazardous Substance on or brought onto the Premises by or for Tenant or by any of Tenant's employees, agents, contractors, servants, visitors, suppliers, or invitees (such employees, agents, contractors, servants, visitors, suppliers, and invitees as herein collectively referred to as "Tenant Entities"). Tenant's obligations under this Paragraph 6.2(c) shall include, but not be limited to, the effects of any contamination or injury to person, property, or the environment created or suffered by Tenant, and the cost of investigation (including consultants' and attorneys' fees and testing), removal, remediation, restoration and/or abatement thereof, or of any contamination therein involved. Tenant's obligations under this Paragraph 6.2(c) shall survive the Expiration Date or earlier termination of this Lease.

6.3 Tenant's Compliance with Requirements. Tenant shall, at Tenant's sole cost and expense, fully, diligently, and in a timely manner comply with all "Applicable Requirements," which term is used in this Lease to mean

all laws, rules, regulations, ordinances, directives, covenants, easements, and restrictions of record, permits, the requirements of any applicable fire insurance underwriter or rating bureau, and the recommendations of Landlord's engineers and/or consultants, relating in any manner to the Premises (including but not limited to matters pertaining to (a) industrial hygiene, (b) environmental conditions on, in, under, or about the Premises, including soil and groundwater conditions, and (c) the use, generation, manufacture, production, installation, maintenance, removal, transportation, storage, spill, or release of any Hazardous Substance), now in effect or which may hereafter come into effect. Tenant shall, within 5 days after receipt of Landlord's written request, provide Landlord with copies of all documents and information evidencing Tenant's compliance with any Applicable Requirements, and shall immediately upon receipt notify Landlord in writing (with copies of any documents involved) of any threatened or actual claim, notice, citation, warning, complaint, or report pertaining to or involving failure by Tenant or the Premises to comply with any Applicable Requirements.

6.4 Inspection: Compliance with Law. In addition to Landlord's environmental monitoring and insurance program, the cost of which is included in Operating Expenses, Landlord and the holders of any mortgages, deeds of trust, or ground leases on the Premises ("Lenders") shall have the right to enter the Premises at any time in the case of an emergency, and otherwise at reasonable times, for the purpose of inspecting the condition of the Premises and for verifying compliance by Tenant with this Lease and all Applicable Requirements. Landlord shall be entitled to employ experts and/or consultants in connection therewith to advise Landlord with respect to Tenant's installation, operation, use, monitoring, maintenance, or removal of any Hazardous Substance on or from the Premises. The cost and expenses of any such inspections shall be paid by the party requesting same unless a violation of Applicable Requirements exists or is imminent, or the inspection is requested or ordered by a governmental authority. Tenant shall upon request reimburse Landlord or Landlord's Lender, as the case may be, for the costs and expenses of such inspections.

6.5 Tenant Move-in Questionnaire. Prior to executing this Lease, Tenant has completed, executed and delivered to Landlord Tenant's Move-in and Lease Renewal Environmental Questionnaire (the "Tenant Move-in Questionnaire"), a copy of which is attached hereto as **Exhibit C** and incorporated herein by this reference. Tenant covenants, represents and warrants to Landlord that the information on the Tenant Move-in Questionnaire is true and correct and accurately describes the use(s) of Hazardous Substances which will be made and/or used on the Premises by Tenant. Subject to all of the terms and conditions of this Lease, Landlord consents to Tenant's use of such Hazardous Substances.

6.6 Exculpation. Tenant shall neither be liable for nor otherwise obligated to Landlord under any provision of this Lease with respect to (i) any claim, remediation obligation, investigation obligation, liability, cause of action, attorney's fees, consultants' cost, expense or damage resulting from any Hazardous Substance present in, on or about the Premises, the Building or the Industrial Center to the extent neither caused nor otherwise permitted, directly or indirectly, by Tenant or the Tenant Entities; or (ii) the removal, investigation, monitoring or remediation of any Hazardous Substance present in, on or about the Premises, the Building or the Industrial Center caused by any source, including third parties other than Tenant and the Tenant Entities, as a result of or in connection with the acts or omissions of persons other than Tenant or the Tenant Entities; provided, however, Tenant shall be fully liable for and otherwise obligated to Landlord under the provisions of this Lease for all liabilities, costs, damages, penalties, claims, judgments, expenses (including without limitation, attorneys' and experts' fees and costs) and losses to the extent (a) Tenant or any of the Tenant Entities contributes to the presence of such Hazardous Substances or Tenant and/or any of the Tenant Entities exacerbates the conditions caused by such Hazardous Substances, or (b) Tenant and/or the Tenant Entities allows or permits persons over which Tenant or any of the Tenant Entities has control and/or for which Tenant or any of the Tenant Entities are legally responsible for, to cause such Hazardous Substances to be present in, on, under, through or about any portion of the Premises, the Building or the Industrial Center, or does not take all reasonably appropriate actions to prevent such persons over which Tenant or any of the Tenant Entities has control and/or for which Tenant or any of the Tenant Entities are legally responsible from causing the presence of Hazardous Substances in, on, under, through or about any portion of the Premises, the Building or the Industrial Center.

7. Maintenance, Repairs, Trade Fixtures and Alterations.

7.1 Tenant's Obligations. Subject to the provisions of Paragraph 7.2 (Landlord's Obligations), Paragraph 9 (Damage or Destruction), and Paragraph 14 (Condemnation), Tenant shall, at Tenant's sole cost and expense and at all times, keep the Premises and every part thereof in good order, condition, and repair (whether or not such portion of the Premises requiring repair, or the means of repairing the same, are reasonably or readily accessible to Tenant and whether or not the need for such repairs occurs as a result of Tenant's use, any prior use, the elements, or the age of such portion of the Premises) including, without limiting the generality of the foregoing, all equipment or facilities specifically serving the Premises, such as plumbing, heating, ventilating, air conditioning, electrical, lighting facilities, boilers, fired or unfired pressure vessels, fire hose connectors if within the Premises, fixtures, interior walls, interior surfaces of exterior walls, ceilings, floors, windows, doors, plate glass, and skylights, but excluding any items which are the responsibility of Landlord pursuant to Paragraph 7.2 below. Tenant's obligations shall include restorations, replacements, or renewals when necessary to keep the Premises and all improvements thereon or a part thereof in good order, condition, and state of repair. Subject to the terms of Paragraph 8.4 of this Lease, Tenant shall also be solely responsible for the cost of all repairs and replacements caused by the negligent acts or omissions or intentional misconduct by Tenant or Tenant's employees, contractors, agents, guests or invitees. If Tenant refuses or neglects to perform its obligations under this paragraph to the reasonable satisfaction of Landlord, Landlord may, but without obligation to do so, at any time perform the same without Landlord having any liability to Tenant for any loss or damage that may accrue to Tenant's personal property or equipment ("Tenant's Property") or to Tenant's business by reason thereof. If Landlord performs any such obligations, Tenant shall pay to Landlord, as Additional Rent, Landlord's costs and expenses incurred therefor.

7.2 Landlord's Obligations. Subject to the provisions of Paragraph 6 (Use), Paragraph 7.1 (Tenant's Obligations), Paragraph 9 (Damage or Destruction), and Paragraph 14 (Condemnation), Landlord, at its expense and not subject to the reimbursement requirements of Paragraph 4.2, shall maintain and repair the roof structure, foundations and the structure of the exterior walls of the Building. Landlord, subject to reimbursement pursuant to Paragraph 4.2, shall maintain and repair the Building roof membrane, Common Areas, and utility systems within the Industrial Center which are outside of the Premises. In addition, Landlord may, in Landlord's sole discretion, and at Tenant's sole cost, elect to contract for all or any portion of the maintenance, repair and/or replacement of the HVAC systems serving the Premises.

7.3 Alterations. Tenant shall not install any signs, fixtures, improvements, nor make or permit any other alterations or additions (individually, an "Alteration", and collectively, the "Alterations") to the Premises without the prior written consent of Landlord, except for Alterations that cumulatively cost less than Twenty Five Thousand Dollars ($25,000.00) and which do not affect the Building systems or the structural integrity or structural components of the Premises or the Building; provided, Tenant may install, at Tenant's sole cost, the following Alteration no later than one hundred twenty (120) days following the Commencement Date: any conduit Tenant may require to connect the Premises to either 1392 or 1394 Willow Road. In all events, Tenant shall deliver at least ten (10) days prior notice to Landlord, from the date Tenant intends to commence construction, sufficient to enable Landlord to post a Notice of Non-Responsibility and Tenant shall obtain all permits or other governmental approvals prior to commencing any of such work and deliver a copy of same to Landlord. All Alterations shall be at Tenant's sole cost and expense in accordance with plans and specifications which have been previously submitted to and approved in writing by Landlord, and shall be installed by a licensed, insured, and bonded contractor (reasonably approved by Landlord) in compliance with all applicable Laws (including, but not limited to, the ADA), and all recorded matters and rules and regulations of the Industrial Center. In addition, all work with respect to any Alterations must be done in a good and workmanlike manner. Landlord's approval of any plans, specifications or working drawings for Tenant's Alterations shall not create nor impose any responsibility or liability on the part of Landlord for their completeness, design sufficiency, or compliance with any laws, ordinances, rules and regulations of governmental agencies or authorities. In performing the work of any such Alterations, Tenant shall have the work performed in such a manner as not to obstruct access to the Industrial Center, or the Common Areas for any other tenant of the Industrial Center, and as not to obstruct the business of Landlord or other tenants in the Industrial Center, or interfere with the labor force working in the Industrial Center. Except with respect to the Tenant Improvements set forth in **Exhibit F** attached hereto, as Additional Rent hereunder, Tenant shall reimburse Landlord, within ten (10) days after demand, for actual and reasonable legal, engineering, architectural, planning and other expenses incurred by Landlord in connection with Tenant's Alterations, plus Tenant shall pay to Landlord a fee equal to one percent (1%) of the total cost of the Alterations. If Tenant makes any Alterations, Tenant agrees to carry "Builder's All Risk" insurance, in an amount approved by Landlord and such other insurance as Landlord may require, it being understood and agreed that all of such Alterations shall be insured by Tenant in accordance with the terms of this Lease immediately upon completion thereof. Tenant shall keep the Premises and the property on which the Premises are situated free from any liens arising out of any work performed, materials furnished or obligations incurred by or on behalf of Tenant. Tenant shall, prior to construction of any and all Alterations, cause its contractor(s) and/or major subcontractor(s) to provide insurance as reasonably required by Landlord, and Tenant shall provide such assurances to Landlord, including without limitation, waivers of lien, surety company performance bonds as Landlord shall require to assure payment of the costs thereof to protect Landlord and the Industrial Center from and against any loss from any mechanic's, materialmen's or other liens.

7.4 Surrender/Restoration. Tenant shall surrender the Premises by the end of the last day of the Lease term or any earlier termination date, in the same condition as was delivered to Tenant upon the Rent Commencement Date clean and free of debris and in good operating order, condition, and state of repair, ordinary wear and tear excepted and in accordance with the Move Out Standards set forth in **Exhibit D** to this Lease. Without limiting the generality of the above, Tenant shall remove all tenant improvements designated by Landlord in Landlord's reasonable discretion (not including those improvements performed by Landlord prior to the Rent Commencement Date), personal property, trade fixtures, and floor bolts, patch all floors, and cause all lights to be in good operating condition.

8. Insurance; Indemnity.

8.1 Payment of Premiums and Deductibles. The cost of the premiums and all applicable deductibles for the insurance policies maintained by Landlord under this Paragraph 8 shall be a Common Area Operating Expense reimbursable pursuant to Paragraph 4.2 hereof. Premiums for policy periods commencing prior to, or extending beyond, the term of this Lease shall be prorated to coincide with the corresponding Commencement Date and Expiration Date.

8.2 Tenant's Insurance.

(a) At its sole cost and expense, Tenant shall maintain in full force and effect during the Term of the Lease the following insurance coverages insuring against claims which may arise from or in connection with the Tenant's operation and use of the Premises.

(i) Commercial General Liability insurance with minimum limits of $1,000,000 per occurrence and $3,000,000 general aggregate for bodily injury, personal injury, and property damage. If required by Landlord, liquor liability coverage will be included. Such insurance shall be endorsed to include Landlord and Landlord Entities as additional insureds, shall be primary and noncontributory with any Landlord insurance, and shall provide severability of interests between or among insureds.

(ii) Workers' Compensation insurance with statutory limits and Employers Liability with a $1,000,000 per accident limit for bodily injury or disease.

(iii) Automobile Liability insurance covering all owned, nonowned, and hired vehicles with a $1,000,000 per accident limit for bodily injury and property damage.

(iv) Property insurance against "all risks" at least as broad as the current ISO Special Form policy (and Tenant shall not be obligated to carry flood or earthquake coverage provided Tenant agrees that Landlord shall not be liable for any damage or loss arising from flood or earthquake and Tenant waives and releases Landlord from all claims, losses, damages, liabilities, judgments and costs arising from or related to Tenant not carrying such flood or earthquake coverage) for loss to any tenant improvements or betterments installed by Tenant or by Landlord on Tenant's behalf, including floor and wall coverings, and business personal property on a full insurable replacement cost basis with no coinsurance clause, and Business Income insurance covering at least three (3) months of loss of income and continuing expense.

(b) Tenant shall deliver to Landlord certificates of all insurance reflecting evidence of required coverages prior to initial occupancy, and annually thereafter.

(c) Intentionally Omitted.

(d) All insurance required under Paragraph 8.2 (i) shall be issued by insurers licensed to do business in the state in which the Premises are located and which are rated A:VII or better by Best's Key Rating Guide and (ii) shall be endorsed to provide at least 30-days prior notification of cancellation in coverage to said additional insureds.

8.3 Landlord's Insurance. Landlord may, but shall not be obligated to, maintain risk of direct physical loss property damage insurance coverage, including earthquake and flood, covering the buildings within the Industrial Center, Commercial General Liability insurance, and such other insurance in such amounts and covering such other liability or hazards as deemed appropriate by Landlord. The amount and scope of coverage of Landlord's insurance shall be determined by Landlord from time to time in its sole discretion and shall be subject to such deductible amounts as Landlord may elect. Landlord shall have the right to reduce or terminate any insurance or coverage.

8.4 Waiver of Subrogation. To the extent permitted by law and with permission of their insurance carriers, Landlord and Tenant each waive any right to recover against the other on account of any and all claims Landlord or Tenant may have against the other with respect to property insurance actually carried, or required to be carried hereunder, to the extent of the proceeds realized from such insurance coverage.

8.5 Indemnity. Tenant shall protect, defend, indemnify, and hold Landlord and Landlord Entities harmless from and against any and all loss, claims, liability, or costs (including court costs and attorneys' fees) incurred by reason of:

(a) any damage to any property (including but not limited to property of any Landlord Entity) or death, bodily, or personal injury to any person occurring in or about the Premises, the Building, or the Industrial Center to the extent that such injury or damage shall be caused by or arise from any actual or alleged act, neglect, fault, or omission by or of Tenant, its agents, servants, employees, invitees, contractors, suppliers, subtenants, or visitors;

(b) the conduct or management of any work or anything whatsoever done by the Tenant on or about the Premises or from transactions of the Tenant concerning the Premises;

(c) Tenant's failure to comply with any and all governmental laws, ordinances, and regulations applicable to the condition or use of the Premises or its occupancy; or

(d) any breach or default on the part of Tenant in the performance of any covenant or agreement to be performed pursuant to this Lease.

The provisions of this Paragraph 8.5 shall, with respect to any claims or liability accruing prior to such termination, survive the Expiration Date or earlier termination of this Lease.

8.6 Exemption of Landlord from Liability. Except to the extent caused by the gross active or gross passive negligence or willful misconduct of Landlord, neither Landlord nor Landlord Entities shall be liable for and Tenant waives any claims against Landlord and Landlord Entities for injury or damage to the person or the property of Tenant, Tenant's employees, contractors, invitees, customers or any other person in or about the Premises, Building or Industrial Center from any cause whatsoever, including, but not limited to, damage or injury which is caused by or results from (i) fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, fire sprinklers, wires, appliances, plumbing, heating, ventilating, air conditioning or lighting fixtures or (ii) from the condition of the Premises, other portions of the Building or Industrial Center. Landlord shall not be liable for any damages arising from any act or neglect (passive or active) of any other tenants of Landlord or any subtenant or assignee of such other tenants nor from the failure by Landlord to enforce the provisions of any other lease in the Industrial Center. Notwithstanding Landlord's negligence (active or passive), gross negligence (active or passive), or breach of this Lease, Landlord shall under no circumstances be liable for (a) injury to Tenant's business, for any loss of income or profit therefrom or any indirect, consequential or punitive damages or (b) any damage to property or injury to persons arising from any act of God or war, violence or insurrection, including, but not limited to, those caused by earthquakes, hurricanes, storms, drought, floods, acts of terrorism, and/or riots.

9. Damage or Destruction.

9.1 Termination Right. Tenant shall give Landlord immediate written notice of any damage to the Premises. Subject to the provisions of Paragraph 9.2, if the Premises or the Building shall be damaged to such an extent that there would reasonably be expected to be substantial interference for a period exceeding two hundred seventy (270) consecutive days with the conduct by Tenant of its business at the Premises, then either party, at any time prior to commencement of repair of the Premises and following ten (10) days written notice to the other party, may terminate this Lease effective thirty (30) days after delivery of such notice to the other party. Further, if any portion of the Premises is damaged and is not fully covered by the aggregate of insurance proceeds received by Landlord and any applicable deductible or if the holder of any indebtedness secured by the Premises requires that the insurance proceeds be applied to such indebtedness, and Tenant does not voluntarily contribute any shortfall thereof to Landlord, then Landlord shall have the right to terminate this Lease by delivering written notice of termination to Tenant within sixty (60) days after the date of notice to Tenant of any such event. Such termination shall not excuse the performance by Tenant of those covenants which under the terms hereof survive termination. Rent shall be abated in proportion to the degree of interference during the period that there is such substantial interference with the conduct of Tenant's business at the Premises. Abatement of rent and Tenant's right of termination pursuant to this provision shall be Tenant's sole remedy with respect to any such damage regardless of the cause thereof.

9.2 Damage Caused by Tenant. Tenant's termination rights under Paragraph 9.1 shall not apply if the damage to the Premises or Building is the result of any act or omission of Tenant or of any of Tenant's agents, employees, customers, invitees, or contractors.

10. Real Property Taxes.

10.1 Payment of Real Property Taxes. Landlord shall pay the Real Property Taxes due and payable during the term of this Lease and, except as otherwise provided in Paragraph 10.3, such payments shall be a Common Area Operating Expense reimbursable pursuant to Paragraph 4.2.

10.2 Real Property Tax Definition. As used herein, the term "Real Property Taxes" is any form of tax or assessment, general, special, ordinary, or extraordinary, imposed or levied upon (a) the Industrial Center or Building, (b) any interest of Landlord in the Industrial Center or Building, (c) Landlord's right to rent or other income from the Industrial Center or Building, and/or (d) Landlord's business of leasing the Premises. Real Property Taxes include (a) any license fee, commercial rental tax, excise tax, improvement bond or bonds, levy, or tax; (b) any tax or charge which replaces or is in addition to any of such above-described "Real Property Taxes," and (c) any fees, expenses, or costs (including attorneys' fees, expert fees, and the like) incurred by Landlord in protesting or contesting any assessments levied or any tax rate. Notwithstanding the foregoing, Real Property Taxes shall not include any income taxes levied upon Landlord's income from leasing the Premises or any other property in the Industrial Center. Real Property Taxes for tax years commencing prior to, or extending beyond, the term of this Lease shall be prorated to coincide with the corresponding Commencement Date and Expiration Date.

10.3 Additional Improvements. Operating Expenses shall not include Real Property Taxes attributable to improvements placed upon the Industrial Center by other tenants or by Landlord for the exclusive enjoyment of such other tenants. Tenant shall, however, pay to Landlord at the time Operating Expenses are payable under Paragraph 4.2, the entirety of any increase in Real Property Taxes if assessed by reason of improvements placed upon the Premises by Tenant or at Tenant's request.

10.4 Joint Assessment. If the Building is not separately assessed, Real Property Taxes allocated to the Building shall be a pro rata portion of the Real Property Taxes for all of the land and improvements included within the tax parcel assessed.

10.5 Tenant's Property Taxes. Tenant shall pay prior to delinquency all taxes assessed against and levied upon Tenant's improvements, fixtures, furnishings, equipment, and all personal property of Tenant contained in the Premises or stored within the Industrial Center.

11. Utilities. Tenant shall pay directly for all utilities and services supplied to the Premises, including but not limited to electricity, telephone, security, gas, and cleaning of the Premises, together with any taxes thereon. For any such utility fees or services that are not billed or metered separately to Tenant, including without limitation, water and sewer charges, and garbage and waste disposal (collectively, "Utility Expenses"), Tenant shall pay to Landlord Tenant's Share of Utility Expenses. If Landlord reasonably determines that Tenant's Share of Utility Expenses is not commensurate with Tenant's use of such services, Tenant shall pay to Landlord the amount which is attributable to Tenant's use of the utilities or similar services, as reasonably estimated and determined by Landlord, based upon factors such as size of the Premises and intensity of use of such utilities by Tenant such that Tenant shall pay the portion of such charges reasonably consistent with Tenant's use of such utilities and similar services. If Tenant disputes any such estimate or determination, then Tenant shall either pay the estimated amount or cause the Premises to be separately metered at Tenant's sole expense. Tenant shall also pay Tenant's Share of any assessments, charges, and fees included within any tax bill for the lot on which the Premises are situated, including without limitation, entitlement fees, allocation unit fees, sewer use fees, and any other similar fees or charges.

12. Assignment and Subleasing.

12.1 Prohibition. Tenant shall not, without the prior written consent of Landlord, assign, mortgage, hypothecate, encumber, grant any license or concession, pledge or otherwise transfer this Lease or any interest herein, permit any assignment or other such transfer of this Lease or any interest hereunder by operation of law, sublet the Premises or any part thereof, or permit the use of the Premises by any persons other than Tenant and Tenant's Entities (all of the foregoing are sometimes referred to collectively as "Transfers" and any person to whom any Transfer is made or sought to be made is sometimes referred to as a "Transferee"). No consent to any Transfer shall constitute a waiver of the provisions of this Section, and all subsequent Transfers may be made only with the prior written consent of Landlord, which consent shall not be unreasonably withheld, but which consent shall be subject to the provisions of this Section.

12.2 Request for Consent. If Tenant seeks to make a Transfer, Tenant shall notify Landlord, in writing, and deliver to Landlord at least thirty (30) days (but not more than one hundred eighty (180) days) prior to the proposed commencement date of the Transfer (the "Proposed Effective Date") the following information and documents (the "Tenant's Notice"): (i) a description of the portion of the Premises to be transferred (the "Subject Space"); (ii) all of the terms of the proposed Transfer including without limitation, the Proposed Effective Date, the name and address of the proposed Transferee, and a copy of the existing or proposed assignment, sublease or other agreement governing the proposed Transfer; (iii) current financial statements of the proposed Transferee certified by an officer, member, partner or owner thereof, and any such other information as Landlord may then reasonably require, including without limitation, audited financial statements for the previous three (3) most recent consecutive fiscal years; (iv) the Transfer Plans and Specifications (defined below), if any: and (v) such other information as Landlord may then reasonably require. Tenant shall give Landlord the Tenant's Notice by registered or certified mail addressed to Landlord at Landlord's Address specified in the Basic Provisions. Within thirty (30) days after Landlord's receipt of the Tenant's Notice (the "Landlord Response Period") Landlord shall notify Tenant, in writing, of its determination with respect to such requested proposed Transfer and the election to recapture as set forth below, If Landlord does not elect to recapture pursuant to the provisions hereof and Landlord does consent to the requested proposed Transfer. Tenant may thereafter assign its interests in and to this Lease or sublease all or a portion of the Premises to the same party and on the same terms as set forth in the Tenant's Notice. If Landlord fails to respond to Tenant's Notice within Landlord's Response Period, then, after Tenant delivers to Landlord thirty (30) days written notice (the "Second Response Period") and Landlord fails to respond thereto prior to the end of the Second Response Period, the proposed Transfer shall then be deemed approved by Landlord.

12.3 Criteria for Consent. Tenant acknowledges and agrees that, among other circumstances for which Landlord could reasonably withhold consent to a proposed Transfer, it shall be reasonable for Landlord to withhold its consent where (a) Tenant is or has been in default of its obligations under this Lease beyond applicable notice and cure periods, (b) the use to be made of the Premises by the proposed Transferee is prohibited under this Lease or differs from the uses permitted under this Lease, (c) the proposed Transferee or its business is subject to compliance with additional requirements of the ADA beyond those requirements which are applicable to Tenant, unless the proposed Transferee shall (1) first deliver plans and specifications for complying with such additional requirements (the "Transfer Plans and Specifications") and obtain Landlord's written consent thereto, and (2) comply with all Landlord's conditions contained in such consent, (d) the proposed Transferee does not intend to occupy a substantial portion of the Premises assigned or sublet to it, (e) Landlord reasonably disapproves of the proposed Transferee's business operating ability or history or creditworthiness or the character of the business to be conducted by the proposed Transferee at the Premises, (f) the proposed Transferee is a governmental agency or unit or an existing tenant in the Industrial Center, (g) the proposed Transfer would violate any "exclusive" rights of any occupants in the Industrial Center or cause Landlord to violate another agreement or obligation to which Landlord is a party or otherwise subject, (h) Landlord or Landlord's agent has shown space in the Industrial Center to the proposed Transferee or responded to any inquiries from the proposed Transferee or the proposed Transferee's agent concerning availability of space in the Industrial Center, at any time within the preceding twelve (12) months, (i) Landlord otherwise reasonably determines that the proposed Transfer would have the effect of decreasing the value of the Building or the Industrial Center, or increasing the expenses associated with operating, maintaining and repairing the Industrial Center, (j) either the proposed Transferee, or any person or entity which directly or indirectly, controls, is controlled by, or is under common control with, the proposed Transferee: (i) occupies space in the Building at the time of the request for consent, (ii) is negotiating with Landlord to lease space in the Building at such lime, or (iii) has negotiated with Landlord during the 12 month period immediately preceding the Tenant's Notice, (k) the rent proposed to be charged by Tenant to the proposed Transferee during the term of such Transfer, calculated using a present value analysis, is less than ninety-five percent (95%) of the rent then being quoted by Landlord, at the proposed time of such Transfer, for comparable space in the Building or any other Building in the Industrial Center for a comparable term, calculated using a present value system, or (I) the proposed Transferee will use, store or handle Hazardous Substances in or about the Premises of a type, nature or quantity not then acceptable to Landlord.

12.4 Effectiveness of Transfer and Continuing Obligations. Prior to the date on which any permitted Transfer becomes effective, Tenant shall deliver to Landlord (i) a counterpart of the fully executed Transfer document, (ii) an executed Certificate substantially in the form of **Exhibit C** hereto (the "Transferee HazMat Certificate"), and (iii) Landlord's form of Consent to Assignment or Consent to Sublease, as applicable, executed by Tenant and the Transferee in which each of Tenant and the Transferee confirms its obligations pursuant to this Lease. Failure or refusal of a Transferee to execute any such consent instrument shall not release or discharge the Transferee from its obligation to do so or from any liability as provided herein. The voluntary, involuntary or other surrender of this Lease by Tenant, or a mutual cancellation by Landlord and Tenant, shall not work a merger, and any such surrender or cancellation shall, at the option of Landlord, either terminate all or any existing subleases or operate as an assignment to Landlord of any or all of such subleases. Each permitted Transferee shall assume and be deemed to assume this Lease and shall be and remain liable jointly and severally with Tenant for payment of Rent and for the due performance of, and compliance with all the terms, covenants, conditions and agreements herein contained on Tenant's part to be performed or complied with, for the Term of this Lease. No Transfer shall affect the continuing primary liability of Tenant (which, following assignment, shall be joint and several with the assignee), and Tenant shall not be released from performing any of the terms, covenants and conditions of this Lease. An assignee of Tenant shall become directly liable to Landlord for all obligations of Tenant hereunder, but no Transfer by Tenant shall relieve Tenant of any obligations or liability under this Lease whether occurring before or after such consent, assignment, subletting or other Transfer. The acceptance of any or all of the Rent by Landlord from any other person (whether or not such person is an occupant of the Premises) shall not be deemed to be a waiver by Landlord of any provision of this Lease or to be a consent to any Transfer. Except as set forth in Paragraph 12.9 below, if Tenant is a business entity, the direct or indirect transfer of more than fifty percent (50%) of the ownership interest of the entity (whether in a single transaction or in the aggregate through more than one transaction) shall be deemed a Transfer and shall be subject to all the provisions hereof and in such event, it shall be a

condition to Landlord's consent to such ownership change that such entities or persons acquiring such ownership interest assume, as a primary obligor, all rights and obligations of Tenant under this Lease (and such entities and persons shall execute all documents reasonably required to effectuate such assumption). Any and all options, first rights of refusal, tenant improvement allowances and other similar rights granted to Tenant in this Lease, if any, shall not be assignable by Tenant unless expressly authorized in writing by Landlord (which shall be in Landlord's sole discretion). Except as set forth in Paragraph 12.9 below, any transfer made without Landlord's prior written consent, shall, at Landlord's option, be null, void and of no effect, and shall, at Landlord's option, constitute a material default by Tenant of this Lease. As Additional Rent hereunder, Tenant shall pay to Landlord each time it requests a Transfer, an administrative fee in the amount of two thousand five hundred dollars ($2,500) and, in addition, Tenant shall promptly reimburse Landlord for actual legal and other expenses incurred by Landlord in connection with any actual or proposed Transfer.

12.5 Rent Adjustment/Recapture. In the event the proposed Transfer (together with any prior Transfers) is of an amount of square footage equal to or greater than fifty percent (50%) of the Premises, Landlord shall have the right to recapture the Subject Space described in the Tenant's Notice. If such recapture notice is given, it shall serve to terminate this Lease with respect to the proposed Subject Space, or, if the proposed Subject Space covers all the Premises, it shall serve to terminate the entire Term of this Lease, in either case, as of the Proposed Effective Date. However, no termination of this Lease with respect to part or all of the Premises shall become effective without the prior written consent, where necessary, of the holder of each deed of trust encumbering the Premises or any other portion of the Industrial Center. If this Lease is terminated pursuant to the foregoing provisions with respect to less than the entire Premises, the Rent shall be adjusted on the basis of the proportion of rentable square feet retained by Tenant to the rentable square feet originally demised and this Lease as so amended shall continue thereafter in full force and effect.

12.6 Transfer Premium. If Landlord consents to a Transfer, as a condition thereto, Tenant shall pay to Landlord monthly, as Additional Rent, at the same time as the monthly installments of Rent are payable hereunder, fifty percent (50%) of any Transfer Premium, after first deducting commercially reasonable brokerage commissions and reasonable attorneys' fees. The term "Transfer Premium" shall mean all rent, additional rent and other consideration payable by such Transferee which either initially or over the term of the Transfer exceeds the Rent or pro rata portion of the Rent, as the case may be, for such space reserved in the Lease.

12.7 Waiver. Notwithstanding any Transfer, or any indulgences, waivers or extensions of time granted by Landlord to any Transferee, or failure by Landlord to take action against any Transferee, Tenant agrees that Landlord may, at its option, proceed against Tenant without having taken action against or joined such Transferee, except that Tenant shall have the benefit of any indulgences, waivers and extensions of time granted to any such Transferee.

12.8 Special Transfer Prohibitions. Notwithstanding anything set forth above to the contrary, Tenant may not (a) sublet the Premises or assign this Lease to any person or entity in which Landlord owns an interest, directly or indirectly (by applying constructive ownership rules set forth in Section 856(d)(5) of the Internal Revenue Code (the "Code"); or (b) sublet the Premises or assign this Lease in any other manner which could cause any portion of the amounts received by Landlord pursuant to this Lease or any sublease to fail to qualify as "rents from veal property" within the meaning of Section 856(d) of the Code, or which could cause any other income received by Landlord to fail to qualify as income described in Section 856(c)(2) of the Code.

12.9 Affiliates. The assignment or subletting by Tenant of all or any portion of this Lease or the Premises to (i) a parent or subsidiary of Tenant, or (ii) any person or entity which controls, is controlled by or under the common control with Tenant, or (iii) any entity which purchases all or substantially all of the assets of Tenant, or (iv) any entity into which Tenant is merged or consolidated (all such persons or entities described in clauses (i), (ii), (iii) and (iv) being sometimes herein referred to as "Affiliates") shall not be subject to obtaining Landlord's prior consent and no Transfer Premium shall be payable, provided in all instances that:

(a) any such Affiliate was not formed as a subterfuge to avoid the obligations of this Article 12;

(b) Tenant gives Landlord prior notice of any such assignment or sublease to an Affiliate, except solely for those assignments or subleases in connection with which any applicable law precludes Tenant's delivery to Landlord of prior notice of said assignment or sublease then, in all such instances, Tenant shall deliver to Landlord subsequent notice of said assignment or sublease within ten (10) days following the first (1st) day on which Tenant is permitted by law to deliver notice of such assignment or sublease to Landlord;

(c) the successor of Tenant shall have throughout the Term a tangible net worth and net assets, in the aggregate, computed in accordance with generally accepted accounting principles (but excluding goodwill as an asset), which is sufficient to meet the obligations of Tenant under this Lease, as reasonably determined by Landlord;

(d) any such assignment or sublease shall be subject to all of the terms and provisions of this Lease, and such assignee or sublessee (i.e. any such Affiliate), other than in the case of an Affiliate resulting from a merger or consolidation, shall assume, in a written document reasonably satisfactory to Landlord and delivered to Landlord upon or prior to the effective date of such assignment or sublease, all the obligations of Tenant under this Lease; and

(e) Tenant and any guarantor shall remain fully liable for all obligations to be performed by Tenant under this Lease.

13. Default; Remedies.

13.1 Default. The occurrence of any one of the following events shall constitute an event of default on the part of Tenant ("Default"):

(a) The abandonment of the Premises by Tenant;

(b) Failure to pay any installment of Base Rent. Additional Rent, or any other monies due and payable hereunder, said failure continuing for a period of five (5) days after Landlord's delivery of written notice to Tenant that said payment is past due. Tenant agrees that any such written notice delivered by Landlord shall, to the fullest extent permitted by law, serve as the statutorily required notice under applicable law to the extent Tenant fails to cure such failure to pay within such five (5) day period. In addition to the foregoing, Tenant agrees to notice and service of notice as provided for in accordance with applicable statutory requirements;

(c) A general assignment by Tenant for the benefit of creditors;

(d) The filing of a voluntary petition of bankruptcy by Tenant; the filing of a voluntary petition for an arrangement; the filing of a petition, voluntary or involuntary, for reorganization; or the filing of an involuntary petition by Tenant's creditors;

(e) Receivership, attachment, or other judicial seizure of the Premises or all or substantially all of Tenant's assets on the Premises;

(f) Failure of Tenant to maintain insurance as required by Paragraph 8.2;

(g) Any breach by Tenant of its covenants under Paragraph 6.2;

(h) Failure in the performance of any of Tenant's covenants, agreements, or obligations hereunder (except those failures specified as events of Default in other Paragraphs of this Paragraph 13.1 which shall be governed by such other Paragraphs), which failure continues for 10 days after written notice thereof from Landlord to Tenant; provided that, if Tenant has exercised reasonable diligence to cure such failure and such failure cannot be cured within such 10-day period despite reasonable diligence, Tenant shall not be in default under this subparagraph unless Tenant fails thereafter diligently and continuously to prosecute the cure to completion; and

(i) Except as set forth in Paragraph 12.9, any transfer of a substantial portion of the assets of Tenant, unless such transfer or obligation is undertaken or incurred in the ordinary course of Tenant's business, or in good faith for equivalent consideration, or with Landlord's consent.

13.2 Remedies. In the event of any Default by Tenant, Landlord shall have any or all of the following remedies:

(a) Termination. In the event of any Default by Tenant, then in addition to any other remedies available to Landlord at law or in equity and under this Lease, Landlord shall have the immediate option to terminate this Lease and all rights of Tenant hereunder by giving written notice of such intention to terminate. In the event that Landlord shall elect to so terminate this Lease then Landlord may recover from Tenant:

(1) the worth at the time of award of any unpaid Rent and any other sums due and payable which have been earned at the time of such termination; plus

(2) the worth at the time of award of the amount by which the unpaid Rent and any other sums due and payable which would have been earned after termination until the time of award exceeds the amount of such rental loss Tenant proves could have been reasonably avoided; plus

(3) the worth at the time of award of the amount by which the unpaid Rent and any other sums due and payable for the balance of the term of this Lease after the time of award exceeds the amount of such rental loss that Tenant proves could be reasonably avoided; plus

(4) any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course would be likely to result therefrom, including, without limitation, any costs or expenses incurred by Landlord (i) in retaking possession of the Premises; (ii) in maintaining, repairing, preserving, restoring, replacing, cleaning, the Premises or any portion thereof, including such acts for reletting to a new lessee or lessees; (iii) for leasing commissions; or (iv) for any other costs reasonably necessary or reasonably appropriate to relet the Premises; plus

(5) such reasonable attorneys' fees incurred by Landlord as a result of a Default, and costs in the event suit is filed by Landlord to enforce such remedy; and plus

(6) at Landlord's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable law. As used in subparagraphs (1) and (2) above, the "worth at the time of award" is computed by allowing interest at an annual rate equal to twelve percent (12%) per annum or the maximum rate permitted by law, whichever is less. As used in subparagraph (3) above, the "worth at the time of award" is computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award, plus one percent (1 %). Tenant waives redemption or relief from forfeiture under California Code of Civil Procedure Sections 1174 and 1179, or under any other present or future law, in the event Tenant is evicted or Landlord takes possession of the Premises by reason of any Default of Tenant hereunder.

(b) Continuation of Lease. In the event of any Default by Tenant, then in addition to any other remedies available to Landlord at law or in equity and under this Lease, Landlord shall have the remedy described in California Civil Code Section 1951.4 (Landlord may continue this Lease in effect after Tenant's Default and abandonment and recover Rent as it becomes due, provided tenant has the right to sublet or assign, subject only to reasonable limitations).

(c) Re-entry. In the event of any Default by Tenant, Landlord shall also have the right, with or without terminating this Lease, in compliance with applicable law, to re-enter the Premises and remove all persons and property from the Premises; such property may be removed and stored in a public warehouse or elsewhere at the cost of and for the account of Tenant.

(d) Reletting. In the event of the abandonment of the Premises by Tenant or in the event that Landlord shall elect to re-enter or shall take possession of the Premises pursuant to legal proceeding or pursuant to any notice provided by law, then if Landlord does not elect to terminate this Lease as provided in Paragraph a, Landlord may from time to time, without terminating this Lease, relet the Premises or any part thereof for such term or terms and at such rental or rentals and upon such other terms and conditions as Landlord in its sole discretion may deem advisable with the right to make alterations and repairs to the Premises. In the event that Landlord shall elect to so relet, then rentals received by Landlord from such reletting shall be applied in the following order: (1) to reasonable attorneys' fees incurred by Landlord as a result of a Default and costs in the event suit is filed by Landlord to enforce such remedies; (2) to the payment of any indebtedness other than Rent due hereunder from Tenant to Landlord; (3) to the payment of any costs of such reletting; (4) to the payment of the costs of any alterations and repairs to the Premises; (5) to the payment of Rent due and unpaid hereunder; and (6) the residue, if any, shall be held by Landlord and applied in payment of future Rent and other sums payable by Tenant hereunder as the same may become due and payable hereunder. Should that portion of such rentals received from such reletting during any month, which is applied to the payment of Rent hereunder, be less than the Rent payable during the month by Tenant hereunder, then Tenant shall pay such deficiency to Landlord. Such deficiency shall be calculated and paid monthly. Tenant shall also pay to Landlord, as soon as ascertained, any costs and expenses incurred by Landlord in such reletting or in making such alterations and repairs not covered by the rentals received from such reletting; provided, Tenant shall not be obligated to Landlord for any such costs attributable to the removal (or repair following removal) of the Tenant Improvements described in **Exhibit F**.

(e) Termination. No re-entry or taking of possession of the Premises by Landlord pursuant to this Lease shall be construed as an election to terminate this Lease unless a written notice of such intention is given to Tenant or unless the termination thereof is decreed by a court of competent jurisdiction. Notwithstanding any reletting without termination by Landlord because of any Default by Tenant, Landlord may at any time after such reletting elect to terminate this Lease for any such Default.

(f) Cumulative Remedies. The remedies herein provided are not exclusive and Landlord shall have any and all other remedies provided herein or by law or in equity.

(g) No Surrender. No act or conduct of Landlord, whether consisting of the acceptance of the keys to the Premises, or otherwise, shall be deemed to be or constitute an acceptance of the surrender of the Premises by Tenant prior to the expiration of the Term, and such acceptance by Landlord of surrender by Tenant shall only flow from and must be evidenced by a written acknowledgment of acceptance of surrender signed by Landlord. The surrender of this Lease by Tenant, voluntarily or otherwise, shall not work a merger unless Landlord elects in writing that such merger take place, but shall operate as an assignment to Landlord of any and all existing subleases, or Landlord may, at its option, elect in writing to treat such surrender as a merger terminating Tenant's estate under this Lease, and thereupon Landlord may terminate any or all such subleases by notifying the sublessee of its election so to do within five (5) days after such surrender.

(h) Notice Provisions Tenant agrees that any notice given by Landlord pursuant to Paragraph 13.1 of the Lease shall satisfy the requirements for notice under California Code of Civil Procedure Section 1161, and Landlord shall not be required to give any additional notice in order to be entitled to commence an unlawful detainer proceeding. Should Landlord prepare any notice to Tenant for failure to pay rent, additional rent or perform any other obligation under the Lease, Tenant shall pay to Landlord, without any further notice from Landlord, the additional sum of $75.00 which the parties hereby agree represents a fair and reasonable estimate of the costs Landlord will incur by reason of preparing such notice.

13.3 Late Charges. Tenant hereby acknowledges that late payment by Tenant to Landlord of Rent and other sums due hereunder will cause Landlord to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges. Accordingly, if any installment of Rent or other sum due from Tenant shall not be received by Landlord or Landlord's designee within 4 days after such amount shall be due, then, without any requirement for notice to Tenant, Tenant shall pay to Landlord a late charge equal to 5% of such overdue amount. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Landlord will incur by reason of late payment by Tenant. Acceptance of such late charge by Landlord shall in no event constitute a waiver of Tenant's Default with respect to such overdue amount, nor prevent Landlord from exercising any of the other rights and remedies granted hereunder. In addition, should Landlord be unable to negotiate any payment made by Tenant on the first attempt by Landlord and without any notice to Tenant, Tenant shall pay to Landlord a fee of $50.00 per item which the parties hereby agree represents a fair and reasonable estimate of the costs Landlord will incur by reason of Landlord's inability to negotiate such item(s).

14. Condemnation. If the Premises or any portion thereof are taken under the power of eminent domain or sold under the threat of exercise of said power (all of which are herein called "condemnation"), this Lease shall terminate as to

the part so taken as of the date the condemning authority takes title or possession, whichever first occurs. If more than 10% of the floor area of the Premises, or more than 25% of the portion of the Common Areas designated for Tenant's parking, is taken by condemnation, Tenant may, at Tenant's option, to be exercised in writing within 10 days after Landlord shall have given Tenant written notice of such taking (or in the absence of such notice, within 10 days after the condemning authority shall have taken possession), terminate this Lease as of the date the condemning authority takes such possession. If Tenant does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the Premises remaining, except that the Base Rent shall be reduced in the same proportion as the rentable floor area of the Premises taken bears to the total rentable floor area of the Premises. No reduction of Base Rent shall occur if the condemnation does not apply to any portion of the Premises. Any award for the taking of all or any part of the Premises under the power of eminent domain or any payment made under threat of the exercise of such power shall be the property of Landlord; provided, however, that Tenant shall be entitled to any compensation, separately awarded to Tenant, for Tenant's relocation expenses and/or loss of Tenant's trade fixtures. In the event that this Lease is not terminated by reason of such condemnation, Landlord shall to the extent of its net severance damages in the condemnation matter, repair any damage to the Premises caused by such condemnation authority. Tenant shall be responsible for the payment of any amount in excess of such net severance damages required to complete such repair.

15. Estoppel Certificate and Financial Statements.

15.1 Estoppel Certificate. Each party (herein referred to as "Responding Party") shall within 10 business days after written notice from the other Party (the "Requesting Party") execute, acknowledge, and deliver to the Requesting Party, to the extent it can truthfully do so, an estoppel certificate in a form reasonably acceptable to the Responding Party, or any of Landlord's lenders or any prospective purchasers of the Premises or the Industrial Center as the case may be, plus such additional information, confirmation, and statements as be reasonably requested by the Requesting Party.

15.2 Financial Statement. If Landlord desires to finance, refinance, or sell the Building, Industrial Center, or any part thereof, Tenant shall deliver to any potential lender or purchaser designated by Landlord such financial statements of Tenant as are prepared by Tenant in the ordinary course of business, including but not limited to Tenant's financial statements for the past 3 years (if then available). All such financial statements shall be received by Landlord and such lender or purchaser in confidence and shall be used only for the purposes herein set forth. Landlord agrees to execute and Landlord shall use its commercially reasonable efforts to cause Landlord's lender or purchaser to execute a non-disclosure agreement reasonably acceptable to such parties related to such financial statements of Tenant.

16. Additional Covenants and Provisions.

16.1 Severability. The invalidity of any provision of this Lease, as determined by a court of competent jurisdiction, shall not affect the validity of any other provision hereof.

16.2 Interest on Past-Due Obligations. Any monetary payment due Landlord hereunder not received by Landlord within 10 days following the date on which it was due shall bear interest from the date due at 12% per annum, but not exceeding the maximum rate allowed by law in addition to the late charge provided for in Paragraph 13.3.

16.3 Time of Essence. Time is of the essence with respect to the performance of all obligations to be performed or observed by the Parties under this Lease.

16.4 Landlord Liability. Tenant, its successors, and assigns shall not assert nor seek to enforce any claim for breach of this Lease against any of Landlord's assets other than Landlord's interest in the Industrial Center. Tenant agrees to look solely to such interest for the satisfaction of any liability or claim against Landlord under this Lease. In no event whatsoever shall Landlord (which term shall include, without limitation, any general or limited partner, trustees, beneficiaries, officers, directors, or stockholders of Landlord) ever be personally liable for any such liability.

16.5 Entire Agreement. It is understood and acknowledged that there are no oral agreements between the parties hereto affecting this Lease and this Lease supersedes and cancels any and all previous negotiations, arrangements, brochures, agreements and understandings, if any, between the parties hereto or displayed by Landlord to Tenant with respect to the subject matter thereof, and none thereof shall be used to interpret or construe this Lease. This Lease and any side letter or separate agreement executed by Landlord and Tenant in connection with this Lease and dated of even date herewith contain all of the terms, covenants, conditions, warranties and agreements of the parties relating in any manner to the rental, use and occupancy of the Premises, shall be considered to be the only agreement between the parties hereto and their representatives and agents, and none of the terms, covenants, conditions or provisions of this Lease can be modified, deleted or added to except in writing signed by the parties hereto. All negotiations and oral agreements acceptable to both parties have been merged into and are included herein. There are no other representations or warranties between the parties, and all reliance with respect to representations is based totally upon the representations and agreements contained in this Lease. The parties acknowledge that (i) each party and/or its counsel have reviewed and revised this Lease, and (ii) no rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall be employed in the interpretation or enforcement of this Lease or any amendments or exhibits to this Lease or any document executed and delivered by either party in connection with this Lease.

16.6 Notice Requirements. All notices required or permitted by this Lease shall be in writing and may be delivered in person (by hand, messenger, or courier service) or may be sent by regular, certified, or registered mail or U.S. Postal Service Express Mail, with postage prepaid, or by facsimile transmission during normal business hours, and shall be deemed sufficiently given if served in a manner specified in this Paragraph 16.6. The addresses noted adjacent to a Party's signature on this Lease shall be that Party's address for delivery or mailing of notice purposes. Either Party

may by written notice to the other specify a different address for notice purposes, except that upon Tenant's taking possessing of the Premises, the Premises shall constitute Tenant's address for the purpose of mailing or delivering notices to Tenant. A copy of all notices required or permitted to be given to Landlord hereunder shall be concurrently transmitted to such party or parties at such addresses as Landlord may from time to time hereafter designate by written notice to Tenant.

16.7 Date of Notice. Any notice sent by registered or certified mail, return receipt requested, shall be deemed given on the date of delivery shown on the receipt card, or if no delivery date is shown, the postmark thereon. If sent by regular mail, the notice shall be deemed given 48 hours after the same is addressed as required herein and mailed with postage prepaid. Notices delivered by United States Express Mail or an overnight courier that guarantees next day delivery shall be deemed given 24 hours after delivery of the same to the United States Postal Service or courier. If any notice is transmitted by facsimile transmission or similar means, the same shall be deemed served or delivered upon telephone or facsimile confirmation of receipt of the transmission thereof, provided a copy is also delivered via hand or overnight delivery or certified mail. If notice is received on a Saturday, Sunday, or legal holiday, it shall be deemed received on the next business day.

16.8 Waivers. No waiver by Landlord of a Default by Tenant shall be deemed a waiver of any other term, covenant, or condition hereof, or of any subsequent Default by Tenant of the same or any other term, covenant, or condition hereof. In addition the acceptance by Landlord of any rent or other payment after it is due, whether or not a notice of default has been served or any action (including, without limitation, an unlawful detainer action) has been filed by Landlord thereon, shall not be deemed a waiver of Landlord's rights to proceed on any notice of default or action which has been filed against Tenant based upon Tenant's breach of the Lease.

16.9 Holdover. Tenant has no right to retain possession of the Premises or any part thereof beyond the expiration or earlier termination of this Lease. If Tenant holds over with the consent of Landlord: (a) the Base Rent payable shall be increased to 150% of the Base Rent applicable during the month immediately preceding such expiration or earlier termination; (b) Tenant's right to possession shall terminate on 30 days notice from Landlord; and (c) all other terms and conditions of this Lease shall continue to apply. Nothing contained herein shall be construed as a consent by Landlord to any holding over by Tenant. Tenant shall indemnify, defend, and hold Landlord harmless from and against any and all claims, demands, actions, losses, damages, obligations, costs, and expenses, including, without limitation, attorneys' fees incurred or suffered by Landlord by reason of Tenant's failure to surrender the Premises on the expiration or earlier termination of this Lease in accordance with the provisions of this Lease.

16.10 Cumulative Remedies. No remedy or election hereunder shall be deemed exclusive but shall, wherever possible, be cumulative with all other remedies in law or in equity.

16.11 Binding Effect: Choice of Law. This Lease shall be binding upon the Parties, their personal representatives, successors, and assigns, and be governed by the laws of the State in which the Premises are located. Any litigation between the Parties hereto concerning this Lease shall be initiated in the county in which the Premises are located.

16.12 Landlord. The covenants and obligations contained in this Lease on the part of Landlord are binding on Landlord, its successors, and assigns only during their respective period of ownership of an interest in the Building. In the event of any transfer or transfers of such title to the Building, Landlord (and, in the case of any subsequent transfers or conveyances, the then grantor) shall be concurrently freed and relieved from and after the date of such transfer or conveyance, without any further instrument or agreement, of all liability with respect to the performance of any covenants or obligations on the part of Landlord contained in this Lease thereafter to be performed.

16.13 Attorneys' Fees and Other Costs. If any Party brings an action or proceeding to enforce the terms hereof or declare rights hereunder, the Prevailing Party (as hereafter defined) in any such proceeding shall be entitled to reasonable attorneys' fees. The term "Prevailing Party" shall include, without limitation, a Party who substantially obtains or defeats the relief sought. Landlord shall be entitled to attorneys' fees, costs, and expenses incurred in the preparation and service of notices of Default (as defined in this Lease) and consultations in connection therewith, whether or not a legal action is subsequently commenced in connection with such Default or resulting breach. Tenant shall reimburse Landlord on demand for all reasonable legal, engineering, and other professional services expenses incurred by Landlord in connection with all requests by Tenant or any lender of Tenant for consent, waiver or approval of any kind.

16.14 Landlord's Access: Showing Premises: Repairs. Landlord and Landlord's agents shall have the right to enter the Premises at any time, in the case of an emergency, and otherwise at reasonable times upon reasonable notice for the purpose of showing the same to prospective purchasers, lenders, or tenants, and making such alterations, repairs, improvements, or additions to the Premises or to the Building, as Landlord may reasonably deem necessary, provided, in no event shall Tenant be obligated to disclose or provide access to Tenant's proprietary or confidential information in connection with such inspections. Landlord may at any time place on or about the Premises or Building any ordinary "For Sale" signs, and Landlord may at any time during the last 180 days of the term hereof place on or about the Premises any ordinary "For Lease" signs. All such activities of Landlord shall be without abatement of rent or liability to Tenant.

16.15 Signs. Tenant shall not place any signs at or upon the exterior of the Premises or the Building, except that Tenant may, with Landlord's prior written consent, install (but not on the roof) such signs as are similar to the signs of other tenants at the Industrial Center so long as such signs are in a location designated by Landlord and comply with sign ordinances and the signage criteria established for the Industrial Center by Landlord.

16.16 Termination; Merger. Unless specifically stated otherwise in writing by Landlord, the voluntary or other surrender of this Lease by Tenant, the mutual termination or cancellation hereof, or a termination hereof by Landlord for Default by Tenant, shall automatically terminate any sublease or lesser estate in the Premises; provided, however, Landlord shall, in the event of any such surrender, termination, or cancellation, have the option to continue any one or all of any existing subtenancies. Landlord's failure within 10 days following any such event to make a written election to the contrary by written notice to the holder of any such lesser interest shall constitute Landlord's election to have such event constitute the termination of such interest.

16.17 Quiet Possession. Upon payment by Tenant of the Base Rent and Additional Rent for the Premises and the performance of all of the covenants, conditions, and provisions on Tenant's part to be observed and performed under this Lease, Tenant shall have quiet possession of the Premises for the entire term hereof, subject to all of the provisions of this Lease.

16.18 Subordination; Attornment; Non-Disturbance.

(a) Subordination. This Lease shall be subject and subordinate to any ground lease, mortgage, deed of trust, or other hypothecation or mortgage (collectively, "Mortgage") now or hereafter placed by Landlord upon the real property of which the Premises are a part, to any and all advances made on the security thereof, and to all renewals, modifications, consolidations, replacements, and extensions thereof. Tenant agrees that any person holding any Mortgage shall have no duty, liability, or obligation to perform any of the obligations of Landlord under this Lease. In the event of Landlord's default with respect to any such obligation, Tenant will give any Lender, whose name and address have previously been furnished in writing to Tenant, notice of a default by Landlord. Tenant may not exercise any remedies for default by Landlord unless and until Landlord and the Lender shall have received written notice of such default and a reasonable time (not less than 90 days) shall thereafter have elapsed without the default having been cured. If any Lender shall elect to have this Lease superior to the lien of its Mortgage and shall give written notice thereof to Tenant, this Lease shall be deemed prior to such Mortgage. The provisions of a Mortgage relating to the disposition of condemnation and insurance proceeds shall prevail over any contrary provisions contained in this Lease.

(b) Attornment. Subject to the nondisturbance provisions of subparagraph (c) of this Paragraph 16.18, Tenant agrees to attorn to a Lender or any other party who acquires ownership of the Premises by reason of a foreclosure of a Mortgage. In the event of such foreclosure, such new owner shall not: (i) be liable for any act or omission of any prior landlord or with respect to events occurring prior to acquisition of ownership, (ii) be subject to any offsets or defenses which Tenant might have against any prior Landlord, or (iii) be liable for security deposits or be bound by prepayment of more than one month's rent.

(c) Non-Disturbance. With respect to a Mortgage entered into by Landlord after the execution of this Lease, Tenant's subordination of this Lease shall be subject to receiving assurance (a "nondisturbance agreement") from the Mortgage holder that Tenant's possession and this Lease will not be disturbed so long as Tenant is not in default and attorns to the record owner of the Premises.

(d) Self-Executing. The agreements contained in this Paragraph 16.18 shall be effective without the execution of any further documents; provided, however, that upon written request from Landlord or a Lender in connection with a sale, financing, or refinancing of Premises, Tenant and Landlord shall execute such further writings as may be reasonably required to separately document any such subordination or nonsubordination, attornment, and/or nondisturbance agreement, as is provided for herein. Landlord is hereby irrevocably vested with full power to subordinate this Lease to a Mortgage.

16.19 Rules and Regulations. Tenant agrees that it will abide by, and to cause its employees, suppliers, shippers, customers, tenants, contractors, and invitees to abide by, all reasonable rules and regulations ("Rules and Regulations") which Landlord may make from time to time for the management, safety, care, and cleanliness of the Common Areas, the parking and unloading of vehicles, and the preservation of good order, as well as for the convenience of other occupants or tenants of the Building and the Industrial Center and their invitees. The current Rules and Regulations are attached hereto as **Exhibit E**. Landlord shall not be responsible to Tenant for the noncompliance with said Rules and Regulations by other tenants of the Industrial Center.

16.20 Security Measures. Tenant acknowledges that the rental payable to Landlord hereunder does not include the cost of guard service or other security measures. Landlord has no obligations to provide same. Tenant assumes all responsibility for the protection of the Premises, Tenant, its agents, and invitees and their property from the acts of third parties.

16.21 Reservations. Landlord reserves the right to grant such easements that Landlord deems necessary and to cause the recordation of parcel maps, so long as such easements and maps do not unreasonably interfere with the use of the Premises by Tenant. Tenant agrees to sign any documents reasonably requested by Landlord to effectuate any such easements or maps. Tenant further agrees that Landlord may at any time following the execution of this Lease, either directly or through Landlord's agents, identify Tenant's name in any marketing materials relating to the Building or Landlord's portfolio and/or make press releases or other announcements regarding the leasing of the Premises by Tenant, and Tenant hereby waives any and all claims in connection therewith.

16.22 Conflict. Any conflict between the printed provisions of this Lease and the typewritten or handwritten provisions shall be controlled by the typewritten or handwritten provisions.

16.23 Offer. Preparation of this Lease by either Landlord or Tenant or Landlord's agent or Tenant's agent and submission of same to Tenant or Landlord shall not be deemed an offer to lease. This Lease is not intended to be binding until executed and delivered by all Parties hereto.

16.24 Amendments. This Lease may be modified only in writing, signed by the parties in interest at the time of the modification.

16.25 Multiple Parties. Except as otherwise expressly provided herein, if more than one person or entity is named herein as Tenant, the obligations of such persons shall be the joint and several responsibility of all persons or entities named herein as such Tenant.

16.26 Authority. Each person signing on behalf of Landlord or Tenant warrants and represents that she or he is authorized to execute and deliver this Lease and to make it a binding obligation of Landlord or Tenant.

16.27 Recordation. Tenant shall not record this Lease or a short form memorandum hereof.

16.28 Confidentiality. Tenant acknowledges that the content of this Lease and any related documents are confidential information. Tenant shall keep and maintain such confidential information strictly confidential and shall not disclose such confidential information to any person or entity other than Tenant's financial, legal and space planning consultants.

16.29 Landlord Renovations. Tenant acknowledges that Landlord may from time to time, at Landlord's sole option, renovate, improve, develop, alter, or modify (collectively, the "Renovations") portions of the Building, Premises, Common Areas and the "Industrial Center, including without limitation, systems and equipment, roof, and structural portions of the same. In connection with such Renovations, Landlord may, among other things, erect scaffolding or other necessary structures in the Building, limit or eliminate access to portions of the Industrial Center, including portions of the Common Areas, or perform work in the Building, which work may create noise, dust or leave debris in the Building. Tenant hereby agrees that such Renovations and Landlord's actions in connection with such Renovations shall in no way constitute a constructive eviction of Tenant nor entitle Tenant to any abatement of Rent. Landlord shall have no responsibility, or for any reason be liable to Tenant, for any direct or indirect injury to or interference with Tenant's business arising from the Renovations, nor shall Tenant be entitled to any compensation or damages from Landlord for loss of the use of the whole or any part of the Premises or of Tenant's Property, Alterations or improvements resulting from the Renovations or Landlord's actions in connection with such Renovations, or for any inconvenience or annoyance occasioned by such Renovations or Landlord's actions in connection with such Renovations.

16.30 WAIVER OF JURY TRIAL. THE PARTIES HERETO SHALL AND THEY HEREBY DO WAIVE TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM BROUGHT BY EITHER OF THE PARTIES HERETO AGAINST THE OTHER ON ANY MATTERS WHATSOEVER ARISING OUT OF OR IN ANY WAY RELATED TO THIS LEASE, THE RELATIONSHIP OF LANDLORD AND TENANT, TENANT'S USE OR OCCUPANCY OF THE PREMISES, THE BUILDING OR THE INDUSTRIAL CENTER, AND/OR ANY CLAIM OF INJURY, LOSS OR DAMAGE.

16.31 Clean Room Equipment. Not Applicable

16.32 HVAC Units; Drawings. On or before the Commencement Date, Landlord shall provide to Tenant (i) a list of all HVAC units that serve the Premises such list to include, to the extent available, unit number, maker of unit, type of unit, model number, serial number and size of unit and (ii) to the extent in Landlord's possession, any CAD drawings, including mechanical and electrical drawings, relating to the Premises.

16.33 Generator. Tenant shall have the right (but only to the extent permitted by the City of Menlo Park and all agencies and governmental authorities having jurisdiction thereof), at Tenant's sole cost and expense, to connect the currently existing emergency generator. UPS battery systems and related appurtenances (collectively, the "Generator Equipment") located at Tenant's 1394 Willow Road in the Equipment Area to the Premises, provided:

(a) The precise location and manner (i.e., underground, depth of cable and path of cable) of connection shall be subject to Landlord's prior written approval, not to be unreasonably withheld, conditioned or delayed;

(b) Tenant shall, at its sole cost and expense, obtain all licenses and permits necessary to install and connect to the Generator Equipment prior to performing any work with respect to such connection. No additional Base Rent shall be paid by Tenant for use of the Equipment Area or Generator Equipment; provided, Tenant shall be solely responsible to pay for all utilities, including without limitation, electricity, used in connection with the Generator Equipment or Equipment Area.

(c) The Generator Equipment shall remain the property of Landlord and Tenant shall not remove the Generator Equipment upon the expiration or earlier termination of this Lease. Prior to expiration or earlier termination of this Lease, Landlord may require that Tenant perform, at Tenant's sole expense, an environmental site assessment reasonably acceptable to Landlord to determine the extent of any contamination and Tenant shall, at Tenant's sole expense, clean up, remove, and remediate all Hazardous Substances that may have been caused by Tenant's use of the Generator Equipment.

(d) Each of the other provisions of this Lease shall be applicable to the Equipment Area and the use of the Generator Equipment by Tenant, including without limitation, Paragraphs 6, 7 and 8 of the Lease.

(e) Anything to the contrary contained herein notwithstanding, if, during the Term, as such Term may be extended, Landlord, in its reasonable judgment, believes that the Generator Equipment poses a human health or environmental hazard that cannot be remediated or has not been remediated within ten (10) days after Tenant has been notified thereof, then Tenant shall immediately cease all operation of the Generator Equipment.

(f) Tenant shall not use the Generator Equipment, the Equipment Area or any other portion of the Industrial Center in any way which interferes with the use of the Industrial Center by Landlord, or other tenants or licensees of Landlord or any other occupant. Such interference shall be deemed a material breach by the Tenant under the Lease, and Tenant shall, within five (5) days of written notice from Landlord, be responsible for terminating said interference. In the event any such interference does not cease within five (5) days of Landlord's written notice, Tenant acknowledges that continuing interference may cause irreparable injury and, Tenant shall immediately cease all operation of the Generator Equipment.

(g) Tenant shall indemnify, defend (by counsel reasonably acceptable to Landlord) and hold harmless Landlord and all of Landlord's Entities from any and all claims, demands, losses, liabilities, damages, judgments, costs and expenses (including reasonable attorneys' fees) any of such Landlord's Entities may suffer or incur arising out of or related to the installation, use, operation, maintenance, replacement and/or removal of the cabling, except to the extent any such claims, demands, liabilities, damages, judgments, costs or expenses are caused by the gross active or gross passive negligence or willful misconduct of Landlord or any of the Landlord Entities.

(h) Tenant shall maintain all reports, inventory and other records, test results, permits and all other data and information required under Applicable Requirements for the use, maintenance and operation of the Generator Equipment, and upon request of Landlord, shall provide a copy of all such reports, records, test results and other information without cost or expense to Landlord.

(i) Tenant shall be responsible for insuring the Generator Equipment and any cabling connecting to the Premises pursuant to Paragraph 8 of the Lease and Landlord shall have no responsibility therefor.

(e)

///**continued on next page**///

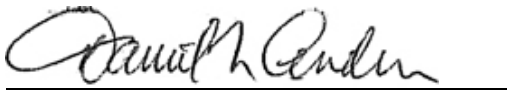
The parties hereto have executed this Lease at the place and on the dates specified below their respective signatures.

LANDLORD

AMB PROPERTY, L.P.,
a Delaware limited partnership

By: AMB PROPERTY CORPORATION,

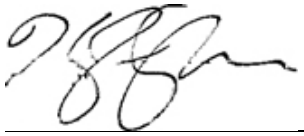
a Maryland corporation, its general partner

By: 
Daniel L. Anderson

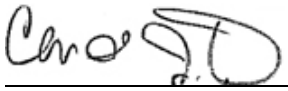
Senior Vice President
Its: Vice President, Regional Manager
Date: 2/17/10

TENANT

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.,
a Delaware corporation, dba Pac Bio, Inc.

By: 

Its: President
Date:

By: 

Its: VP Finance
Date: 2-12-2010

Tenant's Address:

After the Commencement Date
The Premises Address

Prior to the Commencement Date

Landlord's Address:

AMB Property, L.P., a Delaware limited partnership
c/o AMB Property Corporation
Pier 1, Bay 1
San Francisco, California 94111

With a copy to:

1360 Willow Road, Suite 100
Menlo Park, California 94025

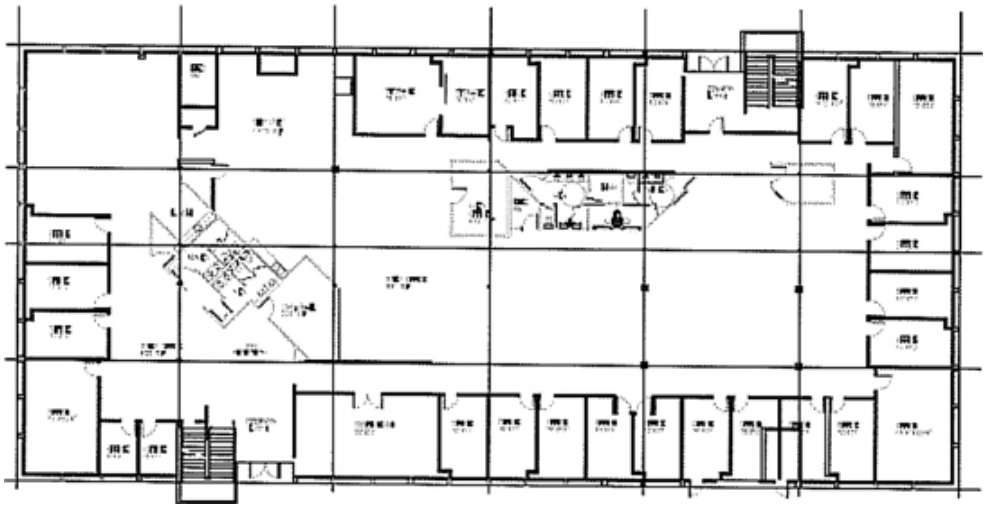
If Tenant is a CORPORATION, the authorized officers must sign on behalf of the corporation and indicate the capacity in which they are signing. The Lease must be executed by the chairman of the board, president or vice-president, and the secretary, assistant secretary, chief financial officer or any assistant treasurer, unless the bylaws or a resolution of the board of directors shall otherwise provide, in which event, the bylaws or a certified copy of the resolution, as the case maybe, must be attached to this Lease.

Exhibit A
Description of Premises

This exhibit, entitled "Premises", is and shall constitute **Exhibit A** to that certain Industrial Lease dated February 8, 2010 (the "Lease"), by and between AMB Property, L.P., a Delaware limited partnership ("Landlord") and Pacific Biosciences of California, Inc., a Delaware corporation dba Pac Bio, Inc. ("Tenant") for the leasing of certain premises commonly known as 1380 Willow Road, Menlo Park, California (the "Premises").

The Premises consist of the rentable square footage of space specified in the Basic Provisions and has the address specified in the Basic Provisions. The Premises are a part of and are contained in the Building specified in the Basic Provisions as referenced below:

First Floor Existing



Second Floor Existing

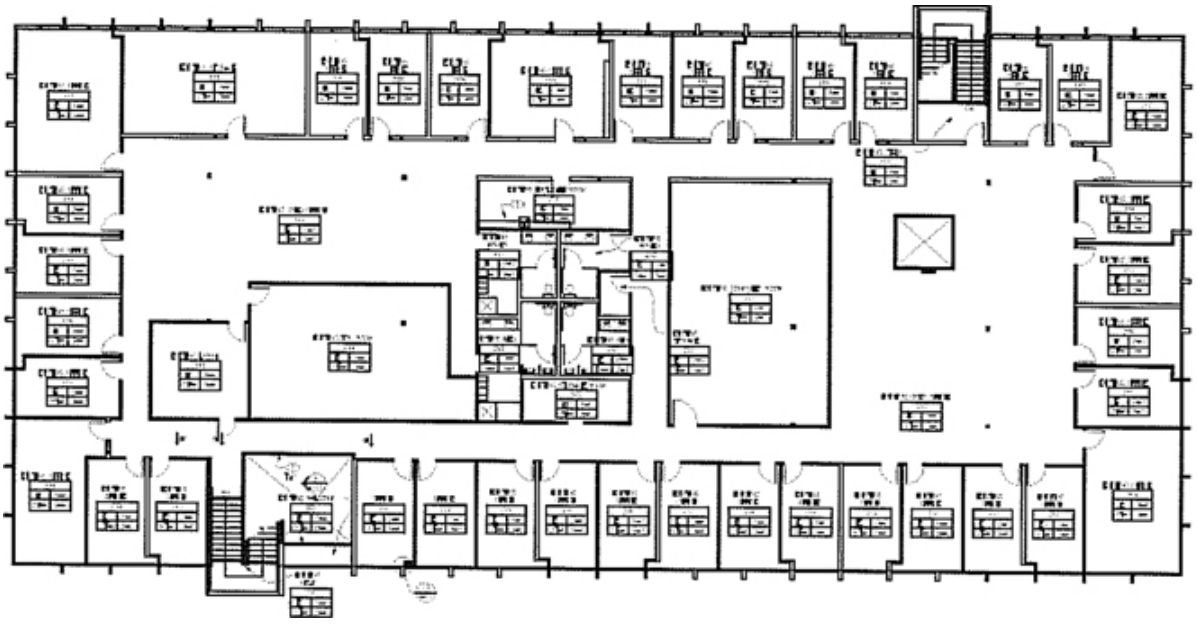


Exhibit B
Commencement Date Certificate

Landlord:	AMB Property, L.P., a Delaware limited partnership
Tenant:	Pacific Biosciences of California, Inc., a Delaware corporation dba Pac Bio, Inc.
Lease Date:	February 8, 2010
Premises:	1380 Willow Road, Menlo Park, California 94025

Tenant hereby accepts the Premises as being in the condition required under the Lease.

The Commencement Date of the Lease is _____, _____.

The Expiration Date of the Lease is _____, _____.

LANDLORD

AMB PROPERTY, L.P.,
a Delaware limited partnership

By: AMB PROPERTY CORPORATION,
a Maryland corporation, its general partner

By: _____
Douglas P. McGregor

Its: Vice President, Regional Manager

Date: _____

TENANT

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.,
a Delaware corporation, dba Pac Bio. Inc.

By: _____

Its: President

Date: _____

By: _____

Its: Secretary

Date: _____

Tenant's Address:

After the Commencement Date
The Premises Address

Prior to the Commencement Date

_____

_____

_____

Landlord's Address:

AMB Property, L.P., a Delaware limited partnership
c/o AMB Property Corporation
Pier 1, Bay 1
San Francisco, California 94111

With a copy to:

1360 Willow Road, Suite 100
Menlo Park, California 94025

If Tenant is a CORPORATION, the authorized officers must sign on behalf of the corporation and indicate the capacity in which they are signing. The document must be executed by the chairman of the board, president or vice-president, and the secretary, assistant secretary, chief financial officer or any assistant treasurer, unless the bylaws or a resolution of the board of directors shall otherwise provide, in which event, the bylaws or a certified copy of the resolution, as the case may be, must be attached to this document.

Exhibit D
Move Out Standards

This "Move Out Standards" (**Exhibit D**) is dated February 8, 2010, for the reference purposes only and is made between AMB Property, L.P., a Delaware limited partnership ("Landlord"), and Pacific Biosciences of California, Inc., a Delaware corporation dba Pac Bio, Inc. ("Tenant"), to be a part of that certain Industrial Lease (the "Lease") concerning certain premises more commonly known as 1380 Willow Road, Menlo Park. California (the "Premises"). Landlord and Tenant agree that the Lease is hereby modified and supplemented as follows:

At the expiration or earlier termination of this Lease, and in addition to any other provisions of the Lease regarding surrender of the Premises, Tenant shall surrender the Premises in the same condition as they were upon delivery of possession thereto under the Lease on the Rent Commencement Date, reasonable wear and tear excepted, and shall deliver all keys to Landlord. Before surrendering the Premises, Tenant shall remove all of its personal property and trade fixtures and such Alterations or additions to the Premises made by Tenant after the Rent Commencement Date as may be specified for removal by Landlord. If Tenant fails to remove its personal property, fixtures or Alterations or additions upon the expiration or earlier termination of the Lease, the same shall be deemed abandoned and shall become the property of Landlord. Tenant shall be liable to Landlord for all costs and damages incurred by Landlord in removing, storing or selling such property, fixtures, Alterations or additions and in restoring the Premises to the condition required pursuant to the Lease.

Notwithstanding anything to the contrary in the Lease, Tenant shall surrender the Premises, at the time of the expiration or earlier termination of the Lease, in a condition that shall include, but is not limited to, the following:

1. Lights:	Office and warehouse lights will be fully operational with all bulbs functioning.
2. Dock Levelers & Roll-Up Doors (if any):	Should be in good working condition.
3. Dock Seals (if any):	Free of tears and broken backboards repaired.
4. Warehouse Floor:	Free of stains and swept with no racking bolts and other protrusions left in the floor. Cracks should be repaired with an epoxy or polymer.
5. Tenant-Installed Equipment & Wiring:	Removed and space returned to move-in condition when originally leased. (Remove air lines, junction boxes, conduit, etc.)
6. Walls:	Sheetrock (drywall) damage should be patched and fire-taped so that there are no holes in either office or warehouse.
7. Roof:	Any tenant-installed equipment must be removed and roof penetrations properly repaired by licensed roofing contractor. Active leaks must be fixed and latest landlord maintenance and repairs recommendation must have been followed.
8. Signs:	All exterior signs must be removed and holes patched and paint touched up as necessary. All window signs should likewise be removed.
9. Heating & Air Conditioning System:	A written report from a licensed HVAC contractor within the last three months stating that all evaporative coolers and HVAC systems are operational and in good and safe operating condition.
10. Overall Cleanliness:	Clean windows, sanitize bathroom(s), vacuum carpet and remove any and all debris from office and warehouse. Remove all pallets and debris from exterior of Premises.
11. Upon Completion:	Contact Landlord's property manager to coordinate date of turning off power, turning in keys, and obtain final Landlord inspection of Premises which, in turn, will facilitate refund of security deposit.

Exhibit E
Rules & Regulations

This Exhibit (**Exhibit E**) is dated February 8, 2010, for the reference purposes only and is made between AMB Property, L.P., a Delaware limited partnership ("Landlord"), and Pacific Biosciences of California, Inc., a Delaware corporation dba Pac Bio, Inc. ("Tenant"), to be a part of that certain Industrial Lease (the "Lease") concerning certain premises more commonly known as 1380 Willow Road, Menlo Park, California (the "Premises"). The terms, conditions and provisions of this **Exhibit E** are hereby incorporated into and are made a part of the Lease. Any capitalized terms used herein and not otherwise defined herein shall have the meaning ascribed to such terms as set forth in the Lease.

1. No advertisement, picture or sign of any sort shall be displayed on or outside the Premises or the Building without the prior written consent of Landlord. Landlord shall have the right to remove any such unapproved item without notice and at Tenant's expense.

2. Tenant shall not regularly park motor vehicles (other than Tenant's company owned or leased vehicles) in designated parking areas after the conclusion of normal daily business activity.

3. Tenant shall not use any method of heating or air conditioning other than that supplied by Landlord without the prior written consent of Landlord.

4. All window coverings installed by Tenant and visible from the outside of the Building require the prior written approval of Landlord.

5. Tenant shall not use, keep or permit to be used or kept any foul or noxious gas or substance or any flammable or combustible materials on or around the Premises, the Building or the Industrial Center, except as consented to by Landlord in writing as set forth in Paragraph 6 of the Lease.

6. Tenant shall not alter any lock or install any new exterior locks or bolts on any door at the Premises without providing Landlord with a duplicate key for such locks promptly following installation.

7. Tenant may make up to ten (10) duplicate keys without the prior consent of Landlord.

8. Tenant shall park motor vehicles in those general parking areas as designated by Landlord except for loading and unloading. During those periods of loading and unloading, Tenant shall not unreasonably interfere with traffic flow within the Industrial Center and loading and unloading areas of other Tenants.

9. Tenant shall not disturb, solicit or canvas any occupant of the Building or Industrial Center and shall cooperate to prevent same.

10. No person shall go on the roof without Landlord's permission.

11. Business machines and mechanical equipment belonging to Tenant which cause noise or vibration that may be transmitted to the structure of the Building, to such a degree as to be objectionable to Landlord or other Tenants, shall be placed and maintained by Tenant, at Tenant's expense, on vibration eliminators or other devices sufficient to eliminate noise or vibration.

12. All goods, including material used to store goods, delivered to the Premises of Tenant shall be immediately moved into the Premises and shall not be left in parking or receiving areas overnight.

13. Tractor trailers which must be unhooked or parked with dolly wheels beyond the concrete loading areas must use steel plates or wood blocks under the dolly wheels to prevent damage to the asphalt paving surfaces. No parking or storing of such trailers will be permitted in the auto parking areas of the Industrial Center or on streets adjacent thereto.

14. Forklifts which operate on asphalt paving areas shall only use tires that do not damage the asphalt.

15. Tenant is responsible for the storage and removal of all trash and refuse. All such trash and refuse shall be contained in suitable receptacles stored behind screened enclosures at locations approved by Landlord.

16. Tenant shall not store or permit the storage or placement of goods, or merchandise or pallets or equipment of any sort outside of the Premises nor in or around the Building, the Industrial Center or any of the Common Areas of the foregoing. No displays or sales of merchandise shall be allowed in the parking lots or other Common Areas.

17. Tenant shall not permit any animals, including, but not limited to, any household pets, to be brought or kept in or about the Premises, the Building, the Industrial Center or any of the Common Areas of the foregoing.

18. Tenant shall not permit any motor vehicles to be washed on any portion of the Premises or in the Common Areas of the Industrial Center, nor shall Tenant permit mechanical work or maintenance of motor vehicles to be performed on any portion of the Premises or in the Common Areas of the Industrial Center.

Exhibit F
Tenant Improvements

This Exhibit (Exhibit F) is dated February 8, 2010, for the reference purposes only and is made between AMB Property, L.P., a Delaware limited partnership ("Landlord"), and Pacific Biosciences of California, Inc., a Delaware corporation dba Pac Bio. Inc. ("Tenant"), to be a part of that certain industrial Lease (the "Lease") concerning certain premises more commonly known as 1380 Willow Road, Menlo Park, California (the "Premises"). Landlord and Tenant agree that the Lease is hereby modified and supplemented as follows:

1. Tenant Improvements. Subject to the conditions set forth below. Landlord agrees to construct and install certain improvements ("Tenant Improvements") in the Building in accordance with the Approved Working Drawings and Construction Estimate (defined below) and pursuant to the terms of this document, at Landlord's sole cost and expense, except as otherwise set forth herein.

2. Definition. "Tenant Improvements" as used in the Lease shall include only those interior and exterior improvements to be made to the Premises as specified in the Approved Working Drawings (defined below) and outlined in Exhibit F-2, Construction Estimate, and agreed to by Tenant and Landlord in accordance with the provisions hereof, "Tenant Improvements" shall specifically not include (i) any alterations, additions or improvements installed or constructed by Tenant, (ii) any of Tenant's trade fixtures, racking, security equipment, equipment, furniture, furnishings, telephone and/or data equipment, telephone and/or data lines or other personal property, and (iii) any supplemental fire protection improvements or equipment, including without limitation, in-rack fire sprinklers, hose racks, reels, smoke vents, and draft curtains (collectively. "Tenant's Installations") or the Pac Bio Alternates outlined in the Construction Estimate.

3. Tenant's Initial Plans; the Work. Tenant desires Landlord to perform certain Tenant improvements in the Premises. The Tenant Improvements shall be in substantial accordance with the initial plan ("Initial Plans") attached hereto as **Exhibit F-l** and the Construction Estimate set forth on **Exhibit F-2**. It is expressly agreed that any cubicles depicted on **Exhibit F-l** (if any) are not part of the Tenant Improvements and are not being provided or installed by Landlord. The Tenant Improvements shall also be in accordance with the Initial Plans and scope of work (collectively, the "Initial Plans") which has been prepared by Dennis Kobza & Associates dated 12/24/09. Within fifteen (15) business days from the date Landlord and Tenant meet to discuss the scope of work, Landlord shall endeavor to deliver to Tenant the Initial Plans. A copy of the Initial Plans shall be executed or initialed by each of the parties, as soon as practicable thereafter. Such work, as shown in the Initial Plans and as more fully detailed in the Approved Final Drawings (as defined and described in Section 4 below), and revised Construction Estimate, shall be hereinafter referred to as the "Work". Not later than five (5) business days after the Initial Plans are prepared and delivered to Tenant. Tenant or Tenant's Representatives shall furnish to Landlord such additional plans, drawings, specifications and finish details as Landlord may reasonably request to enable Landlord's architects and engineers, as applicable, to prepare mechanical, electrical and plumbing plans and to prepare the Final Drawings, including, but not limited to, a final telephone layout and special electrical connections, if any. All plans, drawings, specifications and other details describing the Work which have been, or are hereafter, furnished by or on behalf of Tenant shall be subject to Landlord's approval, which approval shall not be unreasonably withheld. Landlord shall not be deemed to have acted unreasonably if it withholds its approval of any plans, specifications, drawings or other details or of any Change Request (hereafter defined in Section 10 below) because, in Landlord's reasonable opinion, the work as described in any such item, or any Change Request, as the case may be: (a) is likely to adversely affect Building systems, the structure of the Building or the safety of the Building or its occupants; (b) would impair Landlord's ability to furnish services to Tenant or other tenants in the Building; (c) would increase the cost of operating the Building or the Industrial Center; (d) would violate any applicable governmental, administrative body's or agencies' laws, rules, regulations, ordinances, codes or similar requirements (or interpretations thereof); (e) contains or uses Hazardous Materials: (f) would adversely affect the appearance of the Building or the Industrial Center; (g) would adversely affect another tenant's premises or such other tenant's use and enjoyment of such premises; (h) is prohibited by any ground lease affecting the Building, the Lot and/or the Industrial Center, any Recorded Matters or any mortgage, trust deed or other instrument encumbering the Building, the Lot and/or the Industrial Center; (i) is likely to be substantially delayed because of unavailability or shortage of labor or materials necessary to perform such work or the difficulties or unusual nature of such work; (j) is not, at a minimum, in accordance with Landlord's Building Standards (defined below): or (k) would increase the Tenant Improvement Costs (defined in Section 8 below) from the original Construction Estimate. The foregoing reasons, however, shall not be the only reasons for which Landlord may withhold its approval, whether or not such other reasons are similar or dissimilar to the foregoing. Neither the approval by Landlord of the Work or the Initial Plans or any other plans, specifications, drawings or other items associated with the Work nor Landlord's performance, supervision or monitoring of the Work shall constitute any warranty or covenant by Landlord to Tenant of the adequacy of the design for Tenant's intended use of the Premises. Tenant, in its capacity as a tenant and not as a design professional, agrees to, and does hereby, assume full and complete responsibility to ensure that the Work and the Approved Final Drawings are adequate to fully meet the needs and requirements of Tenant's intended operations of its business within the Premises and Tenant's use of the Premises.

4. Final Drawings and Approved Final Drawings. If necessary for the performance of the Work, and to the extent not already included as part of the Initial Plans attached hereto, Landlord shall prepare or cause to be prepared final working drawings and specifications for the Work (the "Final Drawings") based on and consistent with the Initial Plans and the other plans, specifications, drawings, finish details or other information furnished by Tenant or Tenant's Representatives to Landlord and approved by Landlord pursuant to Section 3 above. Tenant shall cooperate diligently with Landlord and Landlord's architect, engineer and other representatives and Tenant shall furnish within five (5) business days after any request therefore, all information required by Landlord or Landlord's architect, engineer or other representatives for completion of the Final Drawings. So long as the Final Drawings are substantially consistent with the Initial Plans, Tenant shall approve the Final Drawings within five (5) business days after receipt of same from Landlord. Tenant's failure to approve or disapprove such Final Drawings within the foregoing five (5) day time period, shall be conclusively deemed to be approval of same by Tenant. If Tenant reasonably disapproves of any matters included in the

Final Drawings because such items are not substantially consistent with the Initial Plans, Tenant shall, within the aforementioned five (5) business day period, deliver to Landlord written notice of its disapproval and Tenant shall specify in such written notice, in sufficient detail as Landlord may reasonably require, the matters disapproved, the reasons for such disapproval, and the specific changes or revisions necessary to be made to the Final Drawings to cause such drawings to substantially conform to the Initial Plans. Any additional costs associated with such requested changes or revisions shall be included as part of the Tenant Improvement Costs (defined below), unless such change is consistence with the Initial Plans and Construction Estimate, otherwise such change shall be considered a Change Order and at Tenant cost. The foregoing procedure shall be followed by the parties until the Final Drawings are acceptable to both Landlord and Tenant. Landlord and Tenant shall indicate their approval of the Final Drawings by initialing each sheet of the Final Drawings and delivering to one another a true and complete copy of such initialed Final Drawings (the "Approved Final Drawings"). A true and complete copy of the Approved Final Drawings shall be executed or initialed by each of the parties, as soon as practicable thereafter. Any changes or revisions to the Approved Final Drawings requested by Tenant must first be approved by Landlord, which approval shall not be unreasonably withheld, subject to the provisions of Section 3 above. If Landlord approves such requested changes or revisions. Landlord shall cause the Approved Final Drawings and Construction Estimate to be revised accordingly and Landlord and Tenant shall initial each sheet of the Approved Final Drawings as revised. Landlord and Tenant hereby covenant to each other to cooperate with each other and to act reasonably in the preparation and approval of the Final Drawings and the Approved Final Drawings.

5. Performance of Work. As soon as practicable after Tenant and Landlord initial a true and complete copy of the Approved Working Drawings, Landlord shall submit the Approved Working Drawings to the governmental authorities having rights of approval over the Tenant Improvements and shall apply for the necessary approvals and building permits. As soon as practicable after Landlord or its representatives have received all necessary approvals and building permits,. The Tenant Improvements shall be constructed by OPI Commercial Builders a general contractor selected by Landlord (the "General Contractor"). Landlord shall commence construction, or cause the commencement of construction by the General Contractor, of the Tenant Improvements, as soon as practicable after selection of the General Contractor.

6. Substantial Completion. Landlord and Tenant shall cause the General Contractor to Substantially Complete (defined below) the Tenant Improvements in accordance with the Approved Working Drawings and Construction Estimate within a commercially reasonable time with the intention to attempt to complete such improvements by the anticipated Rent Commencement Date of the Lease as set forth in the Lease (the "Completion Date"), subject to delays due to (a) acts or events beyond its control including, but not limited to, acts of God, earthquakes, strikes, lockouts, boycotts, casualties, discontinuance of any utility or other service required for performance of the Tenant Improvements, moratoriums, governmental agencies, delays on the part of governmental agencies and weather, (b) the lack of availability or shortage of specialized materials used in the construction of the Tenant Improvements, (c) any matters beyond the control of Landlord, the General Contractor or any subcontractors, (d) any changes required by the fire department, building and/or planning department, building inspectors or any other agency having jurisdiction over the Building, and/or the Tenant Improvements (except to the extent such changes are directly attributable to Tenant's use or Tenant's specialized tenant improvements, in which event such delays are considered Tenant Delays) (the events and matters set forth in Subsections (a), (b), (c) and (d) are collectively referred to as "Force Majeure Delays"), or (e) any Tenant Delays (defined in Section 6 below). The Tenant Improvements shall be deemed substantially complete on the date that the building officials of the applicable governmental agency(s) issues its final approval of the construction of the Tenant Improvements whether in the form of the issuance of a final permit, certificate of occupancy or the written approval evidencing its final inspection on the building permit(s) ("Substantial Completion", or Substantially Completed", or "Substantially Complete"). Tenant hereby acknowledges and agrees that the term "Substantial Completion" of the Tenant Improvements as used herein will not include the completion of any work associated with Tenant's Installations, including without limitation, Tenant's high-pile storage requirements, Tenant's racking systems, and work related to any requirements of governmental and regulatory agencies with respect to any of Tenant's Installations. If the Tenant Improvements are not deemed to be Substantially Completed on or before the scheduled Completion Date, (i) Landlord agrees to use reasonable efforts to Substantially Complete the Tenant Improvements as soon as practicable thereafter, (ii) the Lease shall remain in full force and effect, (iii) Landlord shall not be deemed to be in breach or default of the Lease or this document as a result thereof and Landlord shall have no liability to Tenant as a result of any delay in occupancy (whether for damages, abatement of all or any portion of the Rent, or otherwise), and (iv) except in the event of any Tenant Delays, which will not affect the Rent Commencement Date (i.e., the Rent Commencement Date shall occur on the date it would have otherwise occurred without any Tenant Delays) but will extend the Completion Date without any penalty or liability to Landlord, the Rent Commencement Date and the Expiration Date of the Term of the Lease (as defined in the Lease) shall be extended commensurately by the amount of time attributable to Force Majeure Delays (but the Rent Commencement Date and Expiration Date shall not be extended due to any Tenant Delays). Landlord and Tenant shall execute a written amendment to the Lease evidencing such extensions of time.

7. Tenant Delays. There shall be no extension of the intended (and therefore actual) Rent Commencement Date or Expiration Date of the Term of the Lease (as otherwise permissibly extended in accordance with the provisions of Section 5 above) if the Tenant Improvements have not been Substantially Completed by the scheduled Rent Commencement Date due to any delay attributable to Tenant and/or any of the Tenant Entities or Tenant's intended use of the Premises (collectively, "Tenant Delays"), including, but not limited to, any of the following described events or occurrences: (a) delays related to changes made or requested by Tenant to the Tenant Improvements and/or the Approved Working Drawings; (b) the failure of Tenant to furnish all or any plans, drawings, specifications, finish details or other information required under Section 3 above; (c) Tenant's requirements for special work or materials, finishes, or installations other than as set forth on the Final Space Plan or Tenant's requirements for special construction or phasing; (d) any changes required by the fire department, building or planning department, building inspectors or any other agency having jurisdiction over the Building and/or the Tenant Improvements if such changes are directly attributable to Tenant's particular use or Tenant's specialized tenant improvements; (e) the completion of any work associated with Tenant's Installations, including without limitation, Tenant's high-pile storage requirements, Tenant's racking systems, and work related to any requirements of governmental and regulatory agencies with respect to any of Tenant's

Installations; (f) the performance of any additional work pursuant to a change request that is requested by Tenant; (g) the performance of work in or about the Premises by any person, firm or corporation employed by or on behalf of Tenant, including, without limitation, any failure to complete or any delay in the completion of such work; and/or (h) any and all delays caused by or arising from acts or omissions of Tenant and/or the Tenant Entities, in any manner whatsoever, including, but not limited to, any and all revisions to the Approved Working Drawings. Any delays in the construction of the Tenant Improvements due to any of the events described above, shall in no way extend or affect the date on which Tenant is required to commence paying Rent under the terms of the Lease and the Rent Commencement Date of the Lease shall occur as if such delays had not occurred and in such event Tenant shall not be allowed to actually occupy the Premises until Substantial Completion of the Tenant Improvements notwithstanding that the Rent Commencement Date has begun. It is the intention of the parties that all of such delays set forth in this Section 6 will be considered Tenant Delays for which Tenant shall be wholly and completely responsible for any and all consequences related to such delays, including, without limitation, any costs and expenses attributable to increases in labor or materials and Tenant shall pay to Landlord, within ten (10) business days following written demand therefor, all costs and expenses arising from or related to such Tenant Delays.

8. Tenant Improvement Costs. The Tenant Improvements' cost (the "Tenant Improvement Costs") shall mean and include any and all costs and expenses of the Work, including, without limitation, all of the following:

(a) All costs of preliminary space planning and final architectural and engineering plans and specifications (including, without limitation, the scope of work, all plans and specifications, the Initial Plans, the Final Drawings and the Approved Final Drawings) for the Tenant Improvements, and architectural fees, engineering costs and fees, and other costs associated with completion of said plans;

(b) All costs of obtaining building permits and other necessary authorizations and approvals from the city in which the Premises are located and other applicable agencies and jurisdictions;

(c) All costs of interior design and finish schedule plans and specifications including as-built drawings;

(d) All direct and indirect costs of procuring, constructing and installing the Tenant Improvements in the Premises, including, but not limited to, the construction fee for overhead and profit, the cost of all on-site supervisory and administrative staff, office, equipment and temporary services rendered by Landlord's consultants and the General Contractor in connection with construction of the Tenant Improvements, and all labor (including overtime) and materials constituting the Work: and

(e) All fees payable to the General Contractor, architect and Landlord's engineering firm if they are required by Tenant to redesign any portion of the Tenant Improvements following Tenant's approval of the Approved Final Drawings.

(f) A construction management fee payable to Landlord in the amount of two percent (2%) of the aggregate of the amount of the Tenant Improvement Cost (the "CM Fee").

9. Excess Tenant Improvement Costs. The term "Excess Tenant Improvement Costs" as used herein shall mean and refer to the aggregate of (i) all costs related to any and all Change Requests/Change Orders, and (ii) all extra costs incurred as a result of Tenant Delays, set forth in Section 7 above. Tenant shall faithfully pay all of the Excess Tenant Improvement Costs to Landlord, in cash, within thirty (30) days of Landlord's delivery to Tenant of a written demand therefor together with a reconciliation of such costs. Landlord need not perform any work for which Excess Tenant Improvement Costs is payable by Tenant until Landlord has received the money for such work. If Tenant fails to remit the sums so demanded by Landlord pursuant to Section 8 above and this Section 9 within the time periods required. Landlord may, at its option, declare Tenant in default under the Lease.

10. Change Requests. No changes or revisions to the Approved Final Drawings shall be made by either Landlord or Tenant unless approved in writing by both parties. Upon Tenant's request and submission by Tenant (at Tenant's sole cost and expense) of the necessary information and/or plans and specifications for any changes or revisions to the Approved Final Drawings and/or for any work other than the Work described in the Approved Final Drawings ("Change Requests") and the approval by Landlord of such Change Request(s), which approval Landlord agrees shall not be unreasonably withheld. Landlord shall perform the additional work associated with the approved Change Request(s). at Tenant's sole cost and expense, subject, however, to the following provisions of this Section 10. Prior to commencing any additional work related to the approved Change Request(s), Landlord shall submit to Tenant a written statement of the cost of such additional work and a proposed tenant change order therefor ("Change Order") in the standard form then in use by Landlord. Tenant shall execute and deliver to Landlord such Change Order and shall pay the entire cost of such additional work in the following described manner. Any costs related to such approved Change Request(s), Change Order and any delays associated therewith, shall be added to the Tenant Improvement Costs and Construction Estimate and shall be paid for by Tenant as and with any Excess Tenant Improvement Costs as set forth in Section 9 above. The billing for such additional costs to Tenant shall be accompanied by evidence of the amounts billed as is customarily used in the business. Costs related to approved Change Requests and Change Orders shall include without limitation, any architectural or design fees, Landlord's construction fee for overhead and profit, the cost of all on-site supervisory and administrative staff, office, equipment and temporary services rendered by Landlord and/or Landlord's consultants, and the General Contractor's price for effecting the change. If Tenant fails to execute or deliver such Change Order, or to pay the costs related thereto, then Landlord shall not be obligated to do any additional work related to such approved Change Request(s) and/or Change Orders, and Landlord may proceed to perform only the Work, as specified in the Approved Final Drawings. Landlord shall equitably adjust the amount of the Tenant Improvement Costs for any deletions in the scope of the Work.

11. Termination. If the Lease is terminated prior to the Completion Date, for any reason due to the default of Tenant hereunder, in addition to any other remedies available to Landlord under the Lease, Tenant shall pay to Landlord as Additional Rent under the Lease, within five (5) days of receipt of a statement therefor, any and all costs incurred by Landlord and not reimbursed or otherwise paid by Tenant through the date of termination in connection with the Tenant Improvements to the extent planned, installed and/or constructed as of such date of termination, including, but not limited to. any costs related to the removal of all or any portion of the Tenant Improvements and restoration costs related thereto. Subject to the provisions of the Lease, upon the expiration or earlier termination of the Lease, Tenant shall not

be permitted to remove the Tenant Improvements it being the intention of the parties that the Tenant Improvements are to be considered incorporated into the Building. From and after the date on which the Lease is terminated, Tenant and Landlord shall have no further rights, obligations or claims with respect to each other arising from the Lease, except for those obligations of Tenant under the Lease which expressly survive and continue after the termination or expiration of the Lease.

12. Tenant Access. Landlord shall grant Tenant a license to have access to the Premises four (4) weeks prior to the Completion Date to allow Tenant to do other work required by Tenant to make the Premises ready for Tenant's use and occupancy (the "Tenant's Pre-Occupancy Work"). It shall be a condition to the grant by Landlord and continued effectiveness of such license that;

(a) Tenant shall give to Landlord a written request to have such access not less than five (5) business days prior to the date on which such proposed access will commence (the "Access Notice"). The Access Notice shall contain or be accompanied by each of the following items, all in form and substance reasonably acceptable to Landlord: (i) a detailed description of and schedule for Tenant's Pre-Occupancy Work; (ii) the names and addresses of all contractors, subcontractors and material suppliers and all other Tenant Entities who or which will be entering the Premises on behalf of Tenant to perform Tenant's Pre-Occupancy Work or will be supplying materials for such work, and the approximate number of individuals, itemized by trade, who will be present in the Premises; (iii) copies of all contracts, subcontracts, material purchase orders, plans and specifications pertaining to Tenant's Pre-Occupancy Work; (iv) copies of all licenses and permits required in connection with the performance of Tenant's Pre-Occupancy Work; (v) certificates of insurance (in amounts satisfactory to Landlord and with the parties identified in, or required by the Lease named as additional insureds) and instruments of indemnification against all claims, costs, expenses, penalties, fines, and damages which may arise in connection with Tenant's Pre-Occupancy Work; and (vi) assurances of the ability of Tenant to pay for all of Tenant's Pre-Occupancy Work and/or a letter of credit or other security deemed reasonably appropriate by Landlord securing Tenant's lien-free completion of Tenant's Pre-Occupancy Work.

(b) Such pre-term access by Tenant and Tenant Entities shall be subject to scheduling by Landlord.

(c) Tenant Entities shall fully cooperate, work in harmony and not, in any manner, interfere with Landlord or Landlord's agents or representatives in performing the Tenant Improvements and any additional work. Landlord's work in other areas of the Building or the Industrial Center, or the general operation of the Building. If at any time any such person representing Tenant shall not be cooperative or shall otherwise cause or threaten to cause any such disharmony or interference, including, without limitation, labor disharmony, and Tenant fails to immediately institute and maintain corrective actions as directed by Landlord, then Landlord may revoke such license upon twenty-four (24) hours' prior written notice to Tenant.

(d) Any such entry into and occupancy of the Premises or any portion thereof by Tenant or any person or entity working for or on behalf of Tenant shall be deemed to be subject to all of the terms, covenants, conditions and provisions of the Lease, excluding only the covenant to pay Rent. Landlord shall not be liable for any injury, loss or damage that may occur to any of Tenant's Pre-Occupancy Work made in or about the Premises or to any property placed therein prior to the commencement of the Term of the Lease, the same being at Tenant's sole risk and liability. Tenant shall be liable to Landlord for any damage to any portion of the Premises, the Tenant improvements or any additional work caused by Tenant or Tenant Entities. In the event that the performance of Tenant's Pre-Occupancy Work causes extra costs to be incurred by Landlord or requires the use of other Building services, Tenant shall promptly reimburse Landlord for such extra costs and/or shall pay Landlord for such other Building services at Landlord's standard rates then in effect.

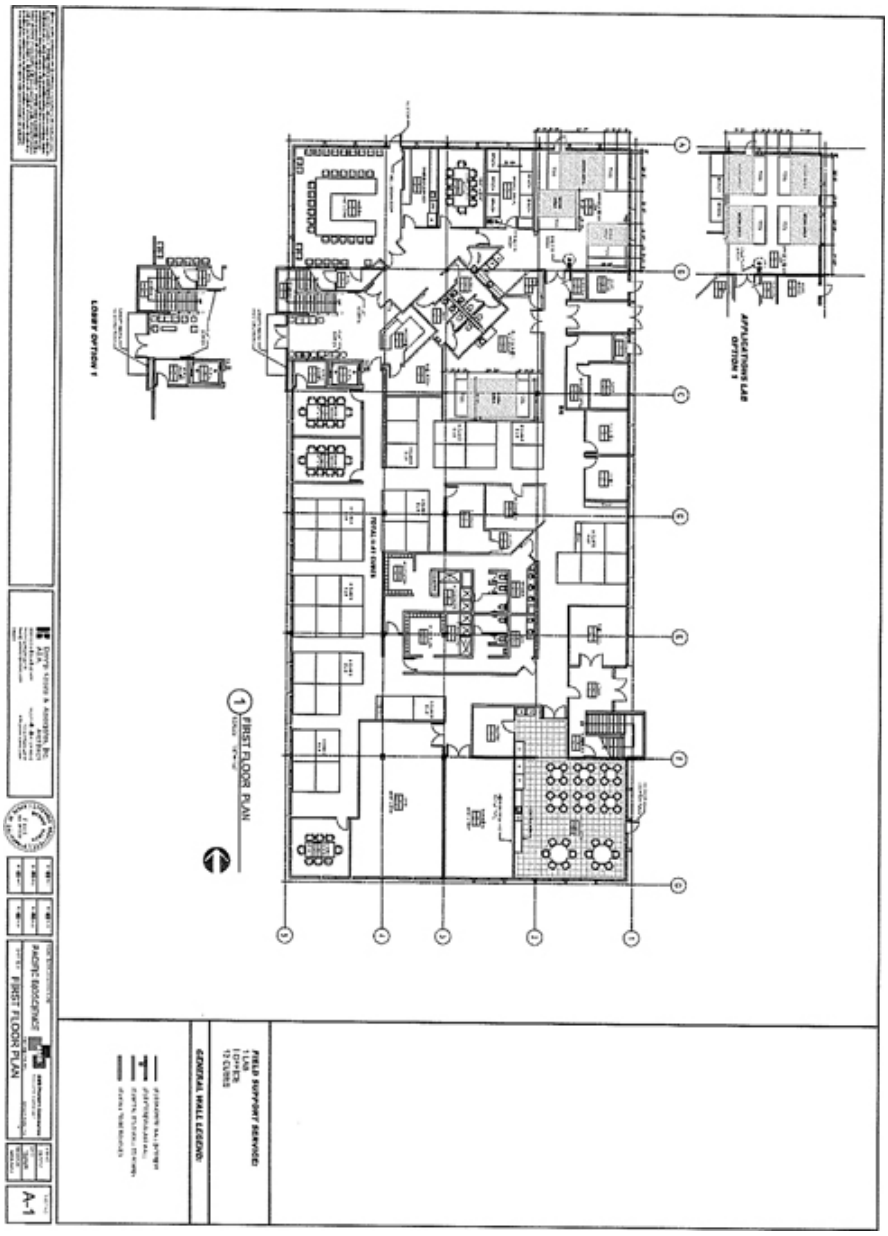
13. Tenant's Representative. Tenant has designated Carol Tillis, as its sole representative with respect to the matters set forth in this Exhibit F, who shall have full authority and responsibility to act on behalf of the Tenant as required in this Exhibit F.

14. Landlord's Representative. Landlord has designated Scott Swenson as its sole representative with respect to the matters set forth in this Exhibit F, who, until further notice to Tenant, shall have full authority and responsibility to act on behalf of the Landlord as required in this Exhibit F.

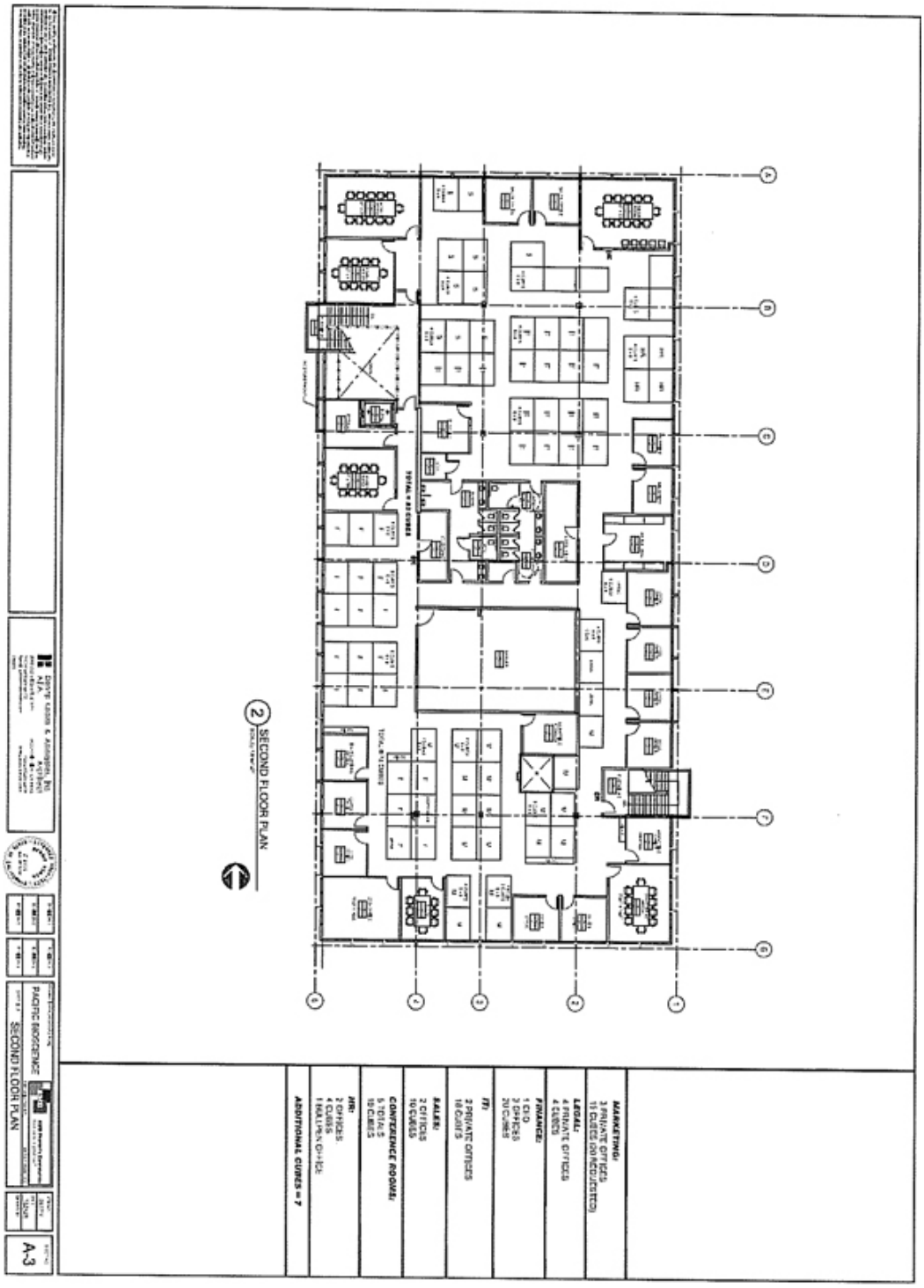
15. Time of the Essence. Unless otherwise indicated, all references herein to a "number of days" shall mean and refer to calendar days. In all instances where Tenant is required to approve or deliver an item, if no written notice of approval is given or the item is not delivered within the stated time period, at Landlord's sole option, at the end of said period the item shall automatically be deemed approved or delivered by Tenant and the next succeeding time period shall commence.

16. Lease Provisions; Conflict. The terms and provisions of the Lease, insofar as they are applicable, in whole or in part, to this document, are hereby incorporated herein by reference. In the event of any conflict between the terms of the Lease and this document, the terms of this document shall prevail. Any amounts payable by Tenant to Landlord hereunder shall be deemed to be Additional Rent under the Lease and, upon any default in the payment of same, Landlord shall have all rights and remedies available to it as provided for in the Lease.

Exhibit F-1
Initial Plans
First Floor



Initial Plans
Second Floor



Addendum 1
Option to Extend

This Addendum I (the "Addendum") is incorporated as a part of that certain Industrial Lease dated February 8. 2010 (the "Lease"), by and between AMB Property. L.P., a Delaware limited partnership ("Landlord"), and Pacific Biosciences of California, Inc., a Delaware corporation dba Pac Bio, Inc. ("Tenant"), for the leasing of those certain premises commonly known as 1380 Willow Road, Menlo Park, California, as more particularly described in **Exhibit A** to the Lease (the "Premises"). Any capitalized terms used herein and not otherwise defined herein shall have the meaning ascribed to such terms as set forth in the Lease.

1. Grant of Extension Option. Subject to the provisions, limitations and conditions set forth in Paragraph 5 below, Tenant shall have an Option ("Option") to extend the initial Term of the Lease for a three (3) year period ("Extended Term").

2. Tenant's Option Notice. Tenant shall have the right to deliver written notice to Landlord of its intent to exercise this Option (the "Option Notice"). If Landlord does not receive the Option Notice from Tenant on a date which is neither more than three hundred sixty five (365) days nor less than two hundred forty (240) days prior to the end of the initial Term of the Lease, all rights under this Option shall automatically terminate and shall be of no further force or effect. Upon the proper exercise of this Option, subject to the provisions, limitations and conditions set forth in this Addendum, the initial Term of the Lease shall be extended for the Extended Term.

3. Determination of the Option Rent.

A. The Base Rent payable for each month during the Extended Term shall be set at ninety-five percent (95%) of the then-prevailing fair market rental rate (the "**Prevailing Rental Rate**") for renewals of space of equivalent quality, type, size and location in comparable R&D buildings in Menlo Park, with the length of the Extended Term, the credit standing of Tenant, tenant improvement allowances then being granted in the marketplace and other market rent concessions then being offered in the marketplace to be taken into account. The Prevailing Rental Rate shall include the periodic rental increases, if any, that would be included for space leased for the period the Premises will be covered by the Lease. As used herein, "**then-prevailing**" shall mean the time period which is six (6) months prior to the commencement of the Extended Term and not the commencement date of the Extended Term. Within thirty (30) days after receipt of Tenant's notice to renew, Landlord shall deliver to Tenant written notice of Landlord's determination of the Prevailing Rental Rate and shall advise Tenant of the required adjustment to Base Rent, if any, and the other terms and conditions offered. Tenant shall, within ten (10) days after receipt of Landlord's notice, time being of the essence with respect thereto, notify Landlord in writing whether Tenant accepts or rejects Landlord's determination of the Prevailing Rental Rate.

B. If Tenant rejects Landlord's determination of the Prevailing Rental Rate, Tenant's written notice shall include Tenant's own determination of the Prevailing Rental Rate. If Tenant does not deliver any written notice to Landlord within ten (10) days after receipt of Landlord's notice of the Prevailing Rental Rate, Tenant shall be deemed to have withdrawn its exercise of its rights under this Addendum, whereupon Tenant's rights under this Addendum shall be null and void and of no further force or effect. If Tenant and Landlord disagree on the Prevailing Rental Rate, then Landlord and Tenant shall attempt in good faith to agree upon the Prevailing Rental Rate. If by that date which is four (4) months prior to the commencement of the Extended Term (the "**Option Trigger Date**"), Landlord and Tenant have not agreed in writing as to the Prevailing Rental Rate, the parties shall determine the Prevailing Rental Rate in accordance with the procedure set forth in Paragraph C below.

C. If Landlord and Tenant are unable to reach agreement on the Prevailing Rental Rate by the Option Trigger Date, then within ten (10) days of the Option Trigger Date, Landlord and Tenant shall each simultaneously submit to the other in a sealed envelope its good faith estimate of the Prevailing Rental Rate. If either Landlord or Tenant fails to propose a Prevailing Rental Rate, then the Prevailing Rental Rate proposed by the other party shall prevail. If the higher of such estimates is not more than one hundred five percent (105%) of the lower, then the Prevailing Rental Rate shall be the average of the two. Otherwise, the dispute shall be resolved by arbitration in accordance with the remainder of this Paragraph C. Within seven (7) days after the exchange of estimates, (The parties shall select as an arbitrator a licensed real estate broker with at least ten (10) years of experience leasing premises in Class A office buildings in Central San Mateo County (a "**Qualified Arbitrator**"). If the parties cannot agree on a Qualified Arbitrator, then within a second period of seven (7) days, each shall select a Qualified Arbitrator and within ten (10) days thereafter the two appointed Qualified Arbitrators shall select a third Qualified Arbitrator (which third Qualified Arbitrator shall not previously have represented either party hereto) and the third Qualified Arbitrator shall be the sole arbitrator (the "Sole Arbitrator"). If one party shall fail to select a Qualified Arbitrator within the second seven (7)-day period, then the Qualified Arbitrator chosen by the other party shall be the Sole Arbitrator. Within thirty (30) days after submission of the matter to the Sole Arbitrator, the Sole Arbitrator shall determine the Prevailing Rental Rate by choosing whichever of the estimates

submitted by Landlord and Tenant the Sole Arbitrator judges to be more accurate. The Sole Arbitrator shall notify Landlord and Tenant of his or her decision, which shall be final and binding. If the Sole Arbitrator believes that expert advice would materially assist him or her, the Sole Arbitrator may retain one or more qualified persons to provide expert advice. The fees of the arbitrator selected by each party shall be borne by that party. The fees of the Sole Arbitrator and the expenses of the arbitration proceeding, including the fees of any expert witnesses retained by the Sole Arbitrator, shall be shared equally by Landlord and Tenant.

D. If Tenant timely notifies Landlord that Tenant accepts Landlord's determination of the Prevailing Rental Rate, or following resolution of the Prevailing Rental Rate via mutual agreement or via arbitration, whichever shall be applicable, then, on or before the commencement date of the Extended Term, Landlord and Tenant shall execute an amendment to this Lease prepared by Landlord extending the Term on the same terms provided in this Lease, except as follows:

(i) Base Rent shall be adjusted to ninety-five percent (95%) of the Prevailing Rental Rate (which shall be the rental rate set forth in Landlord's determination of the Prevailing Rental Rate, the rental rate determined by mutual agreement or the Prevailing Rental Rate determined by arbitration, as the case may be, but in no event less than the Base Rent payable by Tenant immediately prior to the expiration of the initial Term of this Lease);

(ii) Tenant shall have no further renewal option unless expressly granted by Landlord in writing; and

(iii) Landlord shall lease the Premises to Tenant in their then-current condition, and Landlord shall not provide to Tenant any allowances (e.g., improvement allowance) or other tenant inducements, or pay any leasing commissions.

E. Tenant's rights under this Addendum shall terminate if (1) this Lease or Tenant's right to possession of the Premises is terminated, (2) Tenant assigns any of its interest in this Lease or sublets any portion of the Premises, or (3) Tenant fails to timely exercise its option under this Addendum, time being of the essence with respect to Tenant's exercise thereof. Tenant shall have no other right to extend the Term of the Lease under this Addendum unless Landlord and Tenant otherwise agree in writing.

4. <u>Condition of Premises for the Extended Term</u>. If Tenant timely and properly exercises this Option, in strict accordance with the terms contained herein, Tenant shall accept the Premises in its then "As-Is" condition and, accordingly, Landlord shall not be required to perform any additional improvements to the Premises. Tenant shall not be responsible for brokerage commissions payable to a broker procured or hired by Tenant in connection with the Option if Landlord has agreed in writing to pay such commission.

5. <u>Limitations On, and Conditions To, Extension Option</u>. This Option is personal to Tenant and may not be assigned, voluntarily or involuntarily, separate from or as part of the Lease. At Landlord's option, all rights of Tenant under this Option shall terminate and be of no force or effect if any of the following individual events occur or any combination thereof occur: (1) Tenant has been in default at any time during the initial Term of the Lease, or is in default of any provision of the Lease on the date Landlord receives the Option Notice; and/or (2) Tenant has assigned its rights and obligations under all or part of the Lease or Tenant has subleased all or part of the Premises; and/or (3) Tenant's financial condition is unacceptable to Landlord at the time the Option Notice is delivered to Landlord; and/or (4) Tenant has failed to exercise properly this Option in a timely manner in strict accordance with the provisions of this Addendum; and/or (5) Tenant no longer has possession of all or any part of the Premises under the Lease, or if the Lease has been terminated earlier, pursuant to the terms and provisions of the Lease.

6. <u>Time is of the Essence</u>. Time is of the essence with respect to each and every time period described in this Addendum.

Addendum 2
Right of First Offer

This Addendum 2 ("Addendum 2") is incorporated as a part of that certain Industrial Lease dated February 8, 2010 (the "Lease"), by and between AMB Property L.P., a Delaware limited partnership ("Landlord"), and Pacific Biosciences of California, Inc., a Delaware corporation dba Pac Bio, Inc. ("Tenant"), for the leasing of those certain premises commonly known as 1380 Willow Road, Menlo Park, California, as more particularly described in **Exhibit A** to the Lease (the "Premises"). Any capitalized terms used herein and not otherwise defined herein shall have the meaning ascribed to such terms as set forth in the Lease.

During the first three (3) years of the initial Term of the Lease only, Tenant shall have a right of first offer to lease (the "Offer") one or more of the following premises: (a) the entire building located at 1003-1005 Hamilton Court consisting of 54,586 rentable square feet (but not less than all 54,586 rentable square feet); and (b) 1010-1024 Hamilton Court consisting of 21,240 rentable square feet (but not less than all 21,240 rentable square feet) (each, an "Expansion Space" and collectively, "Expansion Spaces"). A description of each of the Expansion Spaces is attached hereto and incorporated herein by this reference as Schedule 1 to this Addendum 2. Tenant's Right of First Offer, as granted herein, is subject to the following conditions:

i. The Right of First Offer shall be void if, at the time of exercise of the Right of First Offer, Tenant is then currently in Default under the Lease beyond the expiration of applicable cure periods;

ii. The Right of First Offer shall be void if there has occurred a material and adverse change to Tenant's financial condition;

iii Landlord shall only be required to lease the Expansion Spaces to Tenant on such terms and conditions as are satisfactory to Landlord, in Landlord's sole discretion;

iv. The Right of First Offer is subject to the rights and options of the existing tenant, Conor Medsystems (and its successors and assigns), presently occupying the Expansion Spaces; provided. Landlord agrees to notify Tenant in writing in the event Landlord receives a written offer to lease either of the Expansion Spaces during the period of time that an Expansion Space remains subject to the rights and options of the existing tenant (and its successors and assigns) and such written notice shall be deemed a "Landlord's Notice" (defined below) and all of the terms and conditions of this Addendum 2 shall be deemed applicable to such prospective lease by Tenant of an Expansion Space, including but not limited to (a) Tenant's delivery of the Election Notice within five (5) business days following the delivery by Landlord of Landlord's Notice and (b) the leasing of such Expansion Spaces shall be on terms satisfactory to Landlord, in Landlord's sole discretion: provided, further, the term of the lease with respect to such Expansion Space shall not commence until the rights and options of the existing tenant (and its successors and assigns) with respect to such Expansion Space have expired or terminated, and such tenant(s) has fully vacated and surrendered such Expansion Space; and

v. The Right of First Offer is a one-time right with respect to each Expansion Space and not a continuing right. For example, if an Offer refers to the Expansion Space at 1003-1005 Hamilton Court, and Tenant does not deliver an Election Notice to Landlord for such Expansion Space, Landlord shall no longer be obligated to re-offer such Expansion Space at 1003-1005 Hamilton Court but Tenant's Right of First Offer shall remain in effect and valid with respect to the Expansion Space located at 1010 – 1024 Hamilton Court.

So long as the above conditions are satisfied, in the event any of the Expansion Spaces become vacant and Landlord desires to lease such Expansion Space(s), Landlord shall notify Tenant thereof in writing and shall include therein the terms and conditions upon which Landlord is then willing to lease the Expansion Space(s) to Tenant ("Landlord's Notice"). Tenant shall have five (5) business days after delivery of such notice to notify Landlord, in writing (the "Election Notice"), of Tenant's election to lease the Expansion Space(s) referenced in Landlord's Notice upon the terms and conditions set forth in Landlord's Notice. If Tenant elects not to lease all of such Expansion Space(s) so referenced or Tenant fails to notify Landlord of Tenant's election to lease all such Expansion Space(s) within the time specified herein, it shall be deemed that (i) Tenant has elected not to lease said Expansion Space(s); (ii) Landlord may thereafter market such Expansion Space(s) to third parties; and (iii) all rights of Tenant in and to this Right of First Offer shall terminate and thereafter be of no further force or effect with respect to such referenced Expansion Space(s). Time is of the essence herein.

In the event Tenant properly and timely exercises this Right of First Offer as herein provided, Tenant shall deliver to Landlord a non-refundable deposit in the amount equivalent to one month's Base Rent for the Expansion Space(s), and the parties shall have ten (10) working days after Landlord receives the Election Notice from Tenant in which to execute an amendment to this Lease setting forth the agreed-upon terms. Such amendment to this Lease, shall provide for, among other things, the addition of the applicable Expansion Space(s) to the Premises, the adjustment of the Base Rent and the

percentage of Tenant's Share. Upon full execution of an amendment for such Expansion Space(s), the non-refundable deposit shall be credited toward Base Rent for such Expansion Space(s), as agreed upon by the parties. If the parties fail to timely execute and deliver such amendment, Landlord shall retain the non-refundable deposit and Tenant shall have no rights, title or interest therein. Notwithstanding the foregoing, Landlord shall (a) return to Tenant the non-refundable deposit if in the amendment to the Lease Landlord solely (and without Tenant's consent or approval) deviates from the terms proposed by Landlord for the leasing of the applicable Expansion Space(s) to Tenant as set forth in Landlord's Notice and (b) be obligated to return the non-refundable deposit if Landlord's failure to execute and deliver the amendment is due to Landlord's default under this Addendum 2.

The Right of First Offer shall terminate and be of no force or effect if, at any time, (i) Tenant is in Default under this Lease beyond the expiration of applicable cure periods or (ii) the Lease has been assigned or the Premises are being subleased, except in each case to an Affiliate, at the time the Right of First Offer is offered to Tenant. The Right of First Offer is personal to Tenant and may not be assigned, voluntarily or involuntarily, separate from or as a part of the Lease, except to an Affiliate. If Tenant does not timely and properly elect to exercise the Right of First Offer granted herein with respect to an offered Expansion Space, based upon the terms proposed by Landlord as set forth in Landlord's Notice, all rights, title and interest of Tenant in and to the Right of First Offer with respect to such Expansion Space shall terminate and be of no further force or effect.

Exhibit 21.1

SUBSIDIARIES OF PACIFIC BIOSCIENCES OF CALIFORNIA, INC.

Pacific Biosciences International, LLC

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the use in this Registration Statement on Form S-1 of our report dated August 16, 2010 relating to the financial statements of Pacific Biosciences of California, Inc., which appears in such Registration Statement. We also consent to the reference to us under the heading “Experts” in such Registration Statement.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
San Jose, California
August 16, 2010

August 16, 2010

VIA EDGAR

Securities and Exchange Commission
Division of Corporation Finance
100 F Street, N.E.
Washington, D.C. 20549

Re: Pacific Biosciences of California, Inc.—Registration Statement on Form S-1 (the "Registration Statement")

Ladies and Gentlemen:

On behalf of Pacific Biosciences of California, Inc., a Delaware corporation (the "**Company**"), pursuant to the Securities Act of 1933, as amended (the "**Act**"), and Regulation S-T promulgated thereunder, we hereby transmit for filing via EDGAR the Company's Registration Statement on Form S-1, together with certain exhibits thereto. The Registration Statement registers shares of the Company's common stock to be offered in an initial public offering by the Company. Manually executed signature pages and consents have been signed prior to the time of this electronic filing and will be retained by the Company for five years. Pursuant to Rule 457(o), the Company has computed the fee due on the basis of the maximum aggregate offering price. Pursuant to Rule 13(c) of Regulation S-T, a wire transfer in the amount of $14,260 was submitted to the Commission's lock-box in connection with this filing.

We respectfully request that you provide us with a letter of comments respecting the Registration Statement at your earliest convenience.

Pursuant to Rule 461(a) of Regulation C under the Act, on behalf of the Company and the managing underwriters named in the section "**Underwriters**" of the prospectus included within the Registration Statement, the Company and such managing underwriters inform the staff of the Securities and Exchange Commission that the Company may orally request acceleration of the effective date of the Registration Statement and that the Company and such underwriters are aware of their respective obligations under the Act.

Should you have any questions or comments, please do not hesitate to contact Donna M. Petkanics or me at (650) 493-9300.

Very truly yours,

WILSON SONSINI GOODRICH & ROSATI
Professional Corporation

/s/ Glenn J. Luinenburg
Glenn J. Luinenburg

cc: Hugh C. Martin
Matthew B. Murphy
Pacific Biosciences of California, Inc.

Alan F. Denenberg
Davis Polk & Wardwell LLP