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

Form 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2010

Or

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

For the transition period from to

Commission File Number 001-34899

Pacific Biosciences of California, Inc.
(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**16-1590339** **(I.R.S. Employer Identification No.)**
1380 Willow Road **Menlo Park, CA 94025** **(Address of principal executive offices)**	**94025** **(Zip Code)**

(Registrant's telephone number, including area code)

(650) 521-8000

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $0.001 per share	**The NASDAQ Stock Market LLC**

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

None

Indicate by check mark if the registrant is a well-known, seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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	☐

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

As of June 30, 2010, the last business day of the registrant's most recently completed second fiscal quarter, the registrant's common stock was not publicly traded. The registrant's common stock began trading on the NASDAQ Global Select Market on October 27, 2010. As of December 31, 2010, the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $472.6 million, based on the closing price of the registrant's common stock on the NASDAQ Global Select Market on December 31, 2010.

Number of shares outstanding of the issuer's common stock as of February 28, 2011: 52,895,638

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the registrant's definitive Proxy Statement relating to its 2011 Annual Meeting of Stockholders to be held on June 23, 2011 are incorporated by reference into Part III of this Form 10-K where indicated. Such Proxy Statement will be filed with the U.S. Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates.

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Pacific Biosciences of California, Inc.

Annual Report on Form 10-K

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

Discussions under the captions "Business," "Risk Factors," and "Management's Discussion and Analysis of Financial Condition and Results of Operations" contain or may contain forward-looking statements that are based on our management's beliefs and assumptions and on information currently available to our management. The statements contained in this Annual Report on Form 10-K that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such statements may be signified 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. Factors that could cause or contribute to such differences include, but are not limited to, those discussed under the heading "Risk Factors" in this report and in other documents we file with the Securities and Exchange Commission ("SEC"). Given these risks and 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 report. 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.

PART I

ITEM 1. BUSINESS

Overview

We develop, manufacture and market an integrated platform for genetic analysis. We have developed a technology to study the synthesis and regulation of DNA. Combining recent advances in nanofabrication, biochemistry, molecular biology, surface chemistry and optics, we created a technology platform using our proprietary single molecule, real-time, or SMRT, technology. Our SMRT technology uses the natural processing power of enzymes, combined with specially designed reagents and detection systems, to record individual biochemical events as they occur. The ability to observe single molecule events in real time provides the scientific community with an advanced tool for investigating basic biochemical processes such as DNA synthesis. Our SMRT technology has the potential to advance scientific understanding by providing a window into biological processes that has not previously been open.

Our initial focus is on the DNA sequencing market where we have developed and introduced a third generation sequencing platform using our proprietary SMRT technology, the PacBio *RS*. The PacBio *RS* maintains many of the key attributes of currently available sequencing technologies while solving many of the inherent limitations of the first and second generation technologies, including short readlengths, limited flexibility, long time to result, complex sample preparation and risk of amplification bias. Our system provides long readlengths, flexibility in experimental design, fast time to result, and ease of use. The PacBio *RS* consists of an instrument platform that uses our proprietary consumables, which are currently comprised of our SMRT Cells and several chemical reagent kits used to format and sequence DNA samples. Our system is designed to be integrated into existing laboratory workflows and information systems. We have not yet generated revenue from our products and plan to commercially launch our first products during the second quarter of 2011.

We were 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.

The Underlying Science

Genetic inheritance in living systems is conveyed through a naturally occurring information storage system known as deoxyribonucleic acid, or DNA. DNA stores information in linear chains of the chemical bases adenine, cytosine, guanine and thymine, represented by the symbols, A, C, G and T. 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 messenger RNA, or mRNA. The mRNA are then translated into proteins by ribosomes. The resulting proteins go on to play crucial roles in cellular structure and function and thus the operation of biological systems.

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.

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 earlier studies 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.

Recent discoveries have highlighted additional complexities in the building blocks of DNA and RNA, including the presence of additional bases. It has long been known that in humans and many other multicellular organisms, the cytosine 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.

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: 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, the resulting 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.

First Generation Sequencing

First generation sequencing, also referred to as “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. In addition to adding time and complexity to the sample preparation process, the 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 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 of Sequencing Technology

We have developed a technology platform that enables single molecule, real-time, or SMRT, detection of biological processes. Based on our platform SMRT technology we have introduced a third generation DNA sequencing system, the PacBio *RS*, that addresses many of the limitations of the first and second generation technologies, by providing longer readlengths, increased flexibility, reduced time to result, high throughput, simplified sample preparation and elimination of amplification bias, and may also enable additional biological research, including kinetic detection, RNA transcription monitoring, RNA sequencing, protein translation and ligand binding. We refer to this new paradigm of study as SMRT Biology.

Pacific Biosciences' SMRT Technology

Our SMRT technology enables the observation of DNA synthesis as it occurs in real time by harnessing the natural process of DNA replication, which in nature is a highly efficient and accurate process actuated by 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.

To overcome the challenges inherent in observing the natural activity of the DNA polymerase, an enzyme that is 15 nanometers (nm) in diameter running in real time, we introduced 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 utilize our nanoscale innovation, the zero-mode waveguide, or ZMW.

A ZMW is a hole, tens of nanometers in diameter. 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 decays as it enters the ZMW. Therefore, by shining a laser 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 of the glass surface of the ZMW 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. 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 150,000 ZMWs. Each ZMW is capable of containing a DNA polymerase loaded with a different strand of DNA sample. Currently, our system can monitor 75,000 ZMWs simultaneously. The system can be set up to monitor the first set of 75,000 ZMWs on a SMRT Cell, then immediately shift to monitoring the second set of 75,000 ZMWs on the same SMRT Cell. As a result, the SMRT Cell enables the potential detection of approximately 150,000 single molecule sequencing reactions. Currently, our immobilization process randomly distributes polymerases into ZMWs across the SMRT Cell, resulting in approximately one-third of the ZMWs being available for use.

Phospholinked Nucleotides

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 an 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.

SMRT Sequencing Advantages

Sequencing based on our SMRT technology offers the following key benefits:

- ***Single molecule, real-time analysis*.** The ability to observe single molecules in real time combined with long readlength allows our system to observe structural and cell type variation that present challenges for existing short-read technologies. Unlike many other sequencing platforms, minimal amounts of reagent and sample preparation are required and there are no time-consuming flushing, scanning and washing steps.
- ***Longer readlengths.*** Our SMRT technology is designed to produce a distribution of readlengths with greater than 1,000 base pairs on average and 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. 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 observed in cancer.
- ***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, with target polymerase speeds of one to three bases per second, compared to existing technologies which often take multiple days to produce results. This fast time to result may have important implications for applications where speed is of critical importance such as 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 designed to be simple and fast. It can be used with a variety of sample types and can output a range of DNA lengths. The PacBio *RS* is equipped with a touchscreen interface that requires minimal user intervention. The data format has been designed to be compatible with standard informatics systems. We believe that these attributes will allow for easy training and rapid adoption at customer sites.
- ***Flexibility and granularity.*** The PacBio *RS* 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.
- ***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 nucleotides being added to a growing DNA strand, referred to as kinetics. It is well established in the scientific community that chemical modification of DNA such as the addition of a methyl group, known as methylation, can alter the biological activity of the affected nucleotide. The PacBio *RS* detects changes in kinetics automatically by capturing and recording changes in the duration of, and distances between, each of the fluorescent pulses during a typical sequencing analysis. First and second generation sequencing systems are unable to accurately record this type of kinetic data because the "flush and scan" sequencing process disrupts the timing of the natural incorporation process.

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 necessitating changes to the hardware.

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 an instrument that conducts, monitors and analyzes biochemical sequencing reactions. The instrument is an integrated unit that includes high performance optics, automated liquid handling, a touchscreen control interface, a computational Blade Center and software. The instrument's high performance optics monitor the thousands of ZMWs in real time. The automated liquid handling robotics perform reagent mixing and prepare SMRT Cells. The instrument's touchscreen control interface, the *RS* Touch, is the user's primary control center to design and monitor experiments as they occur in real time. The Blade Center is the computational brain of the PacBio *RS*, responsible for the secondary processing of the sequencing data being produced on the SMRT Cells. The PacBio *RS* has been designed to allow for performance improvements without an upgrade or replacement of the instrument hardware.

Consumables

To run our PacBio *RS*, our customers must purchase our proprietary consumable products. 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.

We offer several reagent kits, each designed to address a specific step in the workflow. The Template Preparation Kit is used to convert DNA into our SMRTbell double-stranded DNA library format and therefore includes typical molecular biology reagents, such as ligase and restriction enzymes. The Binding Kit, which includes our modified DNA polymerase, 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.

Market Opportunity

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 a report commissioned on our behalf and conducted by Scientia Advisors, a life sciences consulting firm. The growth in this market is expected to be driven by increases in the demand for sequencing products from both research institutions and commercial companies, 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 contribute to and comprise an important facet of 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

We plan to execute the following strategy:

- ***Contribute to the future of biological analysis by offering differentiated products based on our proprietary SMRT technology.*** Our SMRT technology provides a window into biological processes that has not previously been available. The combination of our products' and underlying SMRT technology's ability to deliver long read lengths, high throughput and short time to result afford the scientific community a new tool to conduct research not possible with first and second generation sequencing instruments.
- ***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. We believe that the introduction of the PacBio *RS* will expand the market for genetic analysis tools.
- ***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. 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. 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 our secondary analysis algorithms are open source.

Marketing and Sales

We market our products through a direct sales force in North America and Europe and recently established a presence in Asia to service the Asia Pacific market. Our sales strategy involves the use of a combination of sales managers, sales representatives and field application specialists. As of December 31, 2010, we had eleven sales managers and sales representatives and ten 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, 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 are targeting customers that include genome centers, clinical, government and academic institutions, genomics service providers and agricultural companies. In general, our customers will isolate, prepare and analyze genetic samples using the PacBio *RS* in their own research labs to address their specific applications and scientific questions. For example, customers in academic research institutions may have DNA samples isolated from human cancer patients while AgBio companies may have DNA samples isolated from different strains of corn or other crops.

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. 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. During 2010, we shipped all eleven PacBio *RS* limited production release instruments During the LPR testing period, which we expect to last through the first quarter of 2011, we will work with these customers to obtain feedback and plan to incorporate relevant improvements into the commercial release version of the PacBio *RS*.

Backlog

As of December 31, 2010, our backlog was approximately $24.0 million, comprised of 38 systems, including PacBio *RS* limited production release instruments shipped in 2010. We define backlog as purchase orders or signed contracts from our customers which we believe are firm and for which we have not yet recognized revenue. We expect to deliver all orders in our backlog by December 31, 2011.

Manufacturing

Our principal 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.

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 December 31, 2010, we employed fourteen 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.

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. Research and development expense incurred for these activities was $111.8 million, $75.9 million and $38.0 million during 2010, 2009, and 2008, respectively.

We plan to continue investment 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 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.

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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. Some of the patents and applications that we own, as well as some of the patents and applications that we have licensed, are subject to U.S. government march-in rights, whereby the U.S. government may disregard our exclusive patent rights on its own behalf or on behalf of third parties by imposing licenses in certain circumstances, such as if we fail to achieve practical application of the U.S. government funded technology, because action is necessary to alleviate health or safety needs, to meet requirements of federal regulations, or to give preference to U.S. industry. In addition, U.S. government funded inventions must be reported to the government and U.S. government funding must be disclosed in any resulting patent applications.

As of December 31, 2010, we own or hold exclusive licenses to 55 issued U.S. patents, 135 pending U.S. patent applications, six granted foreign patents and 158 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, 19 issued U.S. patents, seven pending U.S. patent applications, one granted foreign patent and six 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. 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 December 31, 2010, we had 431 full-time employees. Of these employees, 217 were in research and development, 104 were in operations, 64 were in sales, marketing and service, and 46 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.

Available Information

Our web site is located at www.pacificbiosciences.com. The information posted on our web site is not incorporated into this Annual Report on Form 10-K. Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed or furnished pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge through the “Investors” section of our web site as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

ITEM 1A. RISK FACTORS

You should consider carefully the risks and uncertainties described below, together with all of the other information in this Annual Report on Form 10-K, which could materially affect our business, financial condition, results of operations and prospects. The risks described below are not the only risks facing us. Risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially affect our business, financial condition, results of operations and prospects.

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 to base our projected revenue. We have limited historical financial data upon which to base our planned operating expense or upon which to 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.

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 not generated 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. 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 are highly complex, with unknown support requirements.

In light of the 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 our products or obtain sufficient reliability for commercial launch. In addition, there can be no assurance that we will be able to successfully 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.

Our backlog 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 our products, 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. These new market opportunities may be outside the scope of our proven expertise or in areas which have unproven market demand, and new products and services developed by us may not gain market acceptance. 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 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 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.

We may be unable to develop our future commercial applications.

Our future business depends on our ability to execute on our plans to develop, manufacture, and market additional commercial applications of our SMRT technology, including SMRT Kinetic Detection, SMRT Transcription, SMRT RNA Sequencing, SMRT Translation and SMRT Ligand Binding. These future commercial applications will require significant investments of cash and resources and we may experience unexpected delays or difficulties that could postpone our ability to commercially launch these future applications, which could have a material adverse effect on our business, prospects, operating results and financial condition.

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 ability to attract customers for our products. Although sales and marketing personnel have considerable industry experience and have engaged in marketing activities for our products, we may be unable 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 personnel 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 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 manufacture sufficient quantities of our products with sufficient quality by ourselves or with partners in a timely manner, our ability to sell our products may be harmed.

In order to commercialize our products in volume, we need to either build sufficient internal manufacturing capacity or contract with 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 difficulties in manufacturing our products. There is no assurance that we will be able 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 certain components and sub-assemblies and intend to outsource additional sub-assemblies in the future. 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, single sources. We have chosen to source certain critical components from a single source, including suppliers for our semiconductor chips, optics, lasers and cameras. If we were required to purchase these components from an alternative source, it could take several months or longer to qualify the alternative 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.

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 and credit and capital markets have experienced recent 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 current investors. 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 may 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 provide assurance that material performance problems 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. We intend to ship our PacBio *RS* instruments with one year of service included in the purchase price with an option to purchase an additional year of service. We will provide a twelve-month warranty on the PacBio *RS*. The warranty is limited to replacing, repairing or giving credit for, at our option, any instrument for which a warranty claim is provided to us within the warranty period. We will also provide a warranty for our consumables, but claims must be made within 90 days from the date of delivery or the shelf life date or “use by” date, if earlier. The warranty is limited to replacing, or at our option, giving credit for, any consumable with defects in material or workmanship. 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. In conducting our international operations, we will be subject to U.S. laws relating to our international activities, as well as foreign laws relating to our activities in other countries. Failure to comply with these laws may subject us to financial and other penalties in the U.S. and foreign countries that could impact our operations or financial condition.

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. See also our risk factor above titled “Ethical, legal and social concerns surrounding the use of genetic information could reduce demand for our technology.” 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. See also our risk factors above titled “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 cost and delay our commercialization efforts, thereby materially and adversely affecting our business and results of operations” and “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.” 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. The rapid growth of our operations and our IPO created a need for additional resources within the accounting and finance functions in order to produce timely financial information and to ensure the level of segregation of duties customary for a U.S. public company.

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 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 control 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 incur additional accounting, legal and other expenses associated with our public company reporting requirements. We will also incur costs associated with corporate governance requirements, including requirements under the Sarbanes-Oxley Act of 2002, the Dodd-Frank Act of 2010, 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.

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. Future changes in our stock ownership, some of which are outside of our control, could result in additional ownership changes under Section 382. 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, including patent licenses from Cornell Research Foundation, Indiana University Research and Technology Corporation, Stanford University and GE Healthcare Bio-Sciences Corp. As more fully described in our Prospectus, if we fail to meet our obligations under these licenses, these third parties could terminate 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, some of our licenses from third parties limit the field in which we can use the licensed technology. Therefore, in order for us to use such licensed technology in potential future applications that are outside the licensed field of use, we may be required to negotiate new licenses with our licensors or expand our rights under our existing licenses. We cannot assure you that we will be able to obtain such licenses or expanded rights on reasonable terms or at all. 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, and by requiring our third-party manufacturing partners to enter into confidentiality 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. 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.

Some of our technology is subject to "march-in" rights by the U.S. government.

Some of our patented technology was developed with U.S. federal government funding. When new technologies are developed with U.S. government funding, the government obtains certain rights in any resulting patents, including a nonexclusive license authorizing the government to use the invention for non-commercial purposes. These rights may permit the government to disclose our confidential information to third parties and to exercise "march-in" rights to use or allow third parties to use our patented technology. The government can exercise its march-in rights if it determines that action is necessary because we fail to achieve practical application of the U.S. government-funded technology, because action is necessary to alleviate health or safety needs, to meet requirements of federal regulations, or to give preference to U.S. industry. In addition, U.S. government-funded inventions must be reported to the government and U.S. government funding must be disclosed in any resulting patent applications. In addition, our rights in such inventions are subject to government license rights and foreign manufacturing restrictions.

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 are presently, and 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. We are presently involved in a lawsuit filed by Helicos Biosciences Corporation that alleges that our products infringe patents owned and in-licensed by Helicos (see "Legal Proceedings"). In defending this lawsuit, we expect to incur substantial costs, and experience diversion of attention of our management and technical personnel. An unfavorable outcome in this lawsuit could result in our having to pay damages, royalties or both to Helicos, and could prevent us from selling some or all of our products. 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

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

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 certain stockholders; and
- general economic and market conditions.

Furthermore, in the past, stock markets have experienced 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 declines, 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.

If securities or industry analysts publish negative reports about our business, our share price and trading volume could decline.

The trading market for our common stock will be influenced by the research and reports that securities or industry analysts publish about us or our business. 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 could cause our share price to fall.

The holders of a significant number of shares of our 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. 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 filed a registration statement on Form S-8 under the Securities Act to register 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.

Concentration of ownership by our principal stockholders may result in control by such stockholders of the composition of our board of directors.

Our existing significant stockholders, executive officers, directors and their affiliates will beneficially own a significant number of our outstanding shares of common stock. As a result, these stockholders will be able to exercise a significant level of control over all matters requiring stockholder approval, including the election of directors. This control could have the effect of delaying or preventing a change of control of our company or changes in management and will make the approval of certain transactions difficult or impossible without the support of these stockholders.

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, 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 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 and up to approximately 933,000,000 shares of authorized but unissued shares of common 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.

Our large number of authorized but unissued shares of common stock may potentially dilute your stockholdings.

We have approximately 933,000,000 authorized but unissued shares of common stock. Our board of directors may issue shares of common stock from this authorized but unissued pool from time to time without stockholder approval, resulting in the dilution of our existing stockholders.

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.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

Our corporate headquarters and manufacturing facilities are located in Menlo Park, California where we lease approximately 147,300 square feet of office, lab and manufacturing space. The schedule below summarizes facilities we occupy as of December 31, 2010. We consider our manufacturing facilities sufficient to meet our current and planned operational requirements. We intend to vacate the buildings with lease expirations of May 2011 when the leases expire. 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
30,200	May 2011	Office/Lab
31,600	May 2011	Office/Lab
33,800	December 2015	Office/Training
22,300	December 2015	Manufacturing
29,400	December 2015	Manufacturing

During December 2010, we entered into agreements to lease additional facilities next to our existing facilities in Menlo Park, California which we plan to fully occupy in 2011. The schedule below summarizes these additional facilities.

Size (Square Feet)	Lease Expiration	Functions
14,000	December 2015	Office
21,200	December 2015	Manufacturing/Lab
54,600	December 2015	Office/Lab

ITEM 3. LEGAL PROCEEDINGS

We have been involved in a patent interference with Life Technologies Corporation, or Life, related to U.S. Patent No. 7,329,492, the ‘492 patent, 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 January 2011, we announced that the Board of Patent Appeals and Interferences of the USPTO rendered a decision in the matter. The decision cancels all patent claims by Life Technologies Corporation involved in the interference. In the ruling, the Board entered judgment against the ‘492 patent, holding that all of the Life claims that were involved in the interference are unpatentable to them. In reaching its decision to cancel the Life claims, the Board agreed with our assertion that the Life Technologies patent specification does not adequately disclose the claimed invention. While the Board determined that neither party was entitled to the broadest claims presented, they denied Life's request that a subset of our claims be found unpatentable. While the Board has rendered its decision and judgment, either party may appeal the decision and judgment the U.S Court of Appeals for the Federal Circuit, or seek judicial review of the decision and judgment in the United States District Court.

On August 27, 2010, we were named as a defendant in a complaint filed by Helicos Biosciences Corporation (“Helicos”) in the United States District Court for the District of Delaware (Case No. 1:10-CV-00735 SLR). In the complaint, Helicos alleges that we are infringing, inducing others to infringe, and contributing to the infringement by others of two patents in-licensed by Helicos and two patents owned by Helicos, by making, using, and selling our SMRT technology for single molecule sequencing of DNA and teaching customers how to use the SMRT technology and PacBio *RS* sequencing platform. The four patents asserted by Helicos are U.S. Patent Nos. 7,645,596 and 7,037,687 (each titled “Method of Determining the Nucleotide Sequence of Oligonucleotides and DNA Molecules”), 7,169,560 (titled “Short Cycle Methods for Sequencing Polynucleotides”), and 7,767,400 (titled “Paired-end Reads in Sequencing by Synthesis”). Helicos seeks a permanent injunction enjoining us from further infringement of the asserted patents, and unspecified monetary damages, including enhanced damages under 35 U.S.C. §284, costs, attorneys’ fees and other relief as the court deems just and proper. On October 22, 2010, Helicos filed an amended complaint naming additional defendants in the lawsuit. On November 8, 2010, we filed our answer to Helicos’ complaint denying Helicos’ allegations that our products infringe any valid claims of the patents in suit, asserting affirmative defenses of noninfringement, invalidity and unenforceability of the claims of the patents in suit, and asserting counterclaims for declaratory judgment that our products do not infringe the claims of the patents in suit, and that those claims are invalid and unenforceable. Despite our defenses and counterclaims, we cannot guarantee any outcome of this lawsuit.

An estimate of the possible loss or possible range of loss associated with the resolution of these contingencies cannot be provided with certainty or confidence, and therefore no estimate is provided and we have not recorded a liability.

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

ITEM 4. [REMOVED AND RESERVED]

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock has been listed on the Nasdaq Global Select Market under the symbol "PACB" since October 27, 2010. Prior to that time, there was no public market for our stock. The following table sets forth the high and low intra-day sales prices per share for our common stock for the indicated periods.

	High	Low
Fiscal Year 2010 Quarters Ended:		
December 31, 2010 (from October 27, 2010)	$17.47	$11.25

Holders of Record

As of February 28, 2011, there were approximately 329 stockholders of record of our common stock.

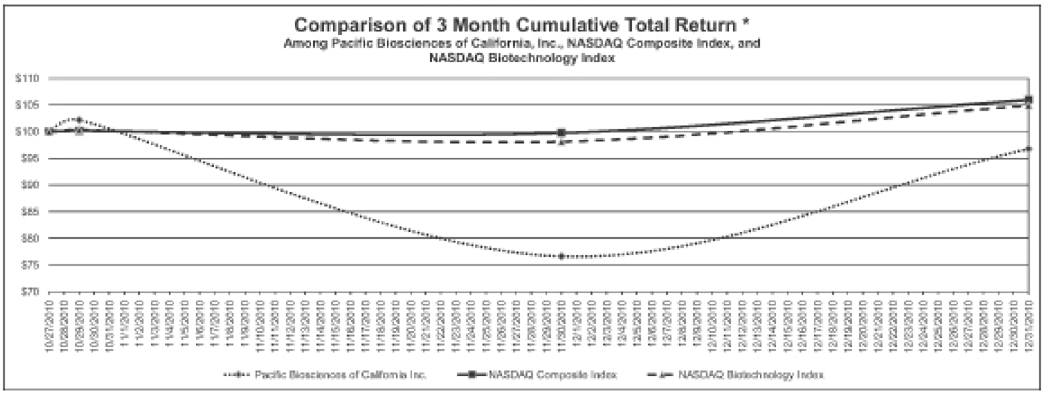
Dividend Policy

We have never declared or paid any cash dividend on our common stock and have no present plans to do so. We currently intend to retain any future earnings and do not expect to pay any dividends in the foreseeable future.

Performance Graph

This performance graph shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or incorporated by reference into any filing of Pacific Biosciences under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

The following graph shows a comparison from October 27, 2010 (the date our common stock commenced trading on the Nasdaq Global Select Market) through December 31, 2010 of the cumulative total return for our common stock, the Nasdaq Composite Index and the Nasdaq Biotechnology Index. Such returns are based on historical results and are not intended to suggest future performance. Data for The Nasdaq Composite Index and the Nasdaq Biotechnology Index assume reinvestment of dividends.



* $100 invested on 10/27/10 in stock or 9/30/10 in index-including reinvestment of dividends.
Fiscal year ending December 31.

	October 27, 2010	October 29, 2010	November 30, 2010	December 31, 2010
Pacific Biosciences of California Inc	$ 100.00	$ 102.19	$ 76.64	$ 96.78
NASDAQ Composite Index .	100.00	100.17	99.80	105.98
NASDAQ Biotechnology Index	100.00	100.33	98.15	104.93

Recent Sales of Unregistered Securities

From October 1, 2010 to December 31, 2010, we issued and sold an aggregate of 32,085 shares of our common stock to our employees at a price ranging from $0.70 to $10.84 per share for an aggregate of $99,000 pursuant to exercises of options granted under our 2005 Stock Plan, as amended. Also during this period, 15,384 warrants were exercised using the net settlement election resulting in the purchase of 12,792 shares of common stock. The sales and issuances of securities in the transactions described above were deemed to be exempt from registration under the Securities Act of 1933, as amended (the "Securities Act"), in reliance upon Rule 701 promulgated under the Securities Act, as transactions pursuant to compensatory benefit plans and contracts relating to compensation as provided under Rule 701, or Section 4(2) of the Securities Act.

Use of Proceeds

Our initial public offering of common stock was effected through a Registration Statement on Form S-1 (File No. 333-168858) that was declared effective by the Securities and Exchange Commission on October 26, 2010, which registered an aggregate of 14,375,000 shares of our common stock. On November 1, 2010, we sold 12,500,000 shares of common stock at an initial public offering price of $16.00 per share, for aggregate gross proceeds of $200 million. The underwriters of the offering were J.P. Morgan Securities Inc., Morgan Stanley & Co. Incorporated, Deutsche Bank Securities Inc. and Piper Jaffray & Co. On November 4, 2010, in connection with the exercise of the underwriters' over-allotment option, 1,875,000 additional shares of common stock were sold on our behalf at the initial public offering price of $16.00 per share, for aggregate gross proceeds of $30 million.

We paid to the underwriters underwriting discounts totaling approximately $16.1 million in connection with the offering. In addition, we incurred expenses of approximately $3.1 million in connection with the offering, which when added to the underwriting discounts paid by us, amount to total expenses of approximately $19.2 million. Thus, the net offering proceeds to us, after deducting underwriting discounts and offering expenses, were approximately $210.8 million. No offering expenses were paid directly or indirectly to any of our directors or officers (or their associates) or persons owning ten percent or more of any class of our equity securities or to any other affiliates.

As of the date of this report, there has been no material change in the use of proceeds from our initial public offering as described in our final prospectus filed with the SEC pursuant to Rule 424(b).

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ITEM 6. SELECTED FINANCIAL DATA

This selected statement of operations data for the years ended December 31, 2010, 2009 and 2008 and selected balance sheet data as of December 31, 2010 and 2009 have been derived from our audited consolidated financial statements and related notes included elsewhere in this Form 10-K. The statement of operations data for the years ended December 31, 2007 and 2006 and the balance sheet data as of December 31, 2008, 2007 and 2006 has been derived from our audited financial statements not included in this Form 10-K.

The following selected financial data also reflects the 1-for-2 reverse stock split of our outstanding common stock effected in September 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 consolidated financial statements and related notes included elsewhere in this Form 10-K.

	Years Ended December 31,				
	2010	2009	2008	2007	2006
	(in thousands, except share and per share amounts)				
Statement of Operations Data:					
Grant revenue	$ 1,674	$ 135	$ 901	$ 2,163	$ 2,011
Operating expenses					
Research and development (1)	111,821	75,879	37,997	19,216	10,364
Sales, general and administrative (1)	30,087	12,326	7,713	6,338	3,501
Total operating expenses	$ 141,908	$ 88,205	$ 45,710	$ 25,554	$ 13,865
Loss from operations	(140,234)	(88,070)	(44,809)	(23,391)	(11,854)
Other income (expense)					
Interest income, net	172	451	1,157	1,940	271
Other expense, net	(104)	(84)	(102)	(67)	(105)
Total other income (expense)	68	367	1,055	1,873	166
Net loss	$ (140,166)	$ (87,703)	$ (43,754)	$(21,518)	$(11,688)
Basic and diluted—net loss per share	$ (14.10)	$ (173.03)	$ (133.82)	$(272.93)	*
Weighted average shares outstanding used to calculate basic and diluted net loss per share (2)	9,938,411	506,865	326,955	78,841	996

	As of December 31,				
	2010	2009	2008	2007	2006
	(in thousands)				
Balance Sheet Data:					
Cash, cash equivalents and investments (3)	$ 283,674	$ 92,735	$106,051	$ 30,090	$ 50,090
Working capital	272,274	85,326	102,224	27,082	48,043
Total assets	305,747	101,098	113,107	34,349	52,533
Convertible preferred stock warrant liability	—	226	142	151	140
Convertible preferred stock (4)	—	269,101	201,085	81,222	81,154
Total stockholders' equity (deficit)	279,866	(177,123)	(93,389)	(52,135)	(32,412)

(1) Includes stock-based compensation expense. For further information, see "Note 11. Stock Option Plans" in the Notes to Consolidated Financial Statements of this Form 10-K.

(2) For further information, see "Note 11. Net Loss Per Share" in the Notes to Consolidated Financial Statements of this Form 10-K for an explanation of the method used to calculate 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) As of December 31, 2010, we had cash, cash equivalents and investments of $283.7 million, an increase over 2009 reflecting the $210.8 million net proceeds raised through our IPO in October 2010, and $106.1 million raised from issuance of Series F convertible preferred stock.

(4) In connection with our IPO declared effective October 26, 2010, all outstanding convertible preferred stock converted into common stock.

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

ITEM 7. 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 consolidated financial statements and the related notes appearing at the end of this Form 10-K. Some of the information contained in this discussion and analysis or set forth elsewhere in this Form 10-K, 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 Form 10-K 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.

Overview

We develop, manufacture and market an integrated platform for genetic analysis. Combining recent advances in nanofabrication, biochemistry, molecular biology, surface chemistry and optics, we created a technology platform called single molecule, real-time, or 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 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. We operate in a single segment and our revenue to date has come from U.S. government grants. Operations to date have been primarily focused on developing our technology, undertaking engineering activities to develop our products, conducting initial marketing of our products, and pre-production activities associated with the expected commercial launch in 2011. We have financed our operations primarily through the issuance of convertible preferred stock resulting in $364.2 million in net proceeds and the issuance of 14.4 million shares of common stock at $16.00 per share related to our initial public offering resulting in $210.8 million in net proceeds.

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 December 31, 2010, we had a deficit accumulated during the development stage of $332.2 million. We incurred net losses of $140.2 million, $87.7 million and $43.8 million in 2010, 2009 and 2008, 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 of 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. In 2010, we earned approximately $1.7 million in funding from U.S. government grants.

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 an upgrade to full commercial release specifications. 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.

Since inception, we have incurred approximately $266.2 million of research and development expense. During 2010, research and development expense of $111.8 million was primarily comprised of payroll-related expense and prototype materials. As we transition to commercial operations in 2011, we expect prototype expenses will decline as compared to 2010 and we expect a shift in payroll-related expense to manufacturing activities.

In the fourth quarter of 2010, we began to capitalize pre-launch instrument inventory due to the certainty of its future economic benefit as indicated by technical feasibility, customer acceptance of beta products, and the time remaining to complete full commercial release units.

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 and accretion of discounts and amortization of premiums on investment balances. Our interest income will vary each reporting period depending on our average investment balances during the period and market interest rates. Interest income (expense), net also includes interest expense relating to our loan and debt agreements repaid in 2009 and our facility financing obligations resulting from lease agreements entered into in 2010. 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. Outstanding convertible preferred stock warrants were classified as liabilities and were remeasured at each balance sheet date with changes in fair value recognized as other income (expense), net. We continued to adjust the liability for changes in fair value until our IPO, at which time all unexercised warrants were automatically converted into warrants to purchase common stock and the warrant liability was reclassified to additional paid-in capital.

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 consolidated 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.

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.

Convertible Preferred Stock Warrants

Prior to our IPO in October 2010, we accounted for freestanding warrants to purchase shares of our convertible preferred stock at fair value on the balance sheet because we may have been obligated to redeem these warrants at some point in the future. The warrants were subject to remeasurement at each balance sheet date with changes in fair value recognized as other income (expense), net in the consolidated statement of operations. We continued to adjust the liability for changes in fair value until our IPO, at which time all unexercised warrants automatically converted into warrants to purchase common stock and the warrant liability was reclassified to additional paid-in capital.

During 2010, 2009 and 2008, we recorded charges (gains) of $100,000, $84,000, and $(9,000), respectively, through other income (expense), net to reflect the change in the fair value of the warrants.

Stock-Based Compensation

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 employee option awards 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,		
	2010	2009	2008
Expected term	6.0 years	5.7 years	7.0 years
Expected volatility	46 - 55%	46 - 48%	50 - 52%
Risk-free interest rate	1.6 - 2.7%	1.8 - 3.0%	2.8 - 3.5%
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 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 term. 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. The effects of forfeiture adjustments during the years ended December 31, 2010, 2009, and 2008 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 term 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 under the fair value method related to options granted to employees and non-employees as follows (in thousands):

	2010	2009	2008
Research and development	$5,733	$2,314	$1,183
Sales, general and administrative	3,112	748	387
Total stock-based compensation expense	$8,845	$3,062	$1,570

As of December 31, 2010, we had $23.2 million of unrecognized stock-based compensation expense, net of estimated forfeitures, that is expected to be recognized over a weighted-average period of 3.2 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.

Common Stock Valuation

The fair values of the common stock underlying stock options granted through September 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.

Given the absence of a public trading market prior to our IPO in October 2010, 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 IPO, given prevailing market conditions.

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 2010, 2009 and 2008 was $1.0 million, $0.4 million and $0.3 million, 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 “Note 5. Facility Financing and Debt Obligations” in the Notes to Consolidated Financial Statements of this Form 10-K.

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 asset and 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, 2010, we had a full valuation allowance against all of our deferred tax assets which totaled $135.0 million, including net operating loss carryforwards and research and development tax credits of $117.0 million and $12.4 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, 2010, 2009, and 2008, our total unrecognized tax benefits were $6.4 million, $3.9 million, and $2.0 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 Years Ended December 31, 2010 and 2009

	Years ended December 31, 2010	Years ended December 31, 2009	Increase/ (Decrease)	% Increase/ (Decrease)
	(in thousands, except percentages)			
Revenue	$ 1,674	$ 135	$ 1,539	*
Research and development	111,821	75,879	35,942	47%
Sales, general and administrative	30,087	12,326	17,761	144%
Loss from operations	(140,234)	(88,070)	52,164	59%
Interest income (expense), net	172	451	(279)	(62)%
Other income (expense), net	(104)	(84)	20	24%
Net loss	$(140,166)	$(87,703)	$ 52,463	60%

* Percentage not meaningful.

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 in 2010 as compared to 2009.

Research and Development Expense

The $35.9 million increase in research and development expense was driven primarily by a $15.7 million increase in purchases of material for the manufacture of prototype instruments and consumable products, and a $15.1 million increase in personnel-related expense. The increase in personnel-related expense included significant expansion of manufacturing operations as we prepared for the commercial launch of the PacBio *RS*. The expansion of our manufacturing facilities resulted in a $1.6 million increase in facility expense. Research and development expense included stock-based compensation expense of $6.6 million and $2.3 million during the years ended December 31, 2010 and 2009, respectively.

Sales, General and Administrative Expense

The $17.8 million increase in sales, general and administrative expense was driven primarily by a $12.4 million increase in personnel related expense resulting from increased headcount reflecting the continued growth of our sales, marketing and customer support organizations, a $2.0 million increase in customer application, demonstration and marketing initiatives and a $1.7 million increase in travel-related expense for sales and support of beta instruments in the field. Sales, general and administrative expense included stock-based compensation expense of $3.1 million and $0.7 million during the years ended December 31, 2010 and 2009, respectively.

Loss from Operations

The $52.2 million increase in loss from operations was driven primarily by a $35.9 million increase in research and development expense and a $17.8 million increase in sales, general and administrative expense, partially offset by a $1.5 million increase in government grant revenue.

Interest Income (Expense), Net

The decrease in interest income (expense), net was primarily due to lower interest rates on money market holdings during the majority of 2010.

Other Income (Expense), Net

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

Net Loss

The $52.5 million increase in net loss was driven primarily by a $52.2 million increase in loss from operations combined with interest expense resulting from the financing obligation originating during 2010, offset by interest income from our investment portfolio.

Comparison of the Years Ended December 31, 2009 and 2008

(In thousands)	Years ended December 31, 2009	2008	Increase/ (decrease)	% Increase/ (decrease)
		(in thousands, except percentages)		
Revenue	$ 135	$ 901	$ (766)	(85)%
Research and development	75,879	37,997	37,882	100%
Sales, general and administrative	12,326	7,713	4,613	60%
Loss from operations	(88,070)	(44,809)	43,261	97%
Interest income (expense), net	451	1,157	(706)	(61)%
Other income (expense), net	(84)	(102)	(18)	(18)%
Net Loss	$ (87,703)	$ (43,754)	$ 43,949	100%

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 $2.3 million and $1.2 million during 2009 and 2008, respectively.

Sales, General and Administrative Expense

The $4.6 million increase in sales, general and administrative expense was driven primarily by a $2.8 million increase in professional services mainly due to higher legal costs and a $1.7 million increase in personnel-related expense resulting from increased 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 $0.7 million and $0.4 million during 2009 and 2008, respectively.

Loss from Operations

The $43.3 million increase in loss from operations was driven primarily by a $37.9 million increase in research and development expense resulting from increases in proto-type-related expenditures, equipment and development supplies, and personnel-related expense combined with a $4.6 million increase in sales, general and administrative expense primarily resulting from increased professional services and personnel-related expenses.

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.

Net Loss

The $43.9 million increase in net loss was driven primarily by a $43.3 million increase in loss from operations combined with reduced interest income from our investment portfolio.

Liquidity and Capital Resources

Since our inception, and as of December 31, 2010, we have financed our operations primarily through the issuance of convertible preferred stock resulting in $364.2 million in net proceeds and the issuance of 14.4 million shares of common stock at $16.00 per share related to our initial public offering resulting in $210.8 million in net proceeds.

As of December 31, 2010, we had cash, cash equivalents and investments of $283.7 million, an increase over 2009 reflecting the $210.8 million net proceeds raised through our IPO in October 2010, and $106.1 million raised from issuance of Series F convertible preferred stock, offset by approximately $122.0 million of cash used during the year to fund operations.

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

	December 31,		
	2010	2009	2008
		(in thousands)	
Working capital	$272,274	$85,326	$102,224
Cash, cash equivalents and investments	$283,674	$92,735	$106,051

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

	Years Ended December 31,		
	2010	2009	2008
		(in thousands)	
Net cash used in operating activities	$(121,996)	$(74,838)	$ (38,303)
Net cash provided by (used in) investing activities	(138,250)	18,594	(10,393)
Net cash provided by financing activities	318,664	67,014	119,927

During the years ended December 31, 2010, 2009 and 2008 we used cash of $5.3 million, $5.2 million and $5.7 million, respectively, to fund capital expenditures. We currently anticipate making 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 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.

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 $122.0 million, $74.8 million and $38.3 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Cash used in operating activities of $122.0 million in 2010 reflected a net loss of $140.2 million, partially offset by aggregate non-cash charges of $15.3 million and a net change of $2.9 million in our net operating assets and liabilities. Non-cash charges primarily included $9.7 million in stock-based compensation and $5.2 million of depreciation. Net operating assets and liabilities included an increase of $7.9 million in accounts payable, accrued expenses and other current liabilities primarily driven by payroll-related expense, and an increase of $3.2 million in deferred revenue related to shipments of PacBio *RS* limited production release instruments, partially offset by an inventory increase of $6.9 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 Flows From Investing Activities

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

In 2010, the majority of our investing activities were driven by the purchase and maturities of investments achieved as a result of receiving $210.8 million in IPO proceeds. We used approximately $181.0 million in cash to purchase short-term investments and $5.3 million of capital expenditures, offset by approximately $48.0 million in maturities.

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.

Cash Flows From Financing Activities

In 2010, cash provided by financing activities was $318.7 million, comprised of $210.8 million in IPO net proceeds received in November 2010 and $106.1 million raised from issuance 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.

Contractual Obligations, Commitments and Contingencies

The following table provides summary information concerning our future contractual obligations as of December 31, 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)	$15,483	2,637	6,243	6,603	—
Facility financing obligation	2,170	397	848	925	—
Total contractual obligations	$17,653	3,034	7,091	7,528	—

(1) Maintenance, insurance, taxes and contingent rent obligations are excluded. See “Note 6. Commitments and Contingencies” in Part II, Item 8 of this Form 10-K for additional information.

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. See “Note 5. Facility Financing and Debt Obligation” in Part II, Item 8 of this Form 10-K for a discussion of this commitment.

License Agreements

The table above reflects only payment obligations that are fixed and determinable. Milestone payments and royalty payments under our license agreements are not included in the table above because we cannot, at this time, determine when or if the events triggering the commencement of payment obligations will occur.

An estimate of significant payments related to licensing and other arrangements not included in the contractual obligations table include payments related to four cancelable license agreements with third parties for certain patent rights and technology. Under the terms of these agreements, we may be obligated to pay royalties based on revenue from the sales of licensed products, or minimum royalties, whichever is greater, and license maintenance fees. Pursuant to the terms of the agreements, future license maintenance fees and minimum royalty payments amount to $0.4 million for 2011, 2012, 2013 and each year thereafter.

In addition, upon commercialization of products that incorporate the licensed technologies, we may be 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 minimum royalties 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.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

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 a trade secret, copyright, patent or other intellectual property infringement claim by a 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.

Recent Accounting Pronouncements

During the fourth quarter of 2010, we adopted the new disclosure guidance related to the credit quality of financing receivables and the allowance for credit losses. This guidance requires companies to provide more information about the credit quality of their financing receivables in the disclosures to financial statements including, but not limited to, significant purchases and sales of financing receivables, aging information and credit quality indicators. The adoption of this accounting guidance did not have a significant impact on our consolidated financial statements.

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.

ITEM 7A. 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.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
(A development stage enterprise)
Index to Consolidated 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 consolidated balance sheets and the related consolidated statements of operations, and consolidated statements of stockholders' equity (deficit), and of the consolidated statements of cash flows present fairly, in all material respects, the financial position of Pacific Biosciences of California, Inc. and their subsidiaries at December 31, 2010 and December 31, 2009, and the results of their operations and its cash flows for each of the three years in the period ended December 31, 2010 and cumulatively for the period from July 14, 2000 (date of inception) to December 31, 2010 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
San Jose, California
March 23, 2011

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

(in thousands except share and per share amounts)	December 31, 2010	December 31, 2009
Assets		
Current assets		
Cash and cash equivalents	$ 147,650	$ 89,232
Investments	136,024	3,503
Accounts receivable	341	—
Inventory	6,864	—
Prepaid expenses and other current assets	2,235	1,010
Total current assets	293,114	93,745
Property and equipment, net	12,311	7,142
Long-term assets	322	211
Total assets	$ 305,747	$ 101,098
Liabilities, Convertible Preferred Stock and Stockholders' Equity (Deficit)		
Current liabilities		
Accounts payable	$ 9,515	$ 5,778
Accrued expenses and other current liabilities	7,994	2,641
Deferred revenue	3,221	—
Current portion of facility financing obligation	110	—
Total current liabilities	20,840	8,419
Lease incentives and other long-term liabilities	2,114	475
Facility financing obligation, less current portion	2,927	—
Convertible Preferred Stock warrant liability	—	226
Total liabilities	25,881	9,120
Commitments and contingencies (Note 6)		
Convertible Preferred Stock, $0.001 and $0.0001 par value at December 31, 2010 and 2009, respectively:		
Authorized 50,000,000 and 116,056,382 shares at December 31, 2010 and 2009, respectively; Issued and outstanding no shares at December 31, 2010 and 60,101,338 shares at December 31, 2009	—	269,101
Stockholders' equity (deficit)		
Common Stock, $0.001 par value:		
Authorized 1,000,000,000 shares; Issued and outstanding 52,855,267 shares at December 31, 2010 and 656,084 shares at December 31, 2009	53	—
Additional paid-in capital	612,001	14,877
Accumulated other comprehensive income (loss)	(21)	1
Deficit accumulated during the development stage	(332,167)	(192,001)
Total stockholders' equity (deficit)	279,866	(177,123)
Total liabilities, Convertible Preferred Stock and stockholders' equity (deficit)	$ 305,747	$ 101,098

See accompanying notes to the consolidated financial statements.

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

(in thousands, except share and per share amounts)	Years Ended December 31, 2010	2009	2008	Cumulative Period From July 14, 2000 (Date of Inception) to December 31, 2010
Grant revenue	$ 1,674	$ 135	$ 901	$ 8,598
Operating expenses				
Research and development	111,821	75,879	37,997	266,151
Sales, general and administrative	30,087	12,326	7,713	65,435
Total operating expenses	141,908	88,205	45,710	331,586
Loss from operations	(140,234)	(88,070)	(44,809)	(322,988)
Interest income, net	172	451	1,157	4,106
Other expense, net	(104)	(84)	(102)	(471)
Net loss	$ (140,166)	$ (87,703)	$ (43,754)	$ (319,353)
Basic and diluted net loss per share of Common Stock	$ (14.10)	$ (173.03)	$ (133.82)	
Shares used to calculate basic and diluted net loss per share	9,938,411	506,865	326,955	

See accompanying notes to the consolidated financial statements.

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
(A development stage enterprise)
Consolidated Statements of Stockholders' Equity (Deficit)
Period from July 14, 2000 (date of inception) to December 31, 2010

(in thousands, except share and per share amounts)	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					
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 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	6,559,758	—	46	—	—	(3,658)	(3,612)
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)	—	(71)	—	—	(12,803)	(12,874)
Issuance of Series B Convertible Preferred Stock warrants in connection with drawdown under 2004 loan and security agreement	—	—	11	—	—	—	11
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	—	—	8,856	(4,537)	—	(27,338)	(23,019)

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
(A development stage enterprise)
Consolidated Statements of Stockholders' Equity (Deficit)—(Continued)
Period from July 14, 2000 (date of inception) to December 31, 2010

(in thousands, except share and per share amounts)	Common stock Shares	Common stock Amount	Additional paid-in capital	Deferred stock-based compensation	Accumulated other comprehensive income (loss)	Deficit accumulated during the development stage	Total stockholders' equity (deficit)
Balance at December 31, 2005	$ —	$ —	$ 8,856	$ (4,537)	$ —	$ (27,338)	$ (23,019)
Reclassification of Preferred Stock warrants to liability			(31)				(31)
Issuance of Common Stock upon exercise of stock options for cash ($0.70 per share)	136,695	—	24	—	—	—	24
Repurchase of unvested Junior Preferred Stock	—	—	(1)	383	—	—	382
Repurchase of unvested Common Stock	(469)	—	(1)	—	—	—	(1)
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	136,226	—	8,052	(1,438)	—	(39,026)	(32,412)
Issuance of Common Stock upon exercise of stock options for cash ($0.70 to $1.96 per share)	137,133	—	88	—	—	—	88
Repurchase of unvested Common Stock	(6,563)	—	—	—	—	—	—
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	$266,796	$ —	$ 8,860	$ (455)	$ 4	$ (60,544)	$ (52,135)

See accompanying notes to the consolidated financial statements.

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
(A development stage enterprise)
Consolidated Statements of Stockholders' Equity (Deficit)
Period from July 14, 2000 (date of inception) to December 31, 2010

(in thousands, except share and per share amounts)	Common stock Shares	Common stock Amount	Additional paid-in capital	Deferred stock-based compensation	Accumulated other comprehensive income (loss)	Deficit accumulated during the development stage	Total stockholders' equity (deficit)
Balance at December 31, 2007	266,796	$ —	$ 8,860	$ (455)	$ 4	$ (60,544)	$ (52,135)
Issuance of Common Stock upon exercise of stock options for cash ($0.70 to $6.96 per share)	310,225	—	267	—	—	—	267
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	577,021	—	10,907	(42)	44	(104,298)	(93,389)
Issuance of Common Stock upon exercise of stock options for cash ($0.70 to $6.96 per share)	84,241	—	303	—	—	—	303
Repurchase of unvested Common Stock	(5,178)	—	—	—	—	—	—
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 loss	—	—	—	—	(43)	—	(43)
Net loss	—	—	—	—	—	(87,703)	(87,703)
Total comprehensive loss	—	—	—	—	—	—	(87,746)
Balance at December 31, 2009	656,084	$ —	$ 14,877	$ —	$ 1	$ (192,001)	$ (177,123)

See accompanying notes to the consolidated financial statements.

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PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
(A development stage enterprise)
Consolidated Statements of Stockholders' Equity (Deficit)
Period from July 14, 2000 (date of inception) to December 31, 2010

(in thousands, except per share and per share amounts)	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					
Balances at December 31, 2009	656,084	$ —	$ 14,877	$ —	$ 1	$ (192,001)	$ (177,123)
Conversion of redeemable convertible preferred stock to common stock at initial public offering	37,183,523	37	374,927	—	—	—	374,964
Conversion of warrants from warrants for preferred stock to warrants for common stock	—	—	326	—	—	—	326
Elimination of fractional shares resulting from reverse stock split	(25)	—	(1)	—	—	—	(1)
Issuance of common stock from Intial public offering, net of issuance costs	14,375,000	15	210,766	—	—	—	210,781
Issuance of Common Stock upon exercise of stock options for cash	606,963	1	707	—	—	—	708
Issuance of Common Stock to consultant	20,930	—	281	—	—	—	281
Issuance of Common Stock in connection with exercise of warrants	12,792	—	—	—	—	—	—
Vesting of Common Stock options early exercised	—	—	428	—	—	—	428
Employee stock-based compensation expense recorded under the intrinsic value method	—	—	845	—	—	—	845
Employee stock-based compensation expense recorded under the fair value method	—	—	7,880	—	—	—	7,880
Nonemployee stock-based compensation	—	—	965	—	—	—	965
Other comprehensive loss	—	—	—	—	(22)	—	(22)
Net loss	—	—	—	—	—	(140,166)	(140,166)
Total comprehensive loss	—	—	—	—	—	—	(140,188)
Balances at December 31, 2010	52,855,267	$ 53	$ 612,001	$ —	$ (21)	$ (332,167)	$ 279,866

See accompanying notes to the consolidated financial statements.

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

(in thousands)	Years Ended December 31, 2010	2009	2008	Cumulative Period From July 14, 2000 (Date of Inception) to December 31, 2010
Cash flows from operating activities				
Net loss	$(140,166)	$(87,703)	$ (43,754)	$ (319,353)
Adjustments to reconcile net loss to net cash used in operating activities				
Depreciation	5,160	4,104	2,987	15,616
Stock-based compensation	9,690	3,630	2,127	23,338
Amortization of deferred financing costs	—	—	13	59
Change in Convertible Preferred Stock warrant liability fair value	100	84	(9)	283
Other items	359	110	10	381
Changes in assets and liabilities				—
Accounts receivable	(341)	—	—	(341)
Inventory	(6,864)	—	—	(6,864)
Deferred revenue	3,221	—	—	3,221
Prepaid expenses and other current assets	(1,225)	27	(78)	(1,824)
Other long-term assets	(111)	(57)	(26)	(355)
Accounts payable	3,637	3,891	(223)	9,373
Accrued expenses and other current liabilities	4,245	1,168	156	6,365
Lease incentives and other long-term liabilities	299	(92)	494	775
Net cash used in operating activities	(121,996)	(74,838)	(38,303)	(269,326)
Cash flows from investing activities				
Purchase of property and equipment	(5,259)	(5,177)	(5,703)	(22,720)
Purchase of investments	(180,964)	(25,429)	(36,376)	(304,294)
Sales and maturities of investments	47,973	49,200	31,686	167,395
Net cash provided by (used in) investing activities	(138,250)	18,594	(10,393)	(159,619)
Cash flows from financing activities				
Proceeds from issuance of Convertible Preferred Stock, net	106,145	68,010	119,831	364,199
Proceeds from exercise of Common Stock options	1,738	311	489	3,435
Proceeds from exercise of Junior Preferred Stock options	—	1	7	20
Proceeds from issuance of Common stock in IPO, net of issuance costs	210,781			210,781
Repurchases of Common Stock	—	(8)	—	(13)
Repurchases of Junior Preferred Stock	—	—	—	(1,727)
Proceeds from issuance of notes payable	—	—	—	4,037
Payment of notes payable	—	(1,300)	(400)	(4,137)
Net cash provided by financing activities	318,664	67,014	119,927	576,595
Net increase in cash and cash equivalents	58,418	10,770	71,231	147,650
Cash and cash equivalents at beginning of period	89,232	78,462	7,231	—
Cash and cash equivalents at end of period	$ 147,650	$ 89,232	$ 78,462	$ 147,650
Supplemental disclosure of cash flow information				
Interest paid	$ —	$ (30)	$ (92)	$ (584)
Supplemental disclosure of non-cash investing and financing activities				
Issuance of Convertible Preferred Stock warrants	—	—	—	70
Assets acquired under facility lease	2,971	—	—	2,971
Additions to property and equipment under tenant improvement allowances	1,910	—	—	1,910
Conversion of convertible preferred stock to common stock upon IPO	374,965			374,965
Reclassification of Convertible Preferred Stock warrants to liabilities	—	—	—	31
Reclassification of preferred warrants to common stock warrants	326			326
Issuance of common stock related to convertible preferred stock offering	281			281
Vesting of stock options related to early exercises	428			428

See accompanying notes to the consolidated financial statements.

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

Notes to Consolidated Financial Statements

1. Overview

Pacific Biosciences of California, Inc., ("Pacific Biosciences", "PacBio", "we", "us") is developing and commercializing a 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 third generation sequencing platform. Since inception, substantially all of our resources have been invested in the development and initial 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.

The names "Pacific Biosciences," "PacBio," "SMRT," "SMRTbell" and our logo are our trademarks.

Reverse Stock Split

On September 30, 2010, we effected a 1-for-2 reverse stock split of our outstanding common stock and a proportional adjustment to the conversion ratios for each series of preferred stock. Accordingly, all share and per share amounts for all periods presented in these consolidated financial statements and notes thereto, have been adjusted retroactively, where applicable, to reflect this reverse stock split and adjustment of the preferred stock conversion ratio.

Initial Public Offering

On October 26, 2010, our registration statement on Form S-1 relating to our initial public offering ("IPO") was declared effective by the Securities and Exchange Commission ("SEC") and our IPO closed on November 1, 2010, whereby we sold 12,500,000 shares of common stock at a price of $16.00 per share. The shares began trading on the NASDAQ Global Select Market under the trading symbol "PACB" on October 27, 2010. Subsequently on November 1, 2010, our underwriters exercised their overallotment option to purchase an additional 1,875,000 shares of common stock at $16.00 per share, which transaction closed on November 4, 2010. We received net proceeds of approximately $210.8 million from the initial public offering, including proceeds from the underwriter overallotment option, net of underwriting discounts, commissions, and offering costs.

In connection with the IPO, all outstanding convertible preferred stock converted into common stock, warrants to purchase convertible preferred stock converted into warrants to purchase common stock, and the convertible preferred stock warrant liability was reclassified to stockholders equity.

2. Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

Our consolidated 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. The consolidated financial statements include the accounts of PacBio and our wholly owned subsidiaries. All intercompany transactions and balances have been eliminated. Translation adjustments resulting from translating foreign subsidiaries' results of operations and assets and liabilities into U.S. dollars are immaterial for all periods presented.

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

Notes to Consolidated Financial Statements—(Continued)

2. Summary of Significant Accounting Policies (Continued)

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, inventory and contingencies. Actual results could differ from our estimates, and such differences could be material to our financial position and results of operations.

Fair Value of Financial Instruments

The carrying amount of certain of our financial assets and liabilities, including accounts receivable, 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 and after consideration of non-performance risk and credit risk, the carrying value of the facility financing obligation approximates 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 assets and liabilities that are measured at fair value on a recurring basis consist 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 classified as Level II instruments 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 Consolidated 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 assets and liability that were measured at fair value as of December 31, 2010 and 2009 by level within the fair value hierarchy (in thousands).

	December 31, 2010				December 31, 2009			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
Assets								
Money Market Funds	$118,462	$ —	$ —	$ 118,462	$ 87,464	$ —	$ —	$ 87,464
Commercial Paper	—	59,573	—	59,573	—	—	—	—
Corporate Debt Securities	—	49,970	—	49,970	—	3,503	—	3,503
U.S. Government and Agency Securities	—	47,141	—	47,141	—	—	—	—
Total assets measured at fair value	$118,462	$ 156,684	$ —	$ 275,146	$ 87,464	$ 3,503	$ —	$ 90,967
Liabilities								
Convertible Preferred Stock warrants	$ —	$ —	$ —	$ —	$ —	$ —	$ 226	$ 226
Total liabilities measured at fair value	$ —	$ —	$ —	$ —	$ —	$ —	$ 226	$ 226

We adjusted the warrant liability for changes in fair value until our IPO, at which time all unexercised warrants were automatically converted into warrants to purchase common stock and the warrant liability was reclassified to additional paid-in capital. The change in the fair value of the Level III convertible preferred stock warrant liability is summarized below (in thousands):

	Years Ended December 31,		
	2010	2009	2008
Fair value at beginning of period	$ 226	$ 142	$ 151
Change in fair value recorded in other expense, net	100	84	(9)
Liability reclassified to additional paid-in capital	(326)	—	—
Fair value at end of period	$ —	$ 226	$ 142

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 of money market funds.

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

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

Notes to Consolidated Financial Statements—(Continued)

2. Summary of Significant Accounting Policies (Continued)

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 expense, net. Realized gains and losses have not been material for all periods presented.

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 December 31, 2010.

Concentration of Credit Risk

Financial instruments that potentially subject us to a concentration of credit risk consist of cash, cash equivalents investments and accounts receivable. Cash balances are deposited with two domestic financial institutions and deposits may, from time to time, exceed federally insured limits. Cash equivalents consist primarily of investments in money market funds. We have not experienced any losses on our deposits of cash, cash equivalents, investments or accounts 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 public and 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.

We have chosen to source certain critical components from single source suppliers. If we were required to purchase these components from an alternative source, it could take several months or longer to qualify the alternative sources.

Inventory

Inventory is valued using the cost method, which values inventory at the lower of the actual cost or market. Cost is determined using the FIFO (first-in, first-out) method. Adjustments to reduce the cost of inventory to its net realizable value, if required, are made for estimated excess or obsolete balances.

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

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

Notes to Consolidated Financial Statements—(Continued)

2. Summary of Significant Accounting Policies (Continued)

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 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.

Deferred revenue primarily represents amounts paid by customers in advance related to our limited production release PacBio *RS* units which are expected to be upgraded to full commercial specifications in the future.

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. However, we 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

2. Summary of Significant Accounting Policies (Continued)

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 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 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.

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 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 guidance using the prospective transition method. Under the prospective transition method, compensation cost for stock-based awards granted prior to

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

Notes to Consolidated Financial Statements—(Continued)

2. Summary of Significant Accounting Policies (Continued)

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.

Convertible Preferred Stock Warrants

Prior to our IPO in October 2010, we accounted for freestanding warrants to purchase shares of our convertible preferred stock at fair value on the balance sheet because we may have been obligated to redeem these warrants at some point in the future. The warrants were subject to remeasurement at each balance sheet date with changes in fair value recognized as other expense, net in the consolidated statement of operations. We continued to adjust the liability for changes in fair value until our IPO, at which time all unexercised warrants automatically converted into warrants to purchase common stock and the warrant liability was reclassified to additional paid-in capital.

Segments

We operate as 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 consolidated statements of stockholders' equity (deficit).

Recent Accounting Pronouncements

During the fourth quarter of 2010, we adopted the new disclosure guidance related to the credit quality of financing receivables and the allowance for credit losses. This guidance requires companies to provide more information about the credit quality of their financing receivables in the disclosures to financial statements including, but not limited to, significant purchases and sales of financing receivables, aging information and credit quality indicators. The adoption of this accounting guidance did not have a significant impact on our consolidated financial statements.

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

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

Notes to Consolidated Financial Statements—(Continued)

2. Summary of Significant Accounting Policies (Continued)

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.

3. Investments

The following table summarizes our investments as of December 31, 2010 and 2009 (in thousands):

	As of December 31, 2010			
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair Value
Commercial Paper	$ 59,572	$ 1	$ —	$ 59,573
Corporate Debt Securities	49,987	11	(28)	49,970
U.S. Government and Agency Securities	47,146	3	(8)	47,141
	$156,705	$ 15	$ (36)	$156,684

	As of December 31, 2009			
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair Value
Corporate Debt Securities	$ 3,502	$ 2	$ (1)	$ 3,503
	$ 3,502	$ 2	$ (1)	$ 3,503

4. Balance Sheet Components

In 2010, we began recording inventory to our consolidated balance sheet. As of December 31, 2010 our inventory consisted of the following (in thousands).

	December 31, 2010
Purchased materials	$ 4,051
Work in Process	2,813
	$ 6,864

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

Notes to Consolidated Financial Statements—(Continued)

4. Balance Sheet Components (Continued)

As of December 31, 2010 and 2009, our property and equipment, net consisted of the following components (in thousands):

	December 31,	
	2010	2009
Building	$ 1,160	$ —
Laboratory equipment and machinery	10,998	10,307
Leasehold improvements	7,130	1,761
Computer equipment	3,033	1,928
Software	1,709	1,324
Furniture and fixtures	801	522
Construction in progress	8	619
	24,839	16,461
Less: Accumulated depreciation	(12,528)	(9,319)
Property and equipment, net	$ 12,311	$ 7,142

Depreciation expense during 2010, 2009, 2008, and for the period from July 14, 2000, the date of inception, to December 31, 2010, was $5.2 million, $4.1 million, $3.0 million and $15.6 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 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.

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 if we are the owner of the facility, we depreciate the assets over their expected useful lives.

As of December 31, 2010 and 2009, our accrued expenses and other current liabilities consisted of the following (in thousands):

	December 31, 2010	December 31, 2009
Salaries and benefits	$ 5,494	$ 1,785
Professional services	659	358
Short-term portion of deferred rent	573	—
Other	1,268	498
	$ 7,994	$ 2,641

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

Notes to Consolidated Financial Statements—(Continued)

5. 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.

Based on the allocation of payments, the facility financing obligation bears an implied interest rate of 9.0%. During 2010, we recognized $0.2 million of interest expense in our consolidated statement of operations relating to the facility financing obligation.

As of December 31, 2010, the future minimum payments due under the facility financing obligation were as follows (in thousands):

	Financing obligation
2011	$ 397
2012	415
2013	433
2014	452
2015	473
Total Payments	2,170
Less amount representing interest	(1,284)
	886
Property reverting to landlord	2,151
Present value of obligation	3,037
Less current portion of obligation	(110)
Long-term portion of obligation	$ 2,927

6. Commitments and Contingencies

Operating Lease Commitment

As of December 31, 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 December 2015. During 2010, we continued the expansion of our manufacturing and office space and renegotiated certain lease agreements to extend expiration dates. In December 2010, we entered into three new leases for approximately 89,800 additional square feet which we intend to occupy in 2011.

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

Notes to Consolidated Financial Statements—(Continued)

6. Commitments and Contingencies (Continued)

Rent expense for 2010, 2009, 2008, and, cumulatively, for the period from July 14, 2000, the date of inception, to December 31, 2010, was $2.1 million, $1.4 million, $1.1 million, and $5.7 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, 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
2011	$ 2,637
2012	3,077
2013	3,166
2014	3,256
2015	3,347
Thereafter	—
Total minimum lease payments	$15,483

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, 2009 and 2008 and, cumulatively, for the period from July 14, 2000, the date of inception, to December 31, 2010 were $0.5 million, $0.5 million and $2.5 million, respectively, and were expensed as incurred.

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 may be obligated to pay minimum royalty and license maintenance fees. License and maintenance fees for 2010, 2009 and 2008 and, cumulatively, for the period from July 14, 2000, our date of inception, to December 31, 2010, was $0.3 million, $0.2 million, $0.1 million, and $0.7 million, respectively. Pursuant to the terms of the agreements, future license maintenance fees and minimum royalty payments amount to $0.4 million for each of 2011, 2012 and 2013 and thereafter.

Upon commercialization of products including the licensed technologies, we may be 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.

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

Notes to Consolidated Financial Statements—(Continued)

6. Commitments and Contingencies (Continued)

On August 27, 2010, we were named as a defendant in a complaint filed by Helicos Biosciences Corporation, or Helicos, alleging infringement of patents owned and in–licensed by the plaintiffs. Helicos seeks a permanent injunction enjoining us from further infringement of the asserted patents, and unspecified monetary damages. On October 22, 2010, Helicos filed an amended complaint naming additional defendants in the lawsuit. On November 8, 2010, we filed our answer to Helicos' complaint denying Helicos' allegations, asserting affirmative defenses of noninfringement, invalidity and unenforceability of the claims of the patents in suit, and asserting counterclaims for declaratory judgment that our products do not infringe the claims of the patents in suit, and that those claims are invalid and unenforceable.

Despite our defenses and counterclaims, we cannot guarantee any outcome of this lawsuit. An estimate of the possible loss or possible range of loss associated with the resolution of this contingency cannot be provided with certainty or confidence, and therefore no estimate is provided and we have not recorded a liability.

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, 2010.

7. 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,		
	2010	2009	2008
Statutory tax rate	(35.0)%	(34.0)%	(34.0)%
State tax rate, net of federal benefit	(5.7)	(5.8)	(5.8)
Stock-based compensation	1.6	1.0	1.3
Federal R&D credit	(2.0)	(2.6)	(2.8)
CA R&D credit	(1.1)	(1.8)	(1.9)
Other	0.2	0.3	0.4
Change in valuation allowance	43.5	42.9	42.5
Change of implied statutory tax rate to prior years	(1.5)	0.0	0.3
Effective income tax rate	0.0%	0.0%	0.0%

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

Notes to Consolidated Financial Statements—(Continued)

7. Income Taxes (Continued)

Temporary differences and carryforwards that gave rise to significant portions of deferred taxes are as follows (in thousands):

	December 31, 2010	December 31, 2009
Net operating loss carryforwards	$ 117,031	$ 60,503
Research and development credits	12,391	7,568
Depreciation	1,342	2,272
Accruals and reserves	4,282	3,665
	135,046	74,008
Less: Valuation allowance	(135,046)	(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.

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, 2010.

As of December 31, 2010, we had federal and state net operating loss carryforwards of approximately $289.6 million and $286.3 million, respectively, available to reduce future taxable income, if any.

The federal net operating loss carryforward begins expiring in 2025, and the state net operating loss carryforward begins expiring in 2015.

We also had federal and California state research and development credit carryforwards of approximately $11.0 million and $10.2 million, respectively, as of December 31, 2010. The federal credits will expire starting 2025 if not utilized. The California tax credits can be carried forward indefinitely.

Tax attributes related to stock option windfall deductions are not recorded until they result in a reduction of cash tax payable. Our federal and state net operating losses from windfall deductions were excluded from our deferred tax asset balance as of December 31, 2010. The benefit of the federal and state net operating loss deferred tax assets of $0.6 million and $0.1 million, respective, will be recorded to additional paid-in capital when they reduce cash tax payable.

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.

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
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Notes to Consolidated Financial Statements—(Continued)

7. Income Taxes (Continued)

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, 2010, our total unrecognized tax benefit was $6.4 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):

Balance as of December 31, 2008	$1,912
Increase in balance related to tax positions taken during 2009	2,025
Balance as of December 31, 2009	3,937
Increase in balance related to tax positions taken in prior year	198
Increase in balance related to tax positions taken during current year	2,222
Balance as of December 31, 2010	$6,357

Our practice is to recognize interest and/or penalties related to income tax matters in income tax expense. As of December 31, 2010 and 2009, we had no accrued interest or penalties due to our net operating losses available to offset any tax adjustment. We file U.S. federal and various state income tax returns. For U.S. federal and state income tax purposes, the statute of limitation currently remains open for the years ending December 31, 2007 to present and December 31, 2006 to present, respectively. In addition, all of the net operating losses and research and development credit carryforwards that may be utilized in future years may be subject to examination. We are not currently under examination by tax authorities in any jurisdiction.

8. Convertible Preferred Stock

As of December 31, 2010, there were no shares of convertible preferred stock issued or outstanding as all shares of preferred stock converted to shares of common stock upon completion of the IPO.

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

8. Convertible Preferred Stock and Junior Preferred Stock (Continued)

During June and July 2010, we issued an aggregate of 14,265,782 shares of Series F convertible preferred stock at $7.63 per share and received proceeds of $106.1 million, net of issuance costs of $2.9 million, bringing our aggregate preferred stock outstanding at the time of the IPO to 74,367,120 shares. Each share of convertible preferred stock converted on a two-for one basis into common stock upon the closing of our IPO declared effective by the SEC on October 26, 2010.

Warrants to Purchase Convertible Preferred Stock

In connection with loan and security agreements entered into in 2004 and 2006 which have since been fully repaid, we issued 50,569 warrants to purchase convertible preferred stock. The fair value of the warrants was estimated using the Black-Scholes valuation model at the dates of issuance and recorded as debt issuance costs that were amortized to interest expense over the contractual life of 7 years. The fair value of the warrants outstanding was recorded as a liability and revalued each subsequent reporting period with the resulting gains and losses recorded in other expense, net. In accordance with these revaluations, we recorded expense (income) of approximately $100,000, $84,000 and $(9,000) for the years ended December 31, 2010, 2009 and 2008. For the cumulative period from July 14, 2000 (date of inception) to December 31, 2010, approximately $0.3 million was recorded as expense as a result of the revaluation.

We continued to adjust the liability for changes in fair value until the completion of our IPO, at which time all unexercised warrants converted into warrants to purchase 25,282 shares of common stock and the liability was reclassified to stockholders equity. On November 1, 2010, 15,384 warrants to purchase common stock were exercised.

9. Common Stock

Our Certificate of Incorporation, as amended and restated in October 2010 in connection with the closing of our IPO, authorizes us to issue 1,000,000,000 shares of $0.001 par value common stock and 50,000,000 shares of $0.001 par value preferred stock. As of December 31, 2010, there were no shares of preferred stock issued or outstanding.

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.

Early Exercise of Employee Options

Stock options granted under the 2005 Stock Plan 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 169,176, 59,145 and 155,364 at December 31, 2010, 2009, and 2008, 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, 2010, 2009, and 2008, we

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Notes to Consolidated Financial Statements—(Continued)

9. Common Stock (Continued)

included cash received for early exercise of options of $0.8 million, $0.2 million and $0.2 million, respectively, in accrued liabilities. Amounts from accrued liabilities are transferred into common stock and additional paid-in capital as the shares vest.

10. Stock Option Plans

As of December 31, 2010, we had two active equity compensation plans, the 2010 Equity Incentive Plan, or 2010 Plan, and the 2010 Outside Director Equity Incentive Plan, or 2010 Director Plan, both of which we adopted upon the effectiveness of our IPO during October 2010. Prior to the adoption of these plans, we granted options pursuant to the 2004 Equity Incentive Plan, through August 2005, and the 2005 Stock Plan, through October 2010. Upon termination of the predecessor plans, the shares available for grant at the time of termination, and shares subsequently returned to the plans upon forfeiture or option termination, were transferred to the successor plan in effect at the time of share return.

2010 Equity Incentive Plan

Stock options granted under the 2010 Plan may be either ISOs or NSOs. ISOs may be granted only to employees. NSOs may be granted to employees, consultants and directors. Stock options under the 2010 Plan may be granted with a term of up to ten years and at prices no less than the fair market value of our common stock on the date of grant. To date, stock options granted generally vest over four years and vest at a rate of 25% upon the first anniversary of the vesting commencement date and 1/48th per month thereafter. As of December 31, 2010 we had reserved 2,500,000 shares of common stock for issuance under the 2010 Plan.

The remaining common stock available for issuance under the 2005 Plan were made available for future grant under the 2010 Plan. Outstanding options under the 2005 Plan that expire or are canceled without having been exercised in full or are repurchased or forfeited will be available for future issuance under the 2010 Plan. We issue new shares of common stock upon exercise of stock options.

2010 Outside Director Equity Incentive Plan

Stock options granted under the 2010 Director Plan provide for the grant of NSOs. Stock options under the 2010 Plan may be granted with a term of up to ten years and at prices no less than the fair market value of our common stock on the date of grant. To date, stock options granted generally vest over three years and vest at a rate of one-third upon the first anniversary of the vesting commencement date and 1/36th per month thereafter. As of December 31, 2010 we had reserved 500,000 shares of common stock for issuance under the 2010 Director Plan.

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Notes to Consolidated Financial Statements—(Continued)

10. Stock Option Plans (Continued)

Stock Options

The following table summarizes stock option activity for all stock option plans:

	Common Stock Options Outstanding			
	Shares available for grant	Number of shares	Exercise price	Weighted average exercise price
Options granted	—	1,379,000	$ 0.20 – 0.26	$ 0.21
Options exercised	—	(845,375)	$ 0.20	$ 0.20
Balances, December 31, 2004	—	533,625	$ 0.20 – 0.26	$ 0.22
Additional shares reserved	766,748			
Options granted	(770,726)	770,726	$ 0.26 – 0.70	$ 0.54
Options exercised	—	(506,699)	$ 0.20 – 0.26	$ 0.23
Options canceled	41,822	(41,822)	$ 0.20 – 0.26	$ 0.21
Balances, December 31, 2005	37,844	755,830	$ 0.20 - 0.70	$ 0.53
Additional shares reserved	1,226,735			
Options granted	(772,550)	772,550	$ 0.70 - 0.70	$ 0.70
Options exercised		(163,497)	$ 0.20 – 0.70	$ 0.62
Options repurchased and added back into pool	121,132			
Options canceled	91,376	(91,376)	$ 0.26 – 0.70	$ 0.38
Balances, December 31, 2006	704,537	1,273,507	$ 0.20 – 0.70	$ 0.63
Additional shares reserved	1,550,000			
Options granted	(2,222,701)	2,222,701	$ 1.96 – 1.96	$ 1.96
Options exercised	—	(159,634)	$ 0.26 – 1.96	$ 1.08
Options repurchased and added back into pool	7,032			
Options canceled	201,209	(201,209)	$ 0.70 – 1.96	$ 1.13
Balances, December 31, 2007	240,077	3,135,365	$ 0.20 – 1.96	$ 1.52
Additional shares reserved	2,903,923			
Options granted	(2,274,127)	2,274,127	$ 2.52 – 6.96	$ 5.25
Options exercised		(343,095)	$ 0.20 – 6.96	$ 1.45
Options canceled	106,649	(106,649)	$ 0.70 – 6.96	$ 2.18
Balances, December 31, 2008	976,522	4,959,748	$ 0.20 – 6.96	$ 3.22
Additional shares reserved	2,705,678			
Options granted	(1,786,251)	1,786,251	$ 3.86 – 8.50	$ 5.66
Options exercised	—	(89,241)	$ 0.26 – 6.96	$ 3.50
Options repurchased and added back into pool	5,177			
Options canceled	81,923	(81,923)	$ 1.96 – 6.96	$ 5.35
Balances, December 31, 2009	1,983,049	6,574,835	$ 0.20 - 8.50	$ 3.85
Additional shares reserved	5,500,000			
Options granted	(4,139,143)	4,139,143	$ 8.50 -16.00	$ 10.85
Options exercised		(606,963)	$ 0.70 –10.84	$ 2.86
Options canceled	293,642	(293,642)	$ 1.96 –13.42	$ 6.84
Balances, December 31, 2010	3,637,548	9,813,373	$ 0.20 -16.00	$ 6.78

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
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Notes to Consolidated Financial Statements—(Continued)

10. Stock Option Plans (Continued)

The following table summarizes information with respect to stock options outstanding and exercisable under the plans at December 31, 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
$0.22 – 3.20	2,950,395	6.22	$ 1.75		2,419,960	$ 1.65	
$3.21 – 6.40	1,207,072	8.32	$ 4.61		495,046	$ 4.55	
$6.41 – 8.00	1,239,901	7.69	$ 6.96		665,034	$ 6.96	
$8.01 – 11.20	2,885,650	9.04	$ 8.94		663,991	$ 8.51	
$11.21 – 14.40	1,101,896	9.65	$ 13.15		729	$ 12.74	
$14.41 – 16.00	428,459	9.82	$ 16.00		—	n/a	
	9,813,373		$ 6.78	$ 89,669	4,244,760	$ 3.89	$ 51,001

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 $15.91 per share at December 31, 2010.

The total intrinsic value of options exercised during the years ended December 31, 2010 and 2009 was $6.0 million and $0.3 million, respectively.

Stock-based Compensation

Stock-based compensation expense under the fair value method for 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,			Period From July 14, 2000 (Date of Inception) to December 31, 2010
	2010	2009	2008	
Research and development	$ 5,733	$ 2,314	$ 1,183	$ 9,678
Sales, general and administrative	3,112	748	387	4,508
Total stock-based compensation expense	$ 8,845	$ 3,062	$ 1,570	$ 14,186

Employee Stock-based Compensation

During the years ended December 31, 2010, 2009 and 2008, we granted 4,126,393, 1,712,500 and 2,182,375 stock options, respectively, to employees with a weighted-average grant date fair value of $5.49, $2.58 and $2.92 per share, respectively. As of December 31, 2010 there was unrecognized compensation costs of $23.2 million related to these stock options. We expect to recognize those costs over a weighted-average period of 3.2 years as of December 31, 2010. Future option grants will increase the amount of compensation expense to be recorded in these periods.

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Notes to Consolidated Financial Statements—(Continued)

10. Stock Option Plans (Continued)

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,		
	2010	2009	2008
Expected term	6.0 years	5.7 years	7.0 years
Expected volatility	46 - 55%	46 - 48%	50 - 52%
Risk-free interest rate	1.6 - 2.7%	1.8 - 3.0%	2.8 - 3.5%
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 — We do not have sufficient trading history to use the volatility of our own common stock for establishing expected volatility. Therefore, we based our expected volatility on the historical stock volatilities of several publicly listed comparable companies over a period equal to the expected terms of the options, as.

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.

Dividend yield — We have never paid dividends and do not expect to pay dividends for the foreseeable future.

Fair value of common stock — The fair values of the common stock underlying stock options granted through September 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. 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.

Our common stock became publicly listed upon our IPO at which time options granted are issued at a price equal to the closing price on the date of grant.

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

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Notes to Consolidated Financial Statements—(Continued)

10. Stock Option Plans (Continued)

employee turnover behavior and other factors. The impact from a forfeiture rate adjustment will be recognized in 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 $0.8 million, $0.5 million, and $0.1 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Options Granted to Non-employees

During the years ended December 31, 2010, 2009 and 2008 we granted options to purchase 12,750, 73,750 and 95,750 shares of common stock, respectively, to non-employees at exercise prices ranging from $1.96 to $12.74 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 $1.0 million, $0.4 million, $0.3 million and $2.0 million, for the years ended December 31, 2010, 2009 and 2008 and the period from July 14, 2000, the date of inception, to December 31, 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,		
	2010	2009	2008
Contractual life	10 years	10 years	10 years
Expected volatility	60% - 75%	75%	75%
Risk-free interest rate	3.3 – 3.9%	2.8 – 3.7%	2.4 – 4.1%
Dividend yield	—	—	—

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
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Notes to Consolidated Financial Statements—(Continued)

10. Stock Option Plans (Continued)

Shares Reserved for Future Issuance

As of December 31, 2010 and 2009 we had reserved shares of Common Stock for issuance as follows:

	December 31, 2010	December 31, 2009
Conversion of Convertible Preferred Stock	—	30,050,669
Exercise of Options	13,450,922	8,610,959
Exercise of warrants	9,898	25,282
	13,460,820	38,686,910

11. 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 potentially dilutive securities. Diluted net loss per share is computed by dividing the net loss by the weighted-average number of unrestricted common shares and potentially dilutive securities 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 common stock subject to repurchase, and warrants are considered to be potentially dilutive securities and are only included in the calculation of diluted net loss per share when their effect is dilutive.

The following table presents the computation of basic and diluted net loss per share (dollars in thousands, except per share values):

	Years Ended December 31,		
	2010	2009	2008
Net loss per share:			
Numerator			
Net loss	$ (140,166)	$ (87,703)	$ (43,754)
Denominator:			
Weighted average shares of common stock outstanding	10,024,347	601,512	455,964
Less: Shares of common stock subject to repurchase	(85,936)	(94,647)	(129,009)
Weighted average shares used in computation of basic and diluted net loss per share	9,938,411	506,865	326,955
Basic and diluted net loss per share	$ (14.10)	$ (173.03)	$ (133.82)

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.
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Notes to Consolidated Financial Statements—(Continued)

11. Net Loss Per Share (Continued)

The following convertible preferred stock, options outstanding, common stock subject to repurchase, and warrants to purchase common 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:

	Years Ended December 31,		
	2010	2009	2008
Convertible Preferred Stock (on an as if converted basis)	—	30,050,669	25,183,728
Options outstanding	9,813,373	6,574,835	4,959,748
Common Stock subject to repurchase	169,176	59,145	155,364
Warrants to purchase Common Stock	9,898	25,282	25,282

12. Employee Benefit and Employee Stock Purchase Plan

Retirement Plans

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.

Employee Stock Purchase Plan

Upon the effectiveness of our IPO in October 2010, we adopted the 2010 Employee Stock Purchase Plan, or ESPP. We reserved a total of 750,000 shares of common stock for issuance under the ESPP. We issue new shares of common stock upon the purchase of the option. Our ESPP permits eligible employees to purchase common stock at a discount through payroll deductions during defined offering periods. Each offering period will generally consist of four purchase periods, each purchase period being approximately six months. The price at which the stock is purchased is equal to the lower of 85% of the fair market value of the common stock at the beginning of an offering period or at the end of a purchase period. For the year ended December 31, 2010, no shares of common stock were purchased under the Plan.

Under the ESPP, rights to purchase shares are generally granted during the first and third quarter of each year. The fair value of rights granted under the ESPP was estimated at the date of grant using the Black-Scholes option-pricing model. The estimated weighted average value of rights granted under the Employee Stock Purchase Plan during 2010 was $6.34. The fair value of rights granted during 2010 were estimated at the date of grant using the following weighted-average assumptions:

	December 31, 2010
Expected term	1.3 years
Expected volatility	55%
Risk-free interest rate	0.3%
Expected Dividend yield	—

Expected term — Expected term represents the period that awards are expected to be outstanding and correlate to the respective offering periods of the rights granted.

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Notes to Consolidated Financial Statements—(Continued)

12. Employee Benefit and Employee Stock Purchase Plan (Continued)

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.

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 award's expected term.

Expected dividend yield — We have never paid dividends and do not expect to pay dividends.

13. Quarterly Financial Data (unaudited)

The following table summarizes the unaudited quarterly financial data for the last two fiscal years.

(In thousands, except per share data)	Fiscal 2010 Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
Total operating expenses	$ 30,819	$ 33,304	$ 40,916	$ 36,869
Loss from operations	(30,274)	(32,675)	(40,696)	(36,589)
Net loss	(30,325)	(32,714)	(40,708)	(36,419)
Basic and diluted net loss per share of Common Stock	$ (48.97)	$ (49.76)	$ (39.70)	$ (0.97)

	Fiscal 2009 Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
Total operating expenses	$ 16,348	$ 19,080	$ 24,568	$ 28,209
Loss from operations	(16,348)	(19,080)	(24,568)	(28,074)
Net loss	(16,099)	(19,012)	(24,529)	(28,063)
Basic and diluted net loss per share of Common Stock	$ (34.95)	$ (38.53)	$ (46.74)	$ (48.05)

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Evaluation of Controls and Procedures

Our management, with the participation of our chief executive officer and our chief financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this Annual Report on Form 10-K. Based on this evaluation, our chief executive officer and our chief financial officer concluded that our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and that such information is accumulated and communicated to our management, including our chief executive officer and our chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Management’s Annual Report on Internal Control Over Financial Reporting

This Annual Report on Form 10-K does not include a report of management’s assessment regarding internal control over financial reporting or an attestation report of the Company’s independent registered public accounting firm due to a transition period established by rules of the Securities and Exchange Commission for newly public companies.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during our fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Information responsive to this item is incorporated herein by reference to our definitive proxy statement with respect to our 2011 Annual Meeting of Shareholders to be filed with the SEC within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION.

Information responsive to this item is incorporated herein by reference to our definitive proxy statement with respect to our 2011 Annual Meeting of Shareholders to be filed with the SEC within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

Information responsive to this item is incorporated herein by reference to our definitive proxy statement with respect to our 2011 Annual Meeting of Shareholders to be filed with the SEC within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

Information responsive to this item is incorporated herein by reference to our definitive proxy statement with respect to our 2011 Annual Meeting of Shareholders to be filed with the SEC within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

Information responsive to this item is incorporated herein by reference to our definitive proxy statement with respect to our 2011 Annual Meeting of Shareholders to be filed with the SEC within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

(a) The following documents are filed as part of, or incorporated by reference into, this Annual Report on Form 10-K:

1. *Financial Statements*: See Index to Consolidated Financial Statements under Item 8 of this Annual Report on Form 10-K.

2. *Financial Statement Schedules*: All schedules are omitted because they are not required, are not applicable or the information is included in the consolidated financial statements or notes thereto.

3. *Exhibits*: We have filed, or incorporated by reference into this Annual Report on Form 10-K, the exhibits listed on the accompanying Exhibit Index immediately following the signature page of this Annual Report on Form 10-K.

(b) Exhibits: See Item 15(a)(3), above.

(c) Financial Statement Schedules: See Item 15(a)(2), above.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Menlo Park, State of California, on March 23, 2011.

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.

By: /S/ SUSAN K. BARNES
Susan K. Barnes
Senior Vice President and Chief Financial Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Hugh C. Martin and Susan K. Barnes, and each of them, his or her true and lawful attorney-in-fact and agent, with full power of substitution, each with power to act alone, to sign and execute on behalf of the undersigned any and all amendments to this Annual Report on Form 10-K, and to perform any acts necessary in order to file the same, with all exhibits thereto and other documents in connection therewith with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requested and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or their or his or her substitutes, shall 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	Chairman, Chief Executive Officer and President	March 23, 2011
/S/ SUSAN K. BARNES Susan K. Barnes	Senior Vice President and Chief Financial Officer	March 23, 2011
/s/ Brian B. Dow Brian B. Dow	Vice President, Finance and Principal Accounting Officer	March 23, 2011
/s/ Brook Byers Brook Byers	Director	March 23, 2011
/s/ William W. Ericson William W. Ericson	Director	March 23, 2011
/s/ Michael Hunkapiller Michael Hunkapiller	Director	March 23, 2011
/s/ Randall S. Livingston Randall S. Livingston	Director	March 23, 2011
/s/ Susan Siegel Susan Siegel	Director	March 23, 2011
/s/ David B. Singer David B. Singer	Director	March 23, 2011

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Exhibit Index

Exhibit Number	Description	Incorporated by reference herein: Form	Exhibit No.	Filing Date
3.1	Amended and Restated Certificate of Incorporation			
3.2	Amended and Restated Bylaws			
4.1	Specimen Common Stock Certificate	S-1/A	4.1	October 1, 2010
4.2	Fifth Amended and Restated Investor Rights Agreement, dated June 16, 2010	S-1	4.2	August 16, 2010
10.1+	Form of Director and Executive Officer Indemnification Agreement	S-1	10.1	August 16, 2010
10.2+	2004 Equity Incentive Plan and forms of agreement thereunder	S-1	10.2	August 16, 2010
10.3+	2005 Stock Plan and forms of option agreements thereunder	S-1	10.3	August 16, 2010
10.4+	2010 Equity Incentive Plan and forms of option agreements thereunder	S-1	10.4	August 16, 2010
10.5+	2010 Employee Stock Purchase Plan and forms of agreement thereunder	S-1	10.5	August 16, 2010
10.6+	2010 Outside Director Equity Incentive Plan and forms of agreement thereunder	S-1	10.6	August 16, 2010
10.7†	Collaboration Agreement by and between the Registrant and Gen-Probe Incorporated, dated as of June 15, 2010	S-1/A	10.7	October 22, 2010
10.8†	Exclusive License Agreement by and between the Registrant and Cornell Research Foundation, Inc., dated as of February 1, 2004	S-1/A	10.8	October 22, 2010
10.9†	License Agreement by and between the Registrant and GE Healthcare Bio-Sciences Corp., dated as of September 11, 2006	S-1/A	10.9	October 22, 2010
10.10†	Exclusive License Agreement by and between the Registrant and Indiana University Research and Technology Corporation, dated May 15, 2005	S-1/A	10.10	October 19, 2010
10.11	Amended and Restated Lease Agreement by and between the Registrant and Menlo Business Park, LLC, dated as of December 17, 2007	S-1	10.11	August 16, 2010
10.12	Lease Agreement by and between the Registrant and Menlo Business Park LLC, dated August 14, 2009	S-1	10.12	August 16, 2010
10.13	Industrial Lease Agreement by and between the Registrant and AMB Property, L.P., dated December 10, 2009	S-1	10.13	August 16, 2010

Exhibit Number	Description	Incorporated by reference herein Form	Exhibit No.	Filing Date
10.14	Third Amendment to the December 10, 2009 Industrial Lease by and between the Registrant and AMB Property, L.P. dated December 29, 2010			
10.15	Industrial Lease Agreement by and between the Registrant and AMB Property, L.P., dated September 24, 2009	S-1	10.14	August 16, 2010
10.16	Third Amendment to the September 24, 2009 Industrial Lease by and between the Registrant and AMB Property, L.P. dated December 29, 2010			
10.17	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	S-1	10.15	August 16, 2010
10.18	Industrial Lease Agreement by and between the Registrant and AMB Property, L.P., dated February 8, 2010	S-1	10.16	August 16, 2010
10.19	First Amendment to the February 8, 2010 Industrial Lease by and between the Registrant and AMB Property, L.P. dated December 29, 2010			
10.20	Lease by and between the Registrant and Willow Park Holding Company I, L.P. dated December 17, 2010			
10.21	Lease by and between the Registrant and AMB Property, L.P. dated December 17, 2010			
10.22	Lease by and between the Registrant and Willow Park Holding Company II, L.P. dated December 17, 2010			
10.23+	Employment Agreement by and between the registrant and Hugh Martin effective September 16, 2010	S-1/A	10.17	September 20, 2010
10.24+	Change in Control Severance Agreement by and between the registrant and Hugh Martin effective September 16, 2010	S-1/A	10.18	September 20, 2010
10.25+	Letter Relating to Employment Terms by and between the registrant and Susan K. Barnes effective September 15, 2010	S-1/A	10.19	September 20, 2010
10.26+	Change in Control Severance Agreement by and between the registrant and Susan K. Barnes effective September 9, 2010	S-1/A	10.20	September 20, 2010
10.27+	Letter Relating to Employment Terms by and between the registrant and Stephen Turner effective September 15, 2010	S-1/A	10.21	September 20, 2010
10.28+	Change in Control Severance Agreement by and between the registrant and Stephen Turner effective September 9, 2010	S-1/A	10.22	September 20, 2010

Exhibit Number	Description	Incorporated by reference herein Form	Exhibit No.	Filing Date
10.29+	Letter Relating to Employment Terms by and between the registrant and James Michael Phillips effective September 15, 2010	S-1/A	10.23	September 20, 2010
10.30+	Change in Control Severance Agreement by and between the registrant and James Michael Phillips effective September 9, 2010	S-1/A	10.24	September 20, 2010
23.1	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm			
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002			
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002			
32.1	Certifications of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002			
32.2	Certifications of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002			

+ Indicates management contract or compensatory plan

† 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.

a Delaware corporation

Pacific Biosciences of California, Inc., a corporation organized and existing under the laws of the State of Delaware (the "**Corporation**"), hereby certifies as follows:

A. The name of the Corporation is Pacific Biosciences of California, Inc. The Corporation's original Certificate of Incorporation was filed with the Secretary of State of the State of Delaware on July 14, 2000 under the name "Nanofluidics, Inc."

B. This Amended and Restated Certificate of Incorporation was duly adopted in accordance with Sections 242 and 245 of the General Corporation Law of the State of Delaware (the "**DGCL**"), and restates, integrates and further amends the provisions of the Corporation's Eighth Amended and Restated Certificate of Incorporation, and has been duly approved by the written consent of the stockholders of the corporation in accordance with Section 228 of the DGCL.

C. The text of the Amended and Restated Certificate of Incorporation of this Corporation is hereby amended and restated to read in its entirety as follows:

ARTICLE I

The name of the corporation is Pacific Biosciences of California, Inc.

ARTICLE II

The address of the Corporation's registered office in the State of Delaware is 3500 South DuPont Highway, City of Dover, County of Kent, Delaware 19901. The name of its registered agent at such address is Incorporating Services, Ltd.

ARTICLE III

The nature of the business or purposes to be conducted or promoted by the Corporation is to engage in any lawful act or activity for which corporations may be organized under the DGCL.

ARTICLE IV

4.1 Authorized Capital Stock. The total number of shares of all classes of capital stock which the corporation is authorized to issue is 1,050,000,000 shares, consisting of 1,000,000,000 shares of Common Stock, par value $0.001 per share (the "**Common Stock**"), and 50,000,000 shares of Preferred Stock, par value $0.001 per share (the "**Preferred Stock**").

4.2 Increase or Decrease in Authorized Capital Stock. The number of authorized shares of Preferred Stock or Common Stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority in voting power of the stock of the corporation entitled to vote generally in the election of directors, irrespective of the provisions of Section 242(b)(2) of the DGCL (or any successor provision thereto), voting together as a single class, without a separate vote of the holders of the class or classes the number of authorized shares of which are being increased or decreased, unless a vote by any holders of one or more series of Preferred Stock is required by the express terms of any series of Preferred Stock as provided for or fixed pursuant to the provisions of Section 4.4 of this Article IV.

4.3 Common Stock.

(a) The holders of shares of Common Stock shall be entitled to one vote for each such share on each matter properly submitted to the stockholders on which the holders of shares of Common Stock are entitled to vote. Except as otherwise required by law or this certificate of incorporation (this "**Certificate of Incorporation**" which term, as used herein, shall mean the certificate of incorporation of the corporation, as amended from time to time, including the terms of any certificate of designations of any series of Preferred Stock), and subject to the rights of the holders of Preferred Stock, at any annual or special meeting of the stockholders the holders of shares of Common Stock shall have the right to vote for the election of directors and on all other matters properly submitted to a vote of the stockholders; provided, however, that, except as otherwise required by law, holders of Common Stock shall not be entitled to vote on any amendment to this Certificate of Incorporation that relates solely to the terms, number of shares, powers, designations, preferences, or relative participating, optional or other special rights (including, without limitation, voting rights), or to qualifications, limitations or restrictions thereon, of one or more outstanding series of Preferred Stock if the holders of such affected series are entitled, either separately or together with the holders of one more other such series, to vote thereon pursuant to this Certificate of Incorporation (including, without limitation, by any certificate of designations relating to any series of Preferred Stock) or pursuant to the DGCL.

(b) Subject to the rights of the holders of Preferred Stock, the holders of shares of Common Stock shall be entitled to receive such dividends and other distributions (payable in cash, property or capital stock of the corporation) when, as and if declared thereon by the Board of Directors from time to time out of any assets or funds of the corporation legally available therefor and shall share equally on a per share basis in such dividends and distributions.

(c) In the event of any voluntary or involuntary liquidation, dissolution or winding-up of the corporation, after payment or provision for payment of the debts and other liabilities of the corporation, and subject to the rights of the holders of Preferred Stock in respect thereof, the holders of shares of Common Stock shall be entitled to receive all the remaining assets of the corporation available for distribution to its stockholders, ratably in proportion to the number of shares of Common Stock held by them.

4.4 Preferred Stock.

(a) The Preferred Stock may be issued from time to time in one or more series pursuant to a resolution or resolutions providing for such issue duly adopted by the Board of Directors (authority to do so being hereby expressly vested in the Board of Directors). The Board of Directors is further authorized, subject to limitations prescribed by law, to fix by resolution or resolutions and to set forth in a certification of designations filed pursuant to the DGCL the powers, designations, preferences and relative, participation, optional or other rights, if any, and the qualifications, limitations or restrictions thereof, if any, of any wholly unissued series of Preferred Stock, including without limitation dividend rights, dividend rate, conversion rights, voting rights, rights and terms of redemption (including sinking fund provisions), redemption price or prices, and liquidation preferences of any such series, and the number of shares constituting any such series and the designation thereof, or any of the foregoing.

(b) The Board of Directors is further authorized to increase (but not above the total number of authorized shares of the class) or decrease (but not below the number of shares of any such series then outstanding) the number of shares of any series, the number of which was fixed by it, subsequent to the issuance of shares of such series then outstanding, subject to the powers, preferences and rights, and the qualifications, limitations and restrictions thereof stated in the Certificate of Incorporation or the resolution of the Board of Directors originally fixing the number of shares of such series. If the number of shares of any series is so decreased, then the shares constituting such decrease shall resume the status which they had prior to the adoption of the resolution originally fixing the number of shares of such series.

ARTICLE V

5.1 General Powers. The business and affairs of the corporation shall be managed by or under the direction of the Board of Directors.

5.2 Number of Directors; Election; Term.

(a) Subject to the rights of holders of any series of Preferred Stock with respect to the election of directors, the number of directors that constitutes the entire Board of Directors of the corporation shall be fixed solely by resolution of the Board of Directors.

(b) Subject to the rights of holders of any series of Preferred Stock with respect to the election of directors, effective upon the closing date (the "**Effective Date**") of the initial sale of shares of common stock in the corporation's initial public offering pursuant to an effective registration statement filed under the Securities Act of 1933, as amended, the directors of the corporation shall be divided into three classes as nearly equal in size as is practicable, hereby designated Class I, Class II and Class III. The initial assignment of members of the Board of Directors to each such class shall be made by the Board of Directors. The term of office of the initial Class I directors shall expire at the first regularly-scheduled annual meeting of the stockholders following the Effective Date, the term of office of the initial Class II directors shall expire at the second annual meeting of the stockholders following the Effective Date and the term of office of the initial Class III directors shall expire at the third annual meeting of the stockholders following the Effective Date. At each annual meeting of stockholders, commencing with the first regularly-scheduled annual meeting of stockholders following the Effective Date, each of the successors elected to replace the directors of a Class whose term shall have expired at such annual meeting shall be elected to hold office until the third annual meeting next succeeding his or her election and until his or her respective successor shall have been duly elected and qualified. Subject to the rights of holders of any series of Preferred Stock with respect to the election of directors, if the number of directors that constitutes the Board of Directors is changed, any newly created directorships or decrease in directorships shall be so apportioned by the Board of Directors among the classes as to make all classes as nearly equal in number as is practicable, provided that no decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

(c) Notwithstanding the foregoing provisions of this Section 5.1, and subject to the rights of holders of any series of Preferred Stock with respect to the election of directors, each director shall serve until his or her successor is duly elected and qualified or until his or her earlier death, resignation, or removal.

(d) Elections of directors need not be by written ballot unless the Bylaws of the corporation shall so provide.

5.3 Removal. Subject to the rights of holders of any series of Preferred Stock with respect to the election of directors, a director may be removed from office by the stockholders of the corporation only for cause.

5.4 Vacancies and Newly Created Directorships. Subject to the rights of holders of any series of Preferred Stock with respect to the election of directors, and except as otherwise provided in the DGCL, vacancies occurring on the Board of Directors for any reason and newly created directorships resulting from an increase in the authorized number of directors may be filled only by vote of a majority of the remaining members of the Board of Directors, although less than a quorum, or by a sole remaining director, at any meeting of the Board of Directors. A person so elected by the Board of Directors to fill a vacancy or newly created directorship shall hold office until the next election of the class for which such director shall have been assigned by the Board of Directors and until his or her successor shall be duly elected and qualified.

ARTICLE VI

In furtherance and not in limitation of the powers conferred by statute, the Board of Directors of the corporation is expressly authorized to adopt, amend or repeal the Bylaws of the corporation.

ARTICLE VII

7.1 No Action by Written Consent of Stockholders. Except as otherwise expressly provided by the terms of any series of Preferred Stock permitting the holders of such series of Preferred Stock to act by written consent, any action required or permitted to be taken by stockholders of the corporation must be effected at a duly called annual or special meeting of the stockholders and may not be effected by written consent in lieu of a meeting.

7.2 Special Meetings. Except as otherwise expressly provided by the terms of any series of Preferred Stock permitting the holders of such series of Preferred Stock to call a special meeting of the holders of such series, special meetings of stockholders of the corporation may be called only by the Board of Directors, the chairperson of the Board of Directors, the chief executive officer or the president (in the absence of a chief executive officer), and the ability of the stockholders to call a special meeting is hereby specifically denied. The Board of Directors may cancel, postpone or reschedule any previously scheduled special meeting at any time, before or after the notice for such meeting has been sent to the stockholders.

7.3 Advance Notice. Advance notice of stockholder nominations for the election of directors and of business to be brought by stockholders before any meeting of the stockholders of the corporation shall be given in the manner provided in the Bylaws of the corporation.

ARTICLE VIII

8.1 Limitation of Personal Liability. To the fullest extent permitted by the DGCL, as it presently exists or may hereafter be amended from time to time, a director of the corporation shall not be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director. If the DGCL is amended to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the corporation shall be eliminated or limited to the fullest extent permitted by the DGCL, as so amended. Any repeal or amendment of this Section 8.1 by the stockholders of the corporation or by changes in law, or the adoption of any other provision of this Certificate of Incorporation inconsistent with this Section 8.1 will, unless otherwise required by law, be prospective only (except to the extent such amendment or change in law permits the corporation to further limit or eliminate the liability of directors) and shall not adversely affect any right or protection of a director of the corporation existing at the time of such repeal or amendment or adoption of such inconsistent provision with respect to acts or omissions occurring prior to such repeal or amendment or adoption of such inconsistent provision.

8.2 Indemnification. To the fullest extent permitted by the DGCL, as it presently exists or may hereafter be amended from time to time, the corporation is also authorized to provide indemnification of (and advancement of expenses to) its directors, officers and agents of the corporation (and any other persons to which the DGCL permits the corporation to provide indemnification) through bylaw provisions, agreements with such agents or other persons, vote of stockholders or disinterested directors or otherwise.

ARTICLE IX

The corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation (including any rights, preferences or other designations of Preferred Stock), in the manner now or hereafter prescribed by this Certificate of Incorporation and the DGCL; and all rights, preferences and privileges herein conferred upon stockholders by and pursuant to this Certificate of Incorporation in its present form or as hereafter amended are granted subject to the right reserved in this Article IX.

IN WITNESS WHEREOF, Pacific Biosciences of California, Inc. has caused this Amended and Restated Certificate of Incorporation to be signed by a duly authorized officer of the Corporation on this 1st day of November, 2010.

By: /s/ Hugh Martin
Hugh Martin
Chief Executive Officer

Exhibit 3.2

AMENDED AND RESTATED BYLAWS OF

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.

(initially adopted on August 29, 2000)

(as amended on July 29, 2010 effective as of the
closing of the corporation's initial public offering)

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BYLAWS OF PACIFIC BIOSCIENCES OF CALIFORNIA, INC.

ARTICLE I - CORPORATE OFFICES

1.1 REGISTERED OFFICE

The registered office of Pacific Biosciences of California, Inc. shall be fixed in the corporation’s certificate of incorporation, as the same may be amended from time to time.

1.2 OTHER OFFICES

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

ARTICLE II - MEETINGS OF STOCKHOLDERS

2.1 PLACE OF MEETINGS

Meetings of stockholders shall be held at any place, within or outside the State of Delaware, designated by the board of directors. The board of directors may, in its sole discretion, determine that a meeting of stockholders shall not be held at any place, but may instead be held solely by means of remote communication as authorized by Section 211(a)(2) of the Delaware General Corporation Law (the “**DGCL**”). In the absence of any such designation or determination, stockholders’ meetings shall be held at the corporation’s principal executive office.

2.2 ANNUAL MEETING

The annual meeting of stockholders shall be held on such date, at such time, and at such place (if any) within or without the State of Delaware as shall be designated from time to time by the board of directors and stated in the corporation’s notice of the meeting. At the annual meeting, directors shall be elected and any other proper business may be transacted.

2.3 SPECIAL MEETING

(i) A special meeting of the stockholders, other than those required by statute, may be called at any time by the board of directors, chairperson of the board of directors, chief executive officer or president (in the absence of a chief executive officer), but a special meeting may not be called by any other person or persons. The board of directors may cancel, postpone or reschedule any previously scheduled special meeting at any time, before or after the notice for such meeting has been sent to the stockholders.

(ii) The notice of a special meeting shall include the purpose for which the meeting is called. Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting by or at the direction of the board of directors, chairperson of the board of directors, chief executive officer or president (in the absence of a chief executive officer). Nothing contained in this Section 2.3(ii) 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.

2.4 ADVANCE NOTICE PROCEDURES

(i) *Advance Notice of Stockholder Business.* At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be brought: (A) pursuant to the corporation's proxy materials with respect to such meeting, (B) by or at the direction of the board of directors, or (C) by a stockholder of the corporation who (1) is a stockholder of record at the time of the giving of the notice required by this Section 2.4(i), on the record date for the determination of stockholders entitled to notice of the annual meeting and on the record date for the determination of stockholders entitled to vote at the annual meeting and (2) has timely complied in proper written form with the notice procedures set forth in this Section 2.4(i). In addition, for business to be properly brought before an annual meeting by a stockholder, such business must be a proper matter for stockholder action pursuant to these bylaws and applicable law. Except for proposals properly made in accordance with Rule 14a-8 under the Securities and Exchange Act of 1934, as amended, and the rules and regulations thereunder, and included in the notice of meeting given by or at the direction of the board of directors, for the avoidance of doubt, clause (C) above shall be the exclusive means for a stockholder to bring business before an annual meeting of stockholders.

(a) To comply with clause (C) of Section 2.4(i) above, a stockholder's notice must set forth all information required under this Section 2.4(i) and must be timely received by the secretary of the corporation. To be timely, a stockholder's notice must be received by the secretary at the principal executive offices of the corporation not later than the 90th day nor earlier than the 120th day before the one-year anniversary of the date on which the corporation first mailed its proxy materials or a notice of availability of proxy materials (whichever is earlier) for the preceding year's annual meeting; *provided*, *however*, that in the event that no annual meeting was held in the previous year or if the date of the annual meeting is advanced by more than 30 days prior to or delayed by more than 60 days after the one-year anniversary of the date of the previous year's annual meeting, then, for notice by the stockholder to be timely, it must be so received by the secretary not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of (i) the 90th day prior to such annual meeting, or (ii) the tenth day following the day on which Public Announcement (as defined below) of the date of such annual meeting is first made. In no event shall any adjournment or postponement of an annual meeting or the announcement thereof commence a new time period for the giving of a stockholder's notice as described in this Section 2.4(i)(a). "**Public Announcement**" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or a 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 Securities Exchange Act of 1934, as amended, or any successor thereto (the "**1934 Act**").

(b) To be in proper written form, a stockholder's notice to the secretary must set forth as to each matter of business the stockholder intends to bring before the annual meeting: (1) a brief description of the business intended to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (2) the name and address, as they appear on the corporation's books, of the stockholder proposing such business and any Stockholder Associated Person (as defined below), (3) the class and number of shares of the corporation that are held of record or are beneficially owned by the stockholder or any Stockholder Associated Person and any derivative positions held or beneficially held by the stockholder or any

Stockholder Associated Person, (4) whether and the extent to which any hedging or other transaction or series of transactions has been entered into by or on behalf of such stockholder or any Stockholder Associated Person with respect to any securities of the corporation, and a description of any other agreement, arrangement or understanding (including any short position or any borrowing or lending of shares), the effect or intent of which is to mitigate loss to, or to manage the risk or benefit from share price changes for, or to increase or decrease the voting power of, such stockholder or any Stockholder Associated Person with respect to any securities of the corporation, (5) any material interest of the stockholder or a Stockholder Associated Person in such business, and (6) a statement whether either such stockholder or any Stockholder Associated Person will deliver 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 the proposal (such information provided and statements made as required by clauses (1) through (6), a "**Business Solicitation Statement**"). In addition, to be in proper written form, a stockholder's notice to the secretary must be supplemented not later than ten days following the record date for the determination of stockholders entitled to notice of the meeting to disclose the information contained in clauses (3) and (4) above as of the record date. For purposes of this Section 2.4, a "**Stockholder Associated Person**" of any stockholder shall mean (i) any person controlling, directly or indirectly, or acting in concert with, such stockholder, (ii) any beneficial owner of shares of stock of the corporation owned of record or beneficially by such stockholder and on whose behalf the proposal or nomination, as the case may be, is being made, or (iii) any person controlling, controlled by or under common control with such person referred to in the preceding clauses (i) and (ii).

(c) Without exception, no business shall be conducted at any annual meeting except in accordance with the provisions set forth in this Section 2.4(i) and, if applicable, Section 2.4(ii). In addition, business proposed to be brought by a stockholder may not be brought before the annual meeting if such stockholder or a Stockholder Associated Person, as applicable, takes action contrary to the representations made in the Business Solicitation Statement applicable to such business or if the Business Solicitation Statement applicable to such business contains an untrue statement of a material fact or omits to state a material fact necessary to make the statements therein not misleading. The chairperson of the annual meeting shall, if the facts warrant, determine and declare at the annual meeting that business was not properly brought before the annual meeting and in accordance with the provisions of this Section 2.4(i), and, if the chairperson should so determine, he or she shall so declare at the annual meeting that any such business not properly brought before the annual meeting shall not be conducted.

(ii) *Advance Notice of Director Nominations at Annual Meetings.* Notwithstanding anything in these bylaws to the contrary, only persons who are nominated in accordance with the procedures set forth in this Section 2.4(ii) shall be eligible for election or re-election as directors at an annual meeting of stockholders. Nominations of persons for election to the board of directors of the corporation shall be made at an annual meeting of stockholders only (A) by or at the direction of the board of directors or (B) by a stockholder of the corporation who (1) was a stockholder of record at the time of the giving of the notice required by this Section 2.4(ii), on the record date for the determination of stockholders entitled to notice of the annual meeting and on the record date for the determination of stockholders entitled to vote at the annual meeting and (2) has complied with the notice procedures set forth in this Section 2.4(ii). In addition to any other applicable requirements, for a nomination to be made by a stockholder, the stockholder must have given timely notice thereof in proper written form to the secretary of the corporation.

(a) To comply with clause (B) of Section 2.4(ii) above, a nomination to be made by a stockholder must set forth all information required under this Section 2.4(ii) and must be received by the secretary of the corporation at the principal executive offices of the corporation at the time set forth in, and in accordance with, the final three sentences of Section 2.4(i)(a) above.

(b) To be in proper written form, such stockholder's notice to the secretary must set forth:

(1) as to each person (a "**nominee**") whom the stockholder proposes to nominate for election or re-election as a director: (A) the name, age, business address and residence address of the nominee, (B) the principal occupation or employment of the nominee, (C) the class and number of shares of the corporation that are held of record or are beneficially owned by the nominee and any derivative positions held or beneficially held by the nominee, (D) whether and the extent to which any hedging or other transaction or series of transactions has been entered into by or on behalf of the nominee with respect to any securities of the corporation, and a description of any other agreement, arrangement or understanding (including any short position or any borrowing or lending of shares), the effect or intent of which is to mitigate loss to, or to manage the risk or benefit of share price changes for, or to increase or decrease the voting power of the nominee, (E) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nominations are to be made by the stockholder, (F) a written statement executed by the nominee acknowledging that as a director of the corporation, the nominee will owe a fiduciary duty under Delaware law with respect to the corporation and its stockholders, and (G) any other information relating to the nominee that would be required to be disclosed about such nominee if proxies were being solicited for the election of the nominee as a director, or that is otherwise required, in each case pursuant to Regulation 14A under the 1934 Act (including without limitation the nominee's written consent to being named in the proxy statement, if any, as a nominee and to serving as a director if elected); and

(2) as to such stockholder giving notice, (A) the information required to be provided pursuant to clauses (2) through (5) of Section 2.4(i)(b) above, and the supplement referenced in the second sentence of Section 2.4(i)(b) above (except that the references to "business" in such clauses shall instead refer to nominations of directors for purposes of this paragraph), and (B) a statement whether either such stockholder or Stockholder Associated Person will deliver a proxy statement and form of proxy to holders of a number of the corporation's voting shares reasonably believed by such stockholder or Stockholder Associated Person to be necessary to elect such nominee(s) (such information provided and statements made as required by clauses (A) and (B) above, a "**Nominee Solicitation Statement**").

(c) At the request of the board of directors, any person nominated by a stockholder for election as a director must furnish to the secretary of the corporation (1) that information required to be set forth in the stockholder's notice of nomination of such person as a director as of a date subsequent to the date on which the notice of such person's nomination was given and (2) such other information as may reasonably be required by the corporation to determine the eligibility of such proposed nominee to serve as an independent director of the corporation or that could be material to a reasonable stockholder's understanding of the independence, or lack thereof, of such nominee; in the absence of the furnishing of such information if requested, such stockholder's nomination shall not be considered in proper form pursuant to this Section 2.4(ii).

(d) Without exception, no person shall be eligible for election or re-election as a director of the corporation at an annual meeting of stockholders unless nominated in accordance with the provisions set forth in this Section 2.4(ii). In addition, a nominee shall not be eligible for election or re-election if a stockholder or Stockholder Associated Person, as applicable, takes action contrary to the representations made in the Nominee Solicitation Statement applicable to such nominee or if the Nominee Solicitation Statement applicable to such nominee contains an untrue statement of a material fact or omits to state a material fact necessary to make the statements therein not misleading. The chairperson of the annual meeting shall, if the facts warrant, determine and declare at the annual meeting that a nomination was not made in accordance with the provisions prescribed by these bylaws, and if the chairperson should so determine, he or she shall so declare at the annual meeting, and the defective nomination shall be disregarded.

(iii) *Advance Notice of Director Nominations for Special Meetings.*

(a) For a special meeting of stockholders at which directors are to be elected pursuant to Section 2.3, nominations of persons for election to the board of directors shall be made only (1) by or at the direction of the board of directors or (2) by any stockholder of the corporation who (A) is a stockholder of record at the time of the giving of the notice required by this Section 2.4(iii), on the record date for the determination of stockholders entitled to notice of the special meeting and on the record date for the determination of stockholders entitled to vote at the special meeting and (B) delivers a timely written notice of the nomination to the secretary of the corporation that includes the information set forth in Sections 2.4(ii)(b) and (ii)(c) above. To be timely, such notice must be received by the secretary at the principal executive offices of the corporation not later than the close of business on the later of the 90th day prior to such special meeting or the tenth day following the day on which Public Announcement is first made of the date of the special meeting and of the nominees proposed by the board of directors to be elected at such meeting. A person shall not be eligible for election or re-election as a director at a special meeting unless the person is nominated (i) by or at the direction of the board of directors or (ii) by a stockholder in accordance with the notice procedures set forth in this Section 2.4(iii). In addition, a nominee shall not be eligible for election or re-election if a stockholder or Stockholder Associated Person, as applicable, takes action contrary to the representations made in the Nominee Solicitation Statement applicable to such nominee or if the Nominee Solicitation Statement applicable to such nominee contains an untrue statement of a material fact or omits to state a material fact necessary to make the statements therein not misleading.

(b) The chairperson of the special meeting shall, if the facts warrant, determine and declare at the meeting that a nomination or business was not made in accordance with the procedures prescribed by these bylaws, and if the chairperson should so determine, he or she shall so declare at the meeting, and the defective nomination or business shall be disregarded.

(iv) *Other Requirements and Rights*. In addition to the foregoing provisions of this Section 2.4, a stockholder must also comply with all applicable requirements of state law and of the 1934 Act and the rules and regulations thereunder with respect to the matters set forth in this Section 2.4, including, with respect to business such stockholder intends to bring before the annual meeting that involves a proposal that such stockholder requests to be included in the corporation's proxy statement, the requirements of Rule 14a-8 (or any successor provision) under the 1934 Act. Nothing in this Section 2.4 shall be deemed to affect any right of the corporation to omit a proposal from the corporation's proxy statement pursuant to Rule 14a-8 (or any successor provision) under the 1934 Act.

2.5 NOTICE OF STOCKHOLDERS' MEETINGS

Whenever stockholders are required or permitted to take any action at a meeting, a written notice of the meeting shall be given which shall state the place, if any, date and hour of the meeting, the means of remote communications, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such meeting, the record date for determining the stockholders entitled to vote at the meeting, if such date is different from the record date for determining stockholders entitled to notice of the meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called. Except as otherwise provided in the DGCL, the certificate of incorporation or these bylaws, the written notice of any meeting of stockholders shall be given not less than 10 nor more than 60 days before the date of the meeting to each stockholder entitled to vote at such meeting as of the record date for determining the stockholders entitled to notice of the meeting.

2.6 QUORUM

The holders of a majority of the stock issued and outstanding and entitled to vote, present in person or represented by proxy, shall constitute a quorum for the transaction of business at all meetings of the stockholders. Where a separate vote by a class or series or classes or series is required, a majority of the outstanding shares of such class or series or classes or series, present in person or represented by proxy, shall constitute a quorum entitled to take action with respect to that vote on that matter, except as otherwise provided by law, the certificate of incorporation or these bylaws.

If, however, such quorum is not present or represented at any meeting of the stockholders, then either (i) the chairperson of the meeting, or (ii) the stockholders entitled to vote at the meeting, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present or represented. At such adjourned meeting at which a quorum is present or represented, any business may be transacted that might have been transacted at the meeting as originally noticed.

2.7 ADJOURNED MEETING; NOTICE

When a meeting is adjourned to another time or place, unless these bylaws otherwise require, notice need not be given of the adjourned meeting if the time, place, if any, thereof, and the means of remote communications, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such adjourned meeting 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 30 days, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting. If after the adjournment a new record date for stockholders entitled to vote is fixed for the adjourned meeting, the board of directors shall fix a new record date for notice of such adjourned meeting in accordance with Section 213(a) of the DGCL and Section 2.11 of these bylaws, and shall give notice of the adjourned meeting to each stockholder of record entitled to vote at such adjourned meeting as of the record date fixed for notice of such adjourned meeting.

2.8 CONDUCT OF BUSINESS

The chairperson of any meeting of stockholders shall determine the order of business and the procedure at the meeting, including such regulation of the manner of voting and the conduct of business.

2.9 VOTING

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

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

Except as otherwise required by law, the certificate of incorporation or these bylaws, in all matters other than the election of directors, the affirmative vote of a majority of the voting power of the shares present in person or represented by proxy at the meeting and entitled to vote on the subject matter shall be the act of the stockholders. Except as otherwise required by law, the certificate of incorporation or these bylaws, directors shall be elected by a plurality of the voting power of the shares present in person or represented by proxy at the meeting and entitled to vote on the election of directors. Where a separate vote by a class or series or classes or series is required, in all matters other than the election of directors, the affirmative vote of the majority of shares of such class or series or classes or series present in person or represented by proxy at the meeting shall be the act of such class or series or classes or series, except as otherwise provided by law, the certificate of incorporation or these bylaws.

2.10 STOCKHOLDER ACTION BY WRITTEN CONSENT WITHOUT A MEETING

Subject to the rights of the holders of the shares of any series of Preferred Stock or any other class of stock or series thereof having a preference over the Common Stock as dividend or upon liquidation, any action required or permitted to be taken by the stockholders of the corporation must be effected at a duly called annual or special meeting of stockholders of the corporation and may not be effected by any consent in writing by such stockholders.

2.11 RECORD DATES

In order that the corporation may determine the stockholders entitled to notice of any meeting of stockholders or any adjournment thereof, 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 record date shall not be more than 60 nor less than 10 days before the date of such meeting. If the board of directors so fixes a date, such date shall also be the record date for determining the stockholders entitled to vote at such meeting unless the board of directors determines, at the time it fixes such record date, that a later date on or before the date of the meeting shall be the date for making such determination.

If no record date is fixed by the board of directors, the record date for determining stockholders entitled to notice of and 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 determination of stockholders entitled to vote at the adjourned meeting, and in such case shall also fix as the record date for stockholders entitled to notice of such adjourned meeting the same or an earlier date as that fixed for determination of stockholders entitled to vote in accordance with the provisions of Section 213 of the DGCL and this Section 2.11 at the adjourned meeting.

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 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 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.

2.12 PROXIES

Each stockholder entitled to vote at a meeting of stockholders may authorize another person or persons to act for such stockholder by proxy authorized by an instrument in writing or by a transmission permitted by law filed in accordance with the procedure established for the meeting, but no such proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period. The revocability of a proxy that states on its face that it is irrevocable shall be governed by the provisions of Section 212 of the DGCL.

2.13 LIST OF STOCKHOLDERS ENTITLED TO VOTE

The officer who has charge of the stock ledger of the corporation shall prepare and make, at least 10 days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting; *provided, however,* if the record date for determining the stockholders entitled to vote is less than 10 days before the meeting date, the list shall reflect the stockholders entitled to vote as of the tenth day before the meeting date, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. The corporation shall not be required to include electronic mail addresses or other electronic contact information on such list. Such list shall be open to the examination of any stockholder for any purpose germane to the meeting for a period of at least 10 days prior to the meeting: (i) 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 (ii) during ordinary business hours, at the corporation’s principal place of business. 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. If the meeting is to be held at a place, then the list shall be produced and kept at the time and place of the meeting during the whole time thereof, and may be examined by any stockholder who is present. If the meeting is to be held solely by means of remote communication, then the list shall also be open to the examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access such list shall be provided with the notice of the meeting. Such list shall presumptively determine the identity of the stockholders entitled to vote at the meeting and the number of shares held by each of them.

2.14 INSPECTORS OF ELECTION

A written proxy may be in the form of a telegram, cablegram, or other means of electronic transmission which sets forth or is submitted with information from which it can be determined that the telegram, cablegram, or other means of electronic transmission was authorized by the person.

Before any meeting of stockholders, the board of directors shall appoint an inspector or inspectors of election to act at the meeting or its adjournment. The number of inspectors shall be either one (1) or three (3). If any person appointed as inspector fails to appear or fails or refuses to act, then the chairperson of the meeting may, and upon the request of any stockholder or a stockholder’s proxy shall, appoint a person to fill that vacancy.

Such inspectors shall:

(i) determine the number of shares outstanding and the voting power of each, the number of shares represented at the meeting, the existence of a quorum, and the authenticity, validity, and effect of proxies;

(ii) receive votes, ballots or consents;

(iii) hear and determine all challenges and questions in any way arising in connection with the right to vote;

(iv) count and tabulate all votes or consents;

(v) determine when the polls shall close;

(vi) determine the result; and

(vii) do any other acts that may be proper to conduct the election or vote with fairness to all stockholders.

The inspectors of election shall perform their duties impartially, in good faith, to the best of their ability and as expeditiously as is practical. If there are three (3) inspectors of election, the decision, act or certificate of a majority is effective in all respects as the decision, act or certificate of all. Any report or certificate made by the inspectors of election is *prima facie* evidence of the facts stated therein.

ARTICLE III - DIRECTORS

3.1 POWERS

The business and affairs of the corporation shall be managed by or under the direction of the board of directors, except as may be otherwise provided in the DGCL or the certificate of incorporation.

3.2 NUMBER OF DIRECTORS

The board of directors shall consist of one or more members, each of whom shall be a natural person. Unless the certificate of incorporation fixes the number of directors, the number of directors shall be determined from time to time by resolution of the board of directors. No reduction of the authorized number of directors shall have the effect of removing any director before that director’s term of office expires.

3.3 ELECTION, QUALIFICATION AND TERM OF OFFICE OF DIRECTORS

Except as provided in Section 3.4 of these bylaws, each director, including a director elected to fill a vacancy, shall hold office until the expiration of the term for which elected and until such director’s successor is elected and qualified or until such director’s earlier death, resignation or removal. Directors need not be stockholders unless so required by the certificate of incorporation or these bylaws. The certificate of incorporation or these bylaws may prescribe other qualifications for directors.

3.4 RESIGNATION AND VACANCIES

Any director may resign at any time upon notice given in writing or by electronic transmission to the corporation. A resignation is effective when the resignation is delivered unless the resignation specifies a later effective date or an effective date determined upon the happening of an event or events. A resignation which is conditioned upon the director failing to receive a specified vote for reelection as a director may provide that it is irrevocable. Unless otherwise provided in the certificate of incorporation or these bylaws, when one or more directors 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.

Unless otherwise provided in the certificate of incorporation or these bylaws, vacancies and newly created directorships resulting from any increase in the authorized number of directors elected by all of the stockholders having the right to vote as a single class may be filled by a majority of the directors then in office, although less than a quorum, or by a sole remaining director. If the directors are divided into classes, a person so elected by the directors then in office to fill a vacancy or newly created directorship shall hold office until the next election of the class for which such director shall have been chosen and until his or her successor shall have been duly elected and qualified.

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

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

3.5 PLACE OF MEETINGS; MEETINGS BY TELEPHONE

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

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

3.6 REGULAR MEETINGS

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

3.7 SPECIAL MEETINGS; NOTICE

Special meetings of the board of directors for any purpose or purposes may be called at any time by the chairperson of the board of directors, the chief executive officer, the president, the secretary or a majority of the authorized number of directors.

Notice of the time and place of special meetings shall be:

(i) delivered personally by hand, by courier or by telephone;

(ii) sent by United States first-class mail, postage prepaid;

(iii) sent by facsimile; or

(iv) sent by electronic mail,

directed to each director at that director’s address, telephone number, facsimile number or electronic mail address, as the case may be, as shown on the corporation’s records.

If the notice is (i) delivered personally by hand, by courier or by telephone, (ii) sent by facsimile or (iii) sent by electronic mail, it shall be delivered or sent at least 24 hours before the time of the holding of the meeting. If the notice is sent by United States mail, it shall be deposited in the United States mail at least four days before the time of the holding of the meeting. Any oral notice may be communicated to the director. The notice need not specify the place of the meeting (if the meeting is to be held at the corporation’s principal executive office) nor the purpose of the meeting.

3.8 QUORUM; VOTING

At all meetings of the board of directors, a majority of the total authorized number of directors shall constitute a quorum for the transaction of business. If a quorum is not present at any meeting of the board of directors, then the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present. A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for that meeting.

The vote of a majority of the directors present at any meeting at which a quorum is present shall be the act of the board of directors, except as may be otherwise specifically provided by statute, the certificate of incorporation or these bylaws.

If the certificate of incorporation provides that one or more directors shall have more or less than one vote per director on any matter, every reference in these bylaws to a majority or other proportion of the directors shall refer to a majority or other proportion of the votes of the directors.

3.9 BOARD ACTION BY WRITTEN CONSENT WITHOUT A MEETING

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

3.10 FEES AND COMPENSATION OF DIRECTORS

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

3.11 REMOVAL OF DIRECTORS

Any director may be removed from office by the stockholders of the corporation only for cause.

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

ARTICLE IV - COMMITTEES

4.1 COMMITTEES OF DIRECTORS

The board of directors may designate one or more committees, each committee to consist of one or more of the directors of the corporation. 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. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not such member or members constitute a quorum, may unanimously appoint another member of the board of directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the board of directors or in these bylaws, shall have and may exercise all the powers and authority of the board of directors in the management of the business and affairs of the corporation, and may authorize the seal of the corporation to be affixed to all papers that may require it; but no such committee shall have the power or authority to (i) approve or adopt, or recommend to the stockholders, any action or matter (other than the election or removal of directors) expressly required by the DGCL to be submitted to stockholders for approval, or (ii) adopt, amend or repeal any bylaw of the corporation.

4.2 COMMITTEE MINUTES

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

4.3 MEETINGS AND ACTION OF COMMITTEES

Meetings and actions of committees shall be governed by, and held and taken in accordance with, the provisions of:

(i) Section 3.5 (place of meetings and meetings by telephone);

(ii) Section 3.6 (regular meetings);

(iii) Section 3.7 (special meetings and notice);

(iv) Section 3.8 (quorum; voting);

(v) Section 7.5 (waiver of notice); and

(vi) Section 3.9 (action without a meeting)

with such changes in the context of those bylaws as are necessary to substitute the committee and its members for the board of directors and its members. *However*:

(i) the time of regular meetings of committees may be determined either by resolution of the board of directors or by resolution of the committee;

(ii) special meetings of committees may also be called by resolution of the committee or the board of directors; and

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

Any provision in the certificate of incorporation providing that one or more directors shall have more or less than one vote per director on any matter shall apply to voting in any committee or subcommittee, unless otherwise provided in the certificate of incorporation or these bylaws.

4.4 SUBCOMMITTEES

Unless otherwise provided in the certificate of incorporation, these bylaws or the resolutions of the board of directors designating the committee, a committee may create one or more subcommittees, each subcommittee to consist of one or more members of the committee, and delegate to a subcommittee any or all of the powers and authority of the committee.

ARTICLE V - OFFICERS

5.1 OFFICERS

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

5.2 APPOINTMENT OF OFFICERS

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

5.3 SUBORDINATE OFFICERS

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

5.4 REMOVAL AND RESIGNATION OF OFFICERS

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

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

5.5 VACANCIES IN OFFICES

Any vacancy occurring in any office of the corporation shall be filled by the board of directors or as provided in Section 5.3.

5.6 REPRESENTATION OF SHARES OF OTHER CORPORATIONS

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

5.7 AUTHORITY AND DUTIES OF OFFICERS

All officers of the corporation shall respectively have such authority and perform such duties in the management of the business of the corporation as may be designated from time to time by the board of directors or the stockholders and, to the extent not so provided, as generally pertain to their respective offices, subject to the control of the board of directors.

ARTICLE VI - STOCK

6.1 STOCK CERTIFICATES; PARTLY PAID SHARES

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

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

6.2 SPECIAL DESIGNATION ON CERTIFICATES

If the corporation is authorized to issue more than one class of stock or more than one series of any class, then the powers, the designations, the preferences, and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate that the corporation shall issue to represent such class or series of stock; *provided, however*, that, except as otherwise provided in Section 202 of the DGCL, in lieu of the foregoing requirements there may be set forth on the face or back of the certificate that the corporation shall issue to represent such class or series of stock, a statement that the corporation will furnish without charge to each stockholder who so requests the powers, 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 6.2 or Sections 156, 202(a) or

218(a) of the DGCL or with respect to this section 6.2 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. Except as otherwise expressly provided by law, the rights and obligations of the holders of uncertificated stock and the rights and obligations of the holders of certificates representing stock of the same class and series shall be identical.

6.3 LOST CERTIFICATES

Except as provided in this Section 6.3, no new certificates for shares shall be issued to replace a previously issued certificate unless the latter is surrendered to the corporation and cancelled at the same time. The corporation may issue a new certificate of stock or uncertificated shares in the place of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the corporation may require the owner of the lost, stolen or destroyed certificate, or such owner's legal representative, to give the corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate or uncertificated shares.

6.4 DIVIDENDS

The board of directors, subject to any restrictions contained in the certificate of incorporation or applicable law, may declare and pay dividends upon the shares of the corporation's capital stock. Dividends may be paid in cash, in property, or in shares of the corporation's capital stock, subject to the provisions of the certificate of incorporation.

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

6.5 TRANSFER OF STOCK

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 an attorney duly authorized, and, if such stock is certificated, upon the surrender of a certificate or certificates for a like number of shares, properly endorsed or accompanied by proper evidence of succession, assignation or authority to transfer.

6.6 STOCK TRANSFER AGREEMENTS

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

6.7 REGISTERED STOCKHOLDERS

The corporation:

(i) 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;

(ii) shall be entitled to hold liable for calls and assessments the person registered on its books as the owner of shares; and

(iii) shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of another person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

ARTICLE VII - MANNER OF GIVING NOTICE AND WAIVER

7.1 NOTICE OF STOCKHOLDERS' MEETINGS

Notice of any meeting of stockholders, if mailed, 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 corporation's records. An affidavit of the secretary or an assistant secretary of the corporation or of the transfer agent or other agent of the corporation that the notice has been given shall, in the absence of fraud, be *prima facie* evidence of the facts stated therein.

7.2 NOTICE BY ELECTRONIC TRANSMISSION

Without limiting the manner by which notice otherwise may be given effectively to stockholders pursuant to the DGCL, the certificate of incorporation or these bylaws, any notice to stockholders given by the corporation under any provision of the DGCL, the certificate of incorporation or these bylaws shall be effective if given by a form of electronic transmission consented to by the stockholder to whom the notice is given. Any such consent shall be revocable by the stockholder by written notice to the corporation. Any such consent shall be deemed revoked if:

(i) the corporation is unable to deliver by electronic transmission two consecutive notices given by the corporation in accordance with such consent; and

(ii) such inability becomes known to the secretary or an assistant secretary of the corporation or to the transfer agent, or other person responsible for the giving of notice.

However, the inadvertent failure to treat such inability as a revocation shall not invalidate any meeting or other action.

Any notice given pursuant to the preceding paragraph shall be deemed given:

(i) if by facsimile telecommunication, when directed to a number at which the stockholder has consented to receive notice;

(ii) if by electronic mail, when directed to an electronic mail address at which the stockholder has consented to receive notice;

(iii) if by a posting on an electronic network together with separate notice to the stockholder of such specific posting, upon the later of (A) such posting and (B) the giving of such separate notice; and

(iv) if by any other form of electronic transmission, when directed to the stockholder.

An affidavit of the secretary or an assistant secretary or of the transfer agent or other agent of the corporation that the notice has been given by a form of electronic transmission shall, in the absence of fraud, be *prima facie* evidence of the facts stated therein.

An "**electronic transmission**" means any form of communication, not directly involving the physical transmission of paper, that creates a record that may be retained, retrieved, and reviewed by a recipient thereof, and that may be directly reproduced in paper form by such a recipient through an automated process.

7.3 NOTICE TO STOCKHOLDERS SHARING AN ADDRESS

Except as otherwise prohibited under the DGCL, without limiting the manner by which notice otherwise may be given effectively to stockholders, any notice to stockholders given by the corporation under the provisions of the DGCL, the certificate of incorporation or these bylaws shall be effective if given by a single written notice to stockholders who share an address if consented to by the stockholders at that address to whom such notice is given. Any such consent shall be revocable by the stockholder by written notice to the corporation. Any stockholder who fails to object in writing to the corporation, within 60 days of having been given written notice by the corporation of its intention to send the single notice, shall be deemed to have consented to receiving such single written notice.

7.4 NOTICE TO PERSON WITH WHOM COMMUNICATION IS UNLAWFUL

Whenever notice is required to be given, under the DGCL, the certificate of incorporation or these bylaws, 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 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.

7.5 WAIVER OF NOTICE

Whenever notice is required to be given under any provision of the DGCL, the certificate of incorporation or these bylaws, a written waiver, signed by the person entitled to notice, or a waiver by electronic transmission by the person entitled to notice, whether before or after the time of the event for which notice is to be given, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders need be specified in any written waiver of notice or any waiver by electronic transmission unless so required by the certificate of incorporation or these bylaws.

ARTICLE VIII - INDEMNIFICATION

8.1 INDEMNIFICATION OF DIRECTORS AND OFFICERS IN THIRD PARTY PROCEEDINGS

Subject to the other provisions of this Article VIII, the corporation shall indemnify, to the fullest extent permitted by the DGCL, as now or hereinafter in effect, 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 (a "**Proceeding**") (other than an action by or in the right of the corporation) by reason of the fact that such person is or was a director or officer of the corporation, or is or was a director or officer of the corporation serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such Proceeding if such person acted in good faith and in a manner such person 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 such person's conduct was unlawful. The termination of any Proceeding by judgment, order, settlement, conviction, or upon a plea of *nolo contendere* or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which such person 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 reasonable cause to believe that such person's conduct was unlawful.

8.2 INDEMNIFICATION OF DIRECTORS AND OFFICERS IN ACTIONS BY OR IN THE RIGHT OF THE CORPORATION

Subject to the other provisions of this Article VIII, the corporation shall indemnify, to the fullest extent permitted by the DGCL, as now or hereinafter in effect, any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that such person is or was a director or officer of the corporation, or is or was a director or officer of the corporation serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the corporation; except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

8.3 SUCCESSFUL DEFENSE

To the extent that a present or former director or officer of the corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding described in Section 8.1 or Section 8.2, or in defense of any claim, issue or matter therein, such person shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection therewith.

8.4 INDEMNIFICATION OF OTHERS

Subject to the other provisions of this Article VIII, the corporation shall have power to indemnify its employees and agents to the extent not prohibited by the DGCL or other applicable law. The board of directors shall have the power to delegate to such person or persons the determination of whether employees or agents shall be indemnified.

8.5 ADVANCED PAYMENT OF EXPENSES

Expenses (including attorneys' fees) incurred by an officer or director of the corporation in defending any Proceeding shall be paid by the corporation in advance of the final disposition of such Proceeding upon receipt of a written request therefor (together with documentation reasonably evidencing such expenses) and an undertaking by or on behalf of the person to repay such amounts if it shall ultimately be determined that the person is not entitled to be indemnified under this Article VIII or the DGCL. Such expenses (including attorneys' fees) incurred by former directors and officers or other employees and agents may be so paid upon such terms and conditions, if any, as the corporation deems appropriate. The right to advancement of expenses shall not apply to any claim for which indemnity is excluded pursuant to these bylaws, but shall apply to any Proceeding referenced in Section 8.6(ii) or 8.6(iii) prior to a determination that the person is not entitled to be indemnified by the corporation.

8.6 LIMITATION ON INDEMNIFICATION

Subject to the requirements in Section 8.3 and the DGCL, the corporation shall not be obligated to indemnify any person pursuant to this Article VIII in connection with any Proceeding (or any part of any Proceeding):

(i) for which payment has actually been made to or on behalf of such person under any statute, insurance policy, indemnity provision, vote or otherwise, except with respect to any excess beyond the amount paid;

(ii) for an accounting or disgorgement of profits pursuant to Section 16(b) of the 1934 Act, or similar provisions of federal, state or local statutory law or common law, if such person is held liable therefor (including pursuant to any settlement arrangements);

(iii) for any reimbursement of the corporation by such person of any bonus or other incentive-based or equity-based compensation or of any profits realized by such person from the sale of securities of the corporation, as required in each case under the 1934 Act (including any such reimbursements that arise from an accounting restatement of the corporation pursuant to Section 304 of the Sarbanes-Oxley Act of 2002 (the "**Sarbanes-Oxley Act**"), or the payment to the corporation of profits arising from the purchase and sale by such person of securities in violation of Section 306 of the Sarbanes-Oxley Act), if such person is held liable therefor (including pursuant to any settlement arrangements);

(iv) initiated by such person, including any Proceeding (or any part of any Proceeding) initiated by such person against the corporation or its directors, officers, employees, agents or other indemnitees, unless (a) the board of directors authorized the Proceeding (or the relevant part of the Proceeding) prior to its initiation, (b) the corporation provides the indemnification, in its sole discretion, pursuant to the powers vested in the corporation under applicable law, (c) otherwise required to be made under Section 8.7 or (d) otherwise required by applicable law; or

(v) if prohibited by applicable law.

8.7 DETERMINATION; CLAIM

If a claim for indemnification or advancement of expenses under this Article VIII is not paid in full within 90 days after receipt by the corporation of the written request therefor, the claimant shall be entitled to an adjudication by a court of competent jurisdiction of his or her entitlement to such indemnification or advancement of expenses. The corporation shall indemnify such person against any and all expenses that are incurred by such person in connection with any action for indemnification or advancement of expenses from the corporation under this Article VIII, to the extent such person is successful in such action, and to the extent not prohibited by law. In any such suit, the corporation shall, to the fullest extent not prohibited by law, have the burden of proving that the claimant is not entitled to the requested indemnification or advancement of expenses.

8.8 NON-EXCLUSIVITY OF RIGHTS

The indemnification and advancement of expenses provided by, or granted pursuant to, this Article VIII shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under the certificate of incorporation or any statute, bylaw, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in such person’s official capacity and as to action in another capacity while holding such 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 advancement of expenses, to the fullest extent not prohibited by the DGCL or other applicable law.

8.9 INSURANCE

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

8.10 SURVIVAL

The rights to indemnification and advancement of expenses conferred by this Article VIII shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

8.11 EFFECT OF REPEAL OR MODIFICATION

Any amendment, alteration or repeal of this Article VIII shall not adversely affect any right or protection hereunder of any person in respect of any act or omission occurring prior to such amendment, alteration or repeal.

8.12 CERTAIN DEFINITIONS

For purposes of this Article VIII, references to 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, 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 Article VIII with respect to the resulting or surviving corporation as such person would have with respect to such constituent corporation if its separate existence had continued. For purposes of this Article VIII, 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 such person 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 Article VIII.

ARTICLE IX - GENERAL MATTERS

9.1 EXECUTION OF CORPORATE CONTRACTS AND INSTRUMENTS

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

9.2 FISCAL YEAR

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

9.3 SEAL

The corporation may adopt a corporate seal, which shall be adopted and which may be altered by the board of directors. The corporation may use the corporate seal by causing it or a facsimile thereof to be impressed or affixed or in any other manner reproduced.

9.4 CONSTRUCTION; DEFINITIONS

Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the DGCL shall govern the construction of these bylaws. Without limiting the generality of this provision, the singular number includes the plural, the plural number includes the singular, and the term “**person**” includes both a corporation and a natural person.

ARTICLE X - AMENDMENTS

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

A bylaw amendment adopted by stockholders which specifies the votes that shall be necessary for the election of directors shall not be further amended or repealed by the board of directors.

Exhibit 10.14

Third Amendment to Industrial Lease

This Third Amendment to Industrial Lease (the “Amendment”) is made and entered into as of December __, 2010 (the “Amendment Date”), 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 Industrial Lease dated as of December 10, 2009 and modified by that certain Commencement Date Certificate dated __________, as amended by that certain Second Amendment to Lease Agreement dated as of August 13, 2010 (collectively, the “Lease”), for the leasing of certain premises consisting of approximately 29,371 square feet located at 940 Hamilton Avenue (formerly known as 1394 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 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, which is currently scheduled to expire on April 30, 2015 (the “Lease Expiration Date”), is hereby extended until December 31, 2015 (the “Revised Expiration Date”), unless sooner terminated in accordance with the terms of the Lease. The 8-month period from and after the Lease Expiration Date through the Revised Expiration Date shall hereinafter be referred to as the “Extended Term”.

3. Base Rent: Paragraphs 1.4 and 4 of the Lease are hereby modified to provide that as of the commencement of the Extended Term, the monthly Base Rent payable by Tenant to Landlord, in accordance with the provisions of Paragraphs 1.4 and 4 of the Lease shall be as follows:

Period	Monthly Base Rent
5/1/15 – 12/31/15	$ 56,180.91

4. Additional Lease Modifications: Landlord and Tenant agree that the Lease shall also be modified as follows:

a. In Paragraph 4.2(a)(vi), the following shall be added after the phrase “paragraph 8 below:” “(excluding the premiums and deductibles paid by Tenant to maintain the insurance coverage Tenant is required to maintain pursuant to Paragraph 8.2(a) below).”

b. In Subparagraph 4.2(e), the following shall be added as additional items not included within the term “Operating Expenses:” “(x) costs incurred because Landlord or another tenant actually violated the terms and conditions of any lease for premises within the Industrial Center or due to Landlord’s gross negligence or willful misconduct; (xi) any items for which Landlord is actually reimbursed by insurance or by direct reimbursement by any other tenant of the Industrial Center; (xii) costs associated with the investigation and/or remediation of Hazardous Substances (hereafter defined) present in, on or about any portion of the Industrial Center, unless such costs and expenses are the responsibility of Tenant as provided in Paragraph 6.2 hereof; (xiii) Landlord’s cost for the repairs and maintenance items set forth in the first (1st) sentence (and subject to the terms) of Paragraph 7.2; (xiv) overhead and profit increment paid to Landlord or to subsidiaries or affiliates of Landlord for goods and/or services in the Industrial Center to the extent the same exceeds the costs of such by unaffiliated third parties on a competitive basis; or any costs included in Operating Expenses representing an amount paid to a person, firm, corporation or other entity related to Landlord which is in excess of the amount which would have been paid in the absence of such relationship; (xv) the cost of correcting any building code or other code violations which were violations prior to the Commencement Date of this Lease; and (xvi) wages, salaries, or other compensation paid to any executive employees of Landlord above the grade of building manager.”

c. The following shall be inserted as Subparagraph 4.2(f):

> “(f) After delivery to Landlord of at least thirty (30) days’ prior written notice, Tenant, at its sole cost and expense through any accountant designated by it, shall have the right to examine and/or audit the books and records evidencing such expenses for the previous one (1) calendar year, during Landlord’s reasonable business hours but not more frequently than once during any calendar year. Tenant may not compensate any such accountant on a contingency fee basis. The results of any such audit (and any negotiations between the parties related thereto) shall be maintained strictly confidential by Tenant, its lawyers and its

accounting firm and shall not be disclosed, published or otherwise disseminated to any other party other than to Landlord and its authorized agents, except as otherwise required by Applicable Requirements or court order. Landlord and Tenant each shall use its commercially reasonable efforts to cooperate in such negotiations and to promptly resolve any discrepancies between Landlord and Tenant in the accounting of such expenses."

d. In Paragraph 5, the term "reasonable" shall be added in the fifth (5th) line of such paragraph, between the term "including" and "attorneys'."

e. In Subparagraph 6.2(c), the term "reasonable" shall be added (i) in the fourth (4th) line of such subparagraph between the term "and" and "attorneys'" and (ii) in the ninth (9th) line of such subparagraph between the term "including" and "consultants."

f. The following Paragraphs 6.7 and 6.8 shall be added to the Lease:

"6.7 Disclosure. The land described herein contains residual hazardous substances. Such condition renders the land and the Landlord, Tenant or other possessor of the land subject to requirements, restrictions, provisions, and liabilities contained in Chapter 6.5 and Chapter 6.8 of Division 20 of the Health and Safety Code, as same may be amended from time, and any successor statutes thereof. This statement is not a declaration that a hazard to public health, safety and welfare exists.

6.8 Landlord Indemnification. With respect to only those Hazardous Substances present on, in or under the Industrial Center as of the date of this Lease (the "Existing Hazardous Substances"), Landlord agrees to indemnify, defend (with counsel reasonably acceptable to Tenant) and hold Tenant harmless from and against any and all claims, judgments, damages, penalties, fines, liabilities, losses, suits, administrative proceedings and costs (including, but not limited to, reasonable attorneys' and consultant fees and court costs), arising at any time during or after the Term of this Lease, to the extent arising from (1) any of the Existing Hazardous Substances and/or (2) the removal, investigation, monitoring or remediation of any of the Existing Hazardous Substances; provided, however, Landlord shall not indemnify, defend or hold Tenant harmless to the extent (x) Tenant or any of the Tenant Entities contributes to or has contributed to the presence of such Existing Hazardous Substances or Tenant and/or any of the Tenant Entities exacerbates the conditions caused by such Existing Hazardous Substances, or (y) Tenant and/or any of 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 Existing 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 Existing Hazardous Substances in, on, under, through or about any portion of the Premises, the Building or the Industrial Center. Landlord's obligations under this Paragraph 6.8 shall survive the Expiration Date or earlier termination of this Lease."

g. In Paragraph 6.4, the following shall be added in the fifth (5th) line after the term "Applicable Requirements": "; provided, however, Tenant shall have the right to have a representative present during such inspections and such inspections shall occur upon not less than 48 hours notice during normal business hours. It is further agreed that Landlord shall have the right to use any and all means Landlord deems necessary to enter the Premises in an emergency and in the case of emergency advance notice shall not be required, provided that Landlord agrees to use its commercially reasonable efforts to contact Tenant's 24/7 security number (650-269-8434) to notify Tenant of the emergency. Landlord shall use commercially reasonable efforts to minimize any interference with Tenant's business operations during any entry into the Premises."

h. In Paragraph 6.6, the term "reasonable" shall be added in the tenth (10th) line between the term "limitation," and "attorneys'."

i. In Paragraph 7.2, (i) the phrase "floors and of the" shall be added in the fourth (4th) line thereof between the phrase "structure of the" and "exterior walls," and (ii) the following shall be inserted after the phrase "outside of the Premises" in the sixth (6th) line thereof: "(including, without limitation, fire protection services and plumbing, mechanical (including HVAC) and electrical systems serving the Building but excluding the plumbing, mechanical and electrical systems exclusively serving the Premises), and the parking areas, pavement, landscaping, sprinkler systems, sidewalks, driveways, curbs and lighting systems in the Common Areas."

j. In Subparagraph 8.2(d), the phrase "or material change" shall be deleted.

k. In Paragraph 8.5, the following shall be inserted at the beginning of such paragraph: “Except to the extent caused by the gross active or gross passive negligence or willful misconduct of Landlord or any Landlord Entity,”. Also the term “reasonable” shall be added in the second (2nd) line of such Paragraph 8.5, between the term “and” and “attorneys’.”

l. In Paragraph 8.6, the phrase “or any Landlord Entity” shall be added in the second (2nd) line of such Paragraph 8.6, between the term “Landlord,” and “neither.”

m. Paragraph 9.1 of the Lease is hereby deleted and the following substituted therefor:

> “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 one hundred eighty (180) consecutive days with the conduct by Tenant of its business at the Premises (provided, up to an additional sixty (60) days shall be added to such one hundred eighty (180) consecutive day period to account for time Landlord may require to obtain permits for such repairs), 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. Within forty five (45) days following the occurrence of such damage, Landlord shall inform Tenant in writing of Landlord’s estimate of the time required to complete repairs to the Premises. 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.”

n. In Paragraph 10.2, the term “reasonable” shall be added in the seventh (7th) line thereof after the term “including” and before the term “attorneys’.”

o. In Paragraph 12.2, in the second (2nd) and fourth (4th) sentences thereof, the phrase “thirty (30) days” shall be deleted and the phrase “fifteen (15) business days” substituted therefor.

p. In Paragraph 12.3, subparagraphs (h) and (k) shall be deleted and subparagraph “(i)” shall be relabeled “(h)”; subparagraph “(j)” shall be relabeled “(i)” and subparagraph “(l)” shall be relabeled “(j).”

q. In Paragraph 13.3, (i) the number “4” shall be deleted and the number “5” substituted therefor and (ii) the following phrase shall be added at the end of the third (3rd) sentence thereof: “; provided, however, the foregoing late charge shall not be applicable to the first (1st) instance of late payment of Rent by Tenant until three (3) business days after written notice to Tenant of such late payment”.

r. In Paragraph 14, the following shall be added at the end of the third (3rd) sentence thereof: “and Landlord shall, if necessary, promptly proceed to restore the Premises or the Building, as applicable, to substantially its same condition prior to such partial condemnation, allowing for the reasonable effects of such partial condemnation, and a proportionate allowance shall be made to Tenant for the rent corresponding to the time during which, and to the part of the Premises of which, Tenant is deprived on account of such partial condemnation and restoration. Landlord shall not be required to spend funds for restoration in excess of the amount received by Landlord as compensation awarded.”

s. In Paragraph 15.2, the following shall be added as a new sentence at the end of such Paragraph 15.2: “Tenant shall not be required to deliver such financial statements to Landlord so long as Tenant is a publicly-held company whose stock is listed on a national exchange.”

t. In Paragraph 16.9, the term “reasonable” shall be added in the last sentence of such Paragraph 16.9 before the term “attorneys’.”

u. In Paragraph 16.13, the term “reasonable” shall be added in the third (3rd) sentence thereof before the term “attorneys’.”

v. In Paragraph 16.14, the following phrase shall be added at the beginning of such Paragraph 16.14: "Subject to the terms of Paragraph 6.4 above."

w. In Subparagraph 16.18(a) the following shall be inserted at the beginning thereof: "Subject to the nondisturbance provisions of subparagraph 16.18(c),".

x. In Subparagraph 16.18(c), the following phrase shall be inserted following the phrase "With respect to a Mortgage entered into by Landlord after the execution of this Lease,": "and to any and all advances made on the security thereof, and to all renewals, modifications, consolidations, replacements and extensions thereof,".

y. In Paragraph 16.29, the following shall be inserted at the end of the second (2^{nd}) sentence of such Paragraph 16.29: "; provided, such Renovations shall not unreasonably interfere with Tenant's access to the Premises or access to the parking areas."

z. In Exhibit E, the following shall be added at the end of number 10: ", which permission shall not be unreasonably withheld, conditioned or delayed."

aa. Addendum 1 of the Lease is hereby deleted in its entirety and Addendum 1 attached hereto and incorporated herein by this reference shall be substituted therefor.

5. Right of First Offer: Landlord and Tenant acknowledge and agree that Tenant is, concurrently with the execution and delivery of this Amendment, executing and delivering leases to Landlord for all of the Expansion Spaces (as defined in Addendum 2 to the Lease) and therefore, Addendum 2 to the Lease shall be of no further force or effect upon the execution and delivery of such leases for the Expansion Spaces.

6. Condition of the Premises: Tenant acknowledges and agrees that its possession of the Premises after the Amendment Date, 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.

7. Brokers: Tenant warrants that it has had no dealings with any real estate broker or agent in connection with the negotiation of this Amendment whose commission shall be payable by Landlord, except Cornish & Carey Commercial and Cassidy Turley BT Commercial (collectively, "Brokers"). If Tenant has dealt with any person, real estate broker or agent with respect to this Amendment other than Brokers, 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 claims, judgments, damages, costs, expenses, and liabilities 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 meanings assigned to such terms 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. Incorporation: 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,
a Maryland corporation, its general partner

By: /s/ Mark Hansen
Name: Mark Hansen
Its: Sr. Vice President
Date: 12/29/10

///**signatures continued on next page**///

///**signatures continued from previous page**///

TENANT

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.,
a Delaware corporation, dba Pac Bio, Inc.

By: /s/ Susan Barnes
Name: Susan Barnes
Its: Executive Vice President and Chief Financial Officer
Date: 12/29/10

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.

Addendum 1
Options to Extend

This Addendum 1 (the "Addendum") is incorporated as a part of that certain Third Amendment to Industrial Lease dated December __, 2010 (the "Amendment"), 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 940 Hamilton Avenue (formerly known as 1394 Willow Road), Menlo Park, California. Any capitalized terms used herein and not otherwise defined herein shall have the meaning ascribed to such terms as set forth in the Amendment.

1. Grant of Extension Options. Subject to the provisions, limitations and conditions set forth in Paragraph 5 below, Tenant shall have an Option (individually, an "Option" and collectively, the "Options") to extend the Extended Term of the Lease for two (2) consecutive five (5) year periods (individually, an "Option Extended Term" and collectively, "Option Extended Terms").

2. Tenant's Option Notice. Tenant shall have the right to deliver written notice to Landlord of its intent to exercise an Option (the "Option Notice"). If Landlord does not receive an Option Notice from Tenant on a date which is neither more than three hundred sixty five (365) days nor less than two hundred twenty five (225) days prior to the end of the Extended Term or first Option Extended Term, as applicable, all rights under the applicable Option shall automatically terminate and shall be of no further force or effect. Upon the proper exercise of the first Option, subject to the provisions, limitations and conditions set forth in this Addendum, the Extended Term of the Lease shall be extended for the first Option Extended Term and upon the proper exercise of the second Option, subject to the provisions, limitations and conditions set forth in Paragraph 5 below, the first Option Extended Term shall be extended for the second Option Extended Term; provided, Tenant shall have no right to exercise the Option for the second Option Extended Term if Tenant failed to properly exercise the Option for the first Option Extended Term.

3. Determination of the Option Rent.

A. The Base Rent payable for each month during each Option 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 applicable Option Extended Term, the then 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 applicable Option Extended Term and not the commencement date of the applicable Option 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 applicable Option 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 applicable 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 applicable Option 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 Extended Term of this Lease with respect to the first Option Extended Term and in no event less than the Base Rent payable by Tenant immediately prior to the expiration of the first Option Extended Term with respect to the second Option Extended Term);

(ii) Tenant shall have no further renewal Option (except as expressly set forth in this Addendum 1) 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 rights to extend the Term of the Lease under this Addendum unless Landlord and Tenant otherwise agree in writing.

4. Condition of Premises for the Option Extended Terms. 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 Extended Term or first Option Extended Term, as applicable, 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 10.16

Third Amendment to Industrial Lease

This Third Amendment to Industrial Lease (the "Amendment") is made and entered into as of December __, 2010 (the "Amendment Date"), 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 Industrial Lease dated as of September 24, 2009, as amended by that certain First Amendment to Lease Agreement dated as of May 19, 2010 and that certain Second Amendment to Lease Agreement dated August 13, 2010 (collectively, the "Lease"), for the leasing of certain premises consisting of approximately 22,267 square feet located at 960 Hamilton Avenue (formerly known as 1392 Hamilton Avenue), 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 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 Extended Term of the Lease, which is currently scheduled to expire on September 30, 2013 (the "Lease Expiration Date"), is hereby extended until December 31, 2015 (the "Revised Expiration Date"), unless sooner terminated in accordance with the terms of the Lease. The 27-month period from and after the Lease Expiration Date through the Revised Expiration Date shall hereinafter be referred to as the "Second Extended Term".

3. Base Rent: Paragraphs 1.4 and 4 of the Lease are hereby modified to provide that as of the commencement of the Second Extended Term, the monthly Base Rent payable by Tenant to Landlord, in accordance with the provisions of Paragraphs 1.4 and 4 of the Lease shall be as follows:

Period	Monthly Base Rent
10/1/13 – 9/30/14	$ 34,064.45
10/1/14 – 9/30/15	$ 35,086.38
10/1/15 – 12/31/15	$ 36,138.97

4. Additional Lease Modifications: Landlord and Tenant agree that the Lease shall also be modified as follows:

a. In Paragraph 4.2(a)(vi), the following shall be added after the phrase "paragraph 8 below:" "(excluding the premiums and deductibles paid by Tenant to maintain the insurance coverage Tenant is required to maintain pursuant to Paragraph 8.2(a) below)."

b. In Subparagraph 4.2(e), the following shall be added as additional items not included within the term "Operating Expenses:" "(x) costs incurred because Landlord or another tenant actually violated the terms and conditions of any lease for premises within the Industrial Center or due to Landlord's gross negligence or willful misconduct; (xi) any items for which Landlord is actually reimbursed by insurance or by direct reimbursement by any other tenant of the Industrial Center; (xii) costs associated with the investigation and/or remediation of Hazardous Substances (hereafter defined) present in, on or about any portion of the Industrial Center, unless such costs and expenses are the responsibility of Tenant as provided in Paragraph 6.2 hereof; (xiii) Landlord's cost for the repairs and maintenance items set forth in the first (1st) sentence (and subject to the terms) of Paragraph 7.2; (xiv) overhead and profit increment paid to Landlord or to subsidiaries or affiliates of Landlord for goods and/or services in the Industrial Center to the extent the same exceeds the costs of such by unaffiliated third parties on a competitive basis; or any costs included in Operating Expenses representing an amount paid to a person, firm, corporation or other entity related to Landlord which is in excess of the amount which would have been paid in the absence of such relationship; (xv) the cost of correcting any building code or other code violations which were violations prior to the Commencement Date of this Lease; and (xvi) wages, salaries, or other compensation paid to any executive employees of Landlord above the grade of building manager."

c. The following shall be inserted as Subparagraph 4.2(f):

"(f) After delivery to Landlord of at least thirty (30) days' prior written notice, Tenant, at its sole cost and expense through any accountant designated by it, shall have the right to examine and/or audit the books and records evidencing such expenses for the previous one (1) calendar year, during Landlord's reasonable business hours but not more frequently than once during any calendar year. Tenant may not compensate any such accountant on a contingency fee basis. The results of any such audit (and any negotiations between the parties related thereto) shall be maintained strictly confidential by Tenant, its lawyers and its accounting firm and shall not be disclosed, published or otherwise disseminated to any other party other than to Landlord and its authorized agents, except as otherwise required by Applicable Requirements or court order. Landlord and Tenant each shall use its commercially reasonable efforts to cooperate in such negotiations and to promptly resolve any discrepancies between Landlord and Tenant in the accounting of such expenses."

d. In Paragraph 5, the term "reasonable" shall be added in the fifth (5th) line of such paragraph, between the term "including" and "attorneys'."

e. In Subparagraph 6.2(c), the term "reasonable" shall be added (i) in the fourth (4th) line of such subparagraph between the term "and" and "attorneys'" and (ii) in the ninth (9th) line of such subparagraph between the term "including" and "consultants."

f. The following Paragraphs 6.7 and 6.8 shall be added to the Lease:

"6.7 <u>Disclosure</u>. The land described herein contains residual hazardous substances. Such condition renders the land and the Landlord, Tenant or other possessor of the land subject to requirements, restrictions, provisions, and liabilities contained in Chapter 6.5 and Chapter 6.8 of Division 20 of the Health and Safety Code, as same may be amended from time, and any successor statutes thereof. This statement is not a declaration that a hazard to public health, safety and welfare exists.

6.8 <u>Landlord Indemnification</u>. With respect to only those Hazardous Substances present on, in or under the Industrial Center as of the date of this Lease (the "Existing Hazardous Substances"), Landlord agrees to indemnify, defend (with counsel reasonably acceptable to Tenant) and hold Tenant harmless from and against any and all claims, judgments, damages, penalties, fines, liabilities, losses, suits, administrative proceedings and costs (including, but not limited to, reasonable attorneys' and consultant fees and court costs), arising at any time during or after the Term of this Lease, to the extent arising from (1) any of the Existing Hazardous Substances and/or (2) the removal, investigation, monitoring or remediation of any of the Existing Hazardous Substances; provided, however, Landlord shall not indemnify, defend or hold Tenant harmless to the extent (x) Tenant or any of the Tenant Entities contributes to or has contributed to the presence of such Existing Hazardous Substances or Tenant and/or any of the Tenant Entities exacerbates the conditions caused by such Existing Hazardous Substances, or (y) Tenant and/or any of 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 Existing 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 Existing Hazardous Substances in, on, under, through or about any portion of the Premises, the Building or the Industrial Center. Landlord's obligations under this Paragraph 6.8 shall survive the Expiration Date or earlier termination of this Lease."

g. In Paragraph 6.4, the following shall be added in the fifth (5th) line after the term "Applicable Requirements": "; provided, however, Tenant shall have the right to have a representative present during such inspections and such inspections shall occur upon not less than 48 hours notice during normal business hours. It is further agreed that Landlord shall have the right to use any and all means Landlord deems necessary to enter the Premises in an emergency and in the case of emergency advance notice shall not be required, provided that Landlord agrees to use its commercially reasonable efforts to contact Tenant's 24/7 security number (650-269-8434) to notify Tenant of the emergency. Landlord shall use commercially reasonable efforts to minimize any interference with Tenant's business operations during any entry into the Premises."

h. In Paragraph 6.6, the term "reasonable" shall be added in the tenth (10th) line between the term "limitation," and "attorneys'."

i. In Paragraph 7.2, (i) the phrase "floors and of the" shall be added in the fourth (4th) line thereof between the phrase "structure of the" and "exterior walls," and (ii) the following shall be inserted after the phrase "outside of the Premises" in the sixth (6th) line thereof: "(including, without limitation, fire protection services and plumbing, mechanical (including HVAC) and electrical systems serving the

Building but excluding the plumbing, mechanical and electrical systems exclusively serving the Premises), and the parking areas, pavement, landscaping, sprinkler systems, sidewalks, driveways, curbs and lighting systems in the Common Areas."

j. In Subparagraph 8.2(d), the phrase "or material change" shall be deleted.

k. In Paragraph 8.5, the following shall be inserted at the beginning of such paragraph: "Except to the extent caused by the gross active or gross passive negligence or willful misconduct of Landlord or any Landlord Entity,". Also the term "reasonable" shall be added in the second (2nd) line of such Paragraph 8.5, between the term "and" and "attorneys'."

l. In Paragraph 8.6, the phrase "or any Landlord Entity" shall be added in the second (2nd) line of such Paragraph 8.6, between the term "Landlord," and "neither."

m. Paragraph 9.1 of the Lease is hereby deleted and the following substituted therefor:

> "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 one hundred eighty (180) consecutive days with the conduct by Tenant of its business at the Premises (provided, up to an additional sixty (60) days shall be added to such one hundred eighty (180) consecutive day period to account for time Landlord may require to obtain permits for such repairs), 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. Within forty five (45) days following the occurrence of such damage, Landlord shall inform Tenant in writing of Landlord's estimate of the time required to complete repairs to the Premises. 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."

n. In Paragraph 10.2, the term "reasonable" shall be added in the seventh (7th) line thereof after the term "including" and before the term "attorneys'."

o. In Paragraph 12.2, in the second (2nd) and fourth (4th) sentences thereof, the phrase "thirty (30) days" shall be deleted and the phrase "fifteen (15) business days" substituted therefor.

p. In Paragraph 12.3, subparagraphs (h) and (k) shall be deleted and subparagraph "(i)" shall be relabeled "(h)"; subparagraph "(j)" shall be relabeled "(i)" and subparagraph "(l)" shall be relabeled "(j)."

q. In Paragraph 13.3, (i) the number "4" shall be deleted and the number "5" substituted therefor and (ii) the following phrase shall be added at the end of the third (3rd) sentence thereof: "; provided, however, the foregoing late charge shall not be applicable to the first (1st) instance of late payment of Rent by Tenant until three (3) business days after written notice to Tenant of such late payment".

r. In Paragraph 14, the following shall be added at the end of the third (3rd) sentence thereof: "and Landlord shall, if necessary, promptly proceed to restore the Premises or the Building, as applicable, to substantially its same condition prior to such partial condemnation, allowing for the reasonable effects of such partial condemnation, and a proportionate allowance shall be made to Tenant for the rent corresponding to the time during which, and to the part of the Premises of which, Tenant is deprived on account of such partial condemnation and restoration. Landlord shall not be required to spend funds for restoration in excess of the amount received by Landlord as compensation awarded."

s. In Paragraph 15.2, the following shall be added as a new sentence at the end of such Paragraph 15.2: "Tenant shall not be required to deliver such financial statements to Landlord so long as Tenant is a publicly-held company whose stock is listed on a national exchange."

t. In Paragraph 16.9, the term “reasonable” shall be added in the last sentence of such Paragraph 16.9 before the term “attorneys’.”

u. In Paragraph 16.13, the term “reasonable” shall be added in the third (3rd) sentence thereof before the term “attorneys’.”

v. In Paragraph 16.14, the following phrase shall be added at the beginning of such Paragraph 16.14: “Subject to the terms of Paragraph 6.4 above.”

w. In Subparagraph 16.18(a) the following shall be inserted at the beginning thereof: “Subject to the nondisturbance provisions of subparagraph 16.18(c),”.

x. In Subparagraph 16.18(c), the following phrase shall be inserted following the phrase “With respect to a Mortgage entered into by Landlord after the execution of this Lease,”: “and to any and all advances made on the security thereof, and to all renewals, modifications, consolidations, replacements and extensions thereof,”.

y. In Paragraph 16.29, the following shall be inserted at the end of the second (2nd) sentence of such Paragraph 16.29: “; provided, such Renovations shall not unreasonably interfere with Tenant’s access to the Premises or access to the parking areas.”

z. In Paragraph 16.32, the following phrase shall be deleted from the tenth (10th) line of such Paragraph 16.32: “(a) remove or materially modify the Cubicles and Equipment or (b)”.

aa. In Exhibit E, the following shall be added at the end of number 10: “, which permission shall not be unreasonably withheld, conditioned or delayed.”

5. Termination Option: Landlord and Tenant agree that the Termination Option described and defined in Paragraph 16.31 of the Lease is null and void and of no further force or effect.

6. Option to Extend: Tenant shall have two (2) options to extend the Term of the Lease, as more particularly provided in Addendum 1 attached hereto and incorporated herein by this reference.

7. Condition of the Premises: Tenant acknowledges and agrees that its possession of the Premises after the Amendment Date, 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.

8. Brokers: Tenant warrants that it has had no dealings with any real estate broker or agent in connection with the negotiation of this Amendment whose commission shall be payable by Landlord, except Cornish & Carey Commercial and Cassidy Turley BT Commercial (collectively, “Brokers”). If Tenant has dealt with any person, real estate broker or agent with respect to this Amendment other than Brokers, 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 claims, judgments, damages, costs, expenses, and liabilities with respect thereto, including attorneys’ fees and costs.

9. 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.

10. Definitions: Unless otherwise defined in this Amendment, all terms not defined in this Amendment shall have the meanings assigned to such terms in the Lease.

11. 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.

12. Incorporation: The terms and provisions of the Lease are hereby incorporated in this Amendment.

///continued on next page///

///continued from previous page///

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,
a Maryland corporation, its general partner

By: /s/ Mark Hansen
Name: Mark Hansen
Its: Sr Vice President
Date: 12.29.10

TENANT

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.,
a Delaware corporation, dba Pac Bio, Inc.

By: /s/ Susan Barnes
Name: Susan Barnes
Its: Executive Vice President and Chief Financial Officer
Date: 12.29.10

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.

Addendum 1
Options to Extend

This Addendum 1 (the “Addendum”) is incorporated as a part of that certain Third Amendment to Industrial Lease dated December __, 2010 (the “Amendment”), 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 960 Hamilton Avenue (formerly known as 1392 Hamilton Avenue), Menlo Park, California. Any capitalized terms used herein and not otherwise defined herein shall have the meaning ascribed to such terms as set forth in the Amendment.

1. Grant of Extension Options. Subject to the provisions, limitations and conditions set forth in Paragraph 5 below, Tenant shall have an Option (individually, an “Option” and collectively, the “Options”) to extend the Second Extended Term of the Lease for two (2) consecutive five (5) year periods (individually, an “Option Extended Term” and collectively, “Option Extended Terms”).

2. Tenant’s Option Notice. Tenant shall have the right to deliver written notice to Landlord of its intent to exercise an Option (the “Option Notice”). If Landlord does not receive an Option Notice from Tenant on a date which is neither more than three hundred sixty five (365) days nor less than two hundred twenty five (225) days prior to the end of the Second Extended Term or first Option Extended Term, as applicable, all rights under the applicable Option shall automatically terminate and shall be of no further force or effect. Upon the proper exercise of the first Option, subject to the provisions, limitations and conditions set forth in this Addendum, the Second Extended Term of the Lease shall be extended for the first Option Extended Term and upon the proper exercise of the second Option, subject to the provisions, limitations and conditions set forth in Paragraph 5 below, the first Option Extended Term shall be extended for the second Option Extended Term; provided, Tenant shall have no right to exercise the Option for the second Option Extended Term if Tenant failed to properly exercise the Option for the first Option Extended Term.

3. Determination of the Option Rent.

A. The Base Rent payable for each month during each Option 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 applicable Option Extended Term, the then 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 applicable Option Extended Term and not the commencement date of the applicable Option 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 applicable Option 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 applicable 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 applicable Option 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 Second Extended Term of this Lease with respect to the first Option Extended Term and in no event less than the Base Rent payable by Tenant immediately prior to the expiration of the first Option Extended Term with respect to the second Option Extended Term);

(ii) Tenant shall have no further renewal Option (except as expressly set forth in this Addendum 1) 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 rights to extend the Term of the Lease under this Addendum unless Landlord and Tenant otherwise agree in writing.

4. Condition of Premises for the Option Extended Terms. 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 Second Extended Term or first Option Extended Term, as applicable, 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.

First Amendment to Industrial Lease

This First Amendment to Industrial Lease (the "Amendment") is made and entered into as of December __, 2010 (the "Amendment Date"), 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 Industrial Lease dated as of February 8, 2010 and that certain First Amendment to Industrial Lease dated __________, 2010 (collectively, the "Lease"), for the leasing of certain premises consisting of approximately 33,792 square feet located at 1380 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 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, which is currently scheduled to expire on July 31, 2015 (the "Lease Expiration Date"), is hereby extended until December 31, 2015 (the "Revised Expiration Date"), unless sooner terminated in accordance with the terms of the Lease. The 5-month period from and after the Lease Expiration Date through the Revised Expiration Date shall hereinafter be referred to as the "Extended Term".

3. Base Rent: Paragraphs 1.4 and 4 of the Lease are hereby modified to provide that as of the commencement of the Extended Term, the monthly Base Rent payable by Tenant to Landlord, in accordance with the provisions of Paragraphs 1.4 and 4 of the Lease shall be as follows:

Period	Monthly Base Rent
8/1/15 – 12/31/15	$ 64,637.41

4. Additional Lease Modifications: Landlord and Tenant agree that the Lease shall also be modified as follows:

a. In Paragraph 4.2(a)(vi), the following shall be added after the phrase "paragraph 8 below:" "(excluding the premiums and deductibles paid by Tenant to maintain the insurance coverage Tenant is required to maintain pursuant to Paragraph 8.2(a) below)."

b. In Subparagraph 4.2(e), the following shall be added as additional items not included within the term "Operating Expenses:" "(x) costs incurred because Landlord or another tenant actually violated the terms and conditions of any lease for premises within the Industrial Center or due to Landlord's gross negligence or willful misconduct; (xi) any items for which Landlord is actually reimbursed by insurance or by direct reimbursement by any other tenant of the Industrial Center; (xii) costs associated with the investigation and/or remediation of Hazardous Substances (hereafter defined) present in, on or about any portion of the Industrial Center, unless such costs and expenses are the responsibility of Tenant as provided in Paragraph 6.2 hereof; (xiii) Landlord's cost for the repairs and maintenance items set forth in the first (1st) sentence (and subject to the terms) of Paragraph 7.2; (xiv) overhead and profit increment paid to Landlord or to subsidiaries or affiliates of Landlord for goods and/or services in the Industrial Center to the extent the same exceeds the costs of such by unaffiliated third parties on a competitive basis; or any costs included in Operating Expenses representing an amount paid to a person, firm, corporation or other entity related to Landlord which is in excess of the amount which would have been paid in the absence of such relationship; (xv) the cost of correcting any building code or other code violations which were violations prior to the Commencement Date of this Lease; and (xvi) wages, salaries, or other compensation paid to any executive employees of Landlord above the grade of building manager."

c. The following shall be inserted as Subparagraph 4.2(f):

"(f) After delivery to Landlord of at least thirty (30) days' prior written notice, Tenant, at its sole cost and expense through any accountant designated by it, shall have the right to examine and/or audit the books and records evidencing such expenses for the previous one (1) calendar year, during Landlord's reasonable business hours but not more frequently than once during any calendar year. Tenant may not compensate any such accountant on a contingency fee basis. The results of any such audit (and any negotiations between the parties related thereto) shall be maintained strictly confidential by Tenant, its lawyers and its accounting firm and shall not be disclosed, published or otherwise disseminated to any other party other than to Landlord and its authorized agents, except as otherwise required by Applicable Requirements or court order. Landlord and Tenant each shall use its commercially reasonable efforts to cooperate in such negotiations and to promptly resolve any discrepancies between Landlord and Tenant in the accounting of such expenses."

d. In Paragraph 5, the term "reasonable" shall be added in the fifth (5^{th}) line of such paragraph, between the term "including" and "attorneys'."

e. In Subparagraph 6.2(c), the term "reasonable" shall be added (i) in the fourth (4^{th}) line of such subparagraph between the term "and" and "attorneys'" and (ii) in the ninth (9^{th}) line of such subparagraph between the term "including" and "consultants."

f. The following Paragraphs 6.7 and 6.8 shall be added to the Lease:

"6.7 <u>Disclosure</u>. The land described herein contains residual hazardous substances. Such condition renders the land and the Landlord, Tenant or other possessor of the land subject to requirements, restrictions, provisions, and liabilities contained in Chapter 6.5 and Chapter 6.8 of Division 20 of the Health and Safety Code, as same may be amended from time, and any successor statutes thereof. This statement is not a declaration that a hazard to public health, safety and welfare exists.

6.8 <u>Landlord Indemnification</u>. With respect to only those Hazardous Substances present on, in or under the Industrial Center as of the date of this Lease (the "Existing Hazardous Substances"), Landlord agrees to indemnify, defend (with counsel reasonably acceptable to Tenant) and hold Tenant harmless from and against any and all claims, judgments, damages, penalties, fines, liabilities, losses, suits, administrative proceedings and costs (including, but not limited to, reasonable attorneys' and consultant fees and court costs), arising at any time during or after the Term of this Lease, to the extent arising from (1) any of the Existing Hazardous Substances and/or (2) the removal, investigation, monitoring or remediation of any of the Existing Hazardous Substances; provided, however, Landlord shall not indemnify, defend or hold Tenant harmless to the extent (x) Tenant or any of the Tenant Entities contributes to or has contributed to the presence of such Existing Hazardous Substances or Tenant and/or any of the Tenant Entities exacerbates the conditions caused by such Existing Hazardous Substances, or (y) Tenant and/or any of 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 Existing 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 Existing Hazardous Substances in, on, under, through or about any portion of the Premises, the Building or the Industrial Center. Landlord's obligations under this Paragraph 6.8 shall survive the Expiration Date or earlier termination of this Lease."

g. In Paragraph 6.4, the following shall be added in the fifth (5^{th}) line after the term "Applicable Requirements": "; provided, however, Tenant shall have the right to have a representative present during such inspections and such inspections shall occur upon not less than 48 hours notice during normal business hours. It is further agreed that Landlord shall have the right to use any and all means Landlord deems necessary to enter the Premises in an emergency and in the case of emergency advance notice shall not be required, provided that Landlord agrees to use its commercially reasonable efforts to contact Tenant's 24/7 security number (650-269-8434) to notify Tenant of the emergency. Landlord shall use commercially reasonable efforts to minimize any interference with Tenant's business operations during any entry into the Premises."

h. In Paragraph 6.6, the term "reasonable" shall be added in the tenth (10^{th}) line between the term "limitation," and "attorneys'."

i. In Paragraph 7.2, (i) the phrase "floors and of the" shall be added in the fourth (4^{th}) line thereof between the phrase "structure of the" and "exterior walls," and (ii) the following shall be inserted after the phrase "outside of the Premises" in the sixth (6^{th}) line thereof: "(including, without limitation, fire protection services and plumbing, mechanical (including HVAC) and electrical systems serving the Building but excluding the plumbing, mechanical and electrical systems exclusively serving the Premises), and the parking areas, pavement, landscaping, sprinkler systems, sidewalks, driveways, curbs and lighting systems in the Common Areas."

j. In Paragraph 8.5, the following shall be inserted at the beginning of such paragraph: "Except to the extent caused by the gross active or gross passive negligence or willful misconduct of Landlord or any Landlord Entity,". Also the term "reasonable" shall be added in the second (2^{nd}) line of such Paragraph 8.5, between the term "and" and "attorneys'."

k. In Paragraph 8.6, the phrase “or any Landlord Entity” shall be added in the second (2nd) line of such Paragraph 8.6, between the term “Landlord,” and “neither.”

l. Paragraph 9.1 of the Lease is hereby deleted and the following substituted therefor:

> “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 one hundred eighty (180) consecutive days with the conduct by Tenant of its business at the Premises (provided, up to an additional sixty (60) days shall be added to such one hundred eighty (180) consecutive day period to account for time Landlord may require to obtain permits for such repairs), 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. Within forty five (45) days following the occurrence of such damage, Landlord shall inform Tenant in writing of Landlord’s estimate of the time required to complete repairs to the Premises. 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.”

m. In Paragraph 10.2, the term “reasonable” shall be added in the seventh (7th) line thereof after the term “including” and before the term “attorneys’.”

n. In Paragraph 12.2, in the second (2nd) and fourth (4th) sentences thereof, the phrase “thirty (30) days” shall be deleted and the phrase “fifteen (15) business days” substituted therefor.

o. In Paragraph 12.3, subparagraphs (h) and (k) shall be deleted and subparagraph “(i)” shall be relabeled “(h)”; subparagraph “(j)” shall be relabeled “(i)” and subparagraph “(l)” shall be relabeled “(j).”

p. In Paragraph 13.3, (i) the number “4” shall be deleted and the number “5” substituted therefor and (ii) the following phrase shall be added at the end of the third (3rd) sentence thereof: “; provided, however, the foregoing late charge shall not be applicable to the first (1st) instance of late payment of Rent by Tenant until three (3) business days after written notice to Tenant of such late payment”.

q. In Paragraph 14, the following shall be added at the end of the third (3rd) sentence thereof: “and Landlord shall, if necessary, promptly proceed to restore the Premises or the Building, as applicable, to substantially its same condition prior to such partial condemnation, allowing for the reasonable effects of such partial condemnation, and a proportionate allowance shall be made to Tenant for the rent corresponding to the time during which, and to the part of the Premises of which, Tenant is deprived on account of such partial condemnation and restoration. Landlord shall not be required to spend funds for restoration in excess of the amount received by Landlord as compensation awarded.”

r. In Paragraph 15.2, the following shall be added as a new sentence at the end of such Paragraph 15.2: “Tenant shall not be required to deliver such financial statements to Landlord so long as Tenant is a publicly-held company whose stock is listed on a national exchange.”

s. In Paragraph 16.9, the term “reasonable” shall be added in the last sentence of such Paragraph 16.9 before the term “attorneys’.”

t. In Paragraph 16.13, the term “reasonable” shall be added in the third (3rd) sentence thereof before the term “attorneys’.”

u. In Paragraph 16.14, the following phrase shall be added at the beginning of such Paragraph 16.14: “Subject to the terms of Paragraph 6.4 above.”

v. In Subparagraph 16.18(a) the following shall be inserted at the beginning thereof: "Subject to the nondisturbance provisions of subparagraph 16.18(c),".

w. In Subparagraph 16.18(c), the following phrase shall be inserted following the phrase "With respect to a Mortgage entered into by Landlord after the execution of this Lease,": "and to any and all advances made on the security thereof, and to all renewals, modifications, consolidations, replacements and extensions thereof,".

x. In Paragraph 16.29, the following shall be inserted at the end of the second (2nd) sentence of such Paragraph 16.29: "; provided, such Renovations shall not unreasonably interfere with Tenant's access to the Premises or access to the parking areas."

y. In Exhibit E, the following shall be added at the end of number 10: ", which permission shall not be unreasonably withheld, conditioned or delayed."

z. Addendum 1 of the Lease is hereby deleted in its entirety and Addendum 1 attached hereto and incorporated herein by this reference shall be substituted therefor.

5. Right of First Offer: Landlord and Tenant acknowledge and agree that Tenant is, concurrently with the execution and delivery of this Amendment, executing and delivering leases to Landlord for all of the Expansion Spaces (as defined in Addendum 2 to the Lease) and therefore, Addendum 2 to the Lease shall be of no further force or effect upon the execution and delivery of such leases for the Expansion Spaces.

6. Condition of the Premises: Tenant acknowledges and agrees that its possession of the Premises after the Amendment Date, 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.

7. Brokers: Tenant warrants that it has had no dealings with any real estate broker or agent in connection with the negotiation of this Amendment whose commission shall be payable by Landlord, except Cornish & Carey Commercial and Cassidy Turley BT Commercial (collectively, "Brokers"). If Tenant has dealt with any person, real estate broker or agent with respect to this Amendment other than Brokers, 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 claims, judgments, damages, costs, expenses, and liabilities 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 meanings assigned to such terms 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. Incorporation: 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,
a Maryland corporation, its general partner

By: /s/ Mark Hansen
Name: Mark Hansen
Its: Sr Vice President
Date: 12/29/10

///signatures continued on next page///

TENANT

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.,
a Delaware corporation, dba Pac Bio, Inc.

By: /s/ Susan Barnes
Name: Susan Barnes
Its: Executive Vice President and Chief Financial Officer
Date: 12/29/10

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.

Addendum 1
Options to Extend

This Addendum 1 (the “Addendum”) is incorporated as a part of that certain Second Amendment to Industrial Lease dated December __, 2010 (the “Amendment”), 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. Any capitalized terms used herein and not otherwise defined herein shall have the meaning ascribed to such terms as set forth in the Amendment.

1. Grant of Extension Options. Subject to the provisions, limitations and conditions set forth in Paragraph 5 below, Tenant shall have an Option (individually, an “Option” and collectively, the “Options”) to extend the Extended Term of the Lease for two (2) consecutive five (5) year periods (individually, an “Option Extended Term” and collectively, “Option Extended Terms”).

2. Tenant’s Option Notice. Tenant shall have the right to deliver written notice to Landlord of its intent to exercise an Option (the “Option Notice”). If Landlord does not receive an Option Notice from Tenant on a date which is neither more than three hundred sixty five (365) days nor less than two hundred twenty five (225) days prior to the end of the Extended Term or first Option Extended Term, as applicable, all rights under the applicable Option shall automatically terminate and shall be of no further force or effect. Upon the proper exercise of the first Option, subject to the provisions, limitations and conditions set forth in this Addendum, the Extended Term of the Lease shall be extended for the first Option Extended Term and upon the proper exercise of the second Option, subject to the provisions, limitations and conditions set forth in Paragraph 5 below, the first Option Extended Term shall be extended for the second Option Extended Term; provided, Tenant shall have no right to exercise the Option for the second Option Extended Term if Tenant failed to properly exercise the Option for the first Option Extended Term.

3. Determination of the Option Rent.

A. The Base Rent payable for each month during each Option 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 applicable Option Extended Term, the then 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 applicable Option Extended Term and not the commencement date of the applicable Option 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 applicable Option 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 applicable 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 applicable Option 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 Extended Term of this Lease with respect to the first Option Extended Term and in no event less than the Base Rent payable by Tenant immediately prior to the expiration of the first Option Extended Term with respect to the second Option Extended Term);

(ii) Tenant shall have no further renewal Option (except as expressly set forth in this Addendum 1) 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 rights to extend the Term of the Lease under this Addendum unless Landlord and Tenant otherwise agree in writing.

4. Condition of Premises for the Option Extended Terms. 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 Extended Term or first Option Extended Term, as applicable, 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 10.20

Lease

Willow Park
Menlo Park, California

Willow Park Holding Company I, L.P., a Delaware limited partnership,

as Landlord,

and

Pacific Biosciences of California, Inc., a Delaware corporation
dba Pac Bio, Inc.,

as Tenant

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AMB Property Corporation
Lease

1. Basic Provisions (“Basic Provisions”).

1.1 Parties. This Lease (“Lease”) dated December __, 2010, is made by and between Willow Park Holding Company I, 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 approximately 14,001 square feet located on the ground floor of the building (“Building”) commonly known as 1350 Willow Road, Suite 101, 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.

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 five (5) years and sixteen (16) days (“Term”) commencing on December 15, 2010 (“Commencement Date”) and ending December 31, 2015 (“Expiration Date”). Pursuant to the terms of this Lease, including without limitation, **Exhibit F** hereto, Tenant shall have the right to access the Premises for purposes of constructing the Tenant Improvements (as defined in **Exhibit F**), office set-up and conducting large company meetings commencing on the Commencement Date.

1.4 Base Rent. Base monthly rent (“Base Rent”) shall be payable as follows:

Months of Term	Monthly Base Rent
Commencement Date – 2/28/11	$ 0
3/1/11 – 5/31/11	$ 0
6/1/11 – 3/31/12	$ 18,901.35
4/1/12 – 3/31/13	$ 19,881.42
4/1/13 – 3/31/14	$ 20,477.86
4/1/14 – 3/31/15	$ 21,092.20
4/1/15 – 12/31/15	$ 21,724.96

As used in this Lease, the term “Rent Commencement Date’ shall mean March 1, 2011 unless Landlord does not deliver possession of the Premises on or before December 15, 2010, in which case “Rent Commencement Date” shall mean the date which is two (2) months and sixteen (16) days following the date Landlord delivers possession of the Premises to Tenant.

1.5 Tenant’s Share of Operating Expenses (“Tenant’s Share”).

(a)	Common Area Operating Expenses	1.40%
(b)	Building Operating Expenses	28.00%
(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 upon the execution of this Lease for the first month of the Lease Term for which Rent is payable.

(a)	Base Rent (Paragraph 4.1)	$18,901.35
(b)	Operating Expenses (Paragraph 4.2, excluding Real Property Taxes, Landlord Insurance, and HVAC)	$ ______**
(c)	Landlord Insurance (Paragraph 8.3)	$ 280.00
(d)	Real Property Taxes (Paragraph 10)	$ 2,380.00
	Estimated **Total** Monthly Payment	$ ______**

** The estimated monthly payment of Operating Expenses shall be determined by Landlord in January 2011 and Landlord shall notify Tenant in writing of such estimated amount upon such determination.

1.7 Security Deposit . $21,724.96 (“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:	Options to Extend
Addendum 2:	Options to Expand

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

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:

Willow Park Holding Company I, 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 Cassidy Turley 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. Tenant accepts the Premises in its present "As-Is" condition, state of repair and operating order. On the Commencement Date, Landlord shall deliver the Premises, 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. Tenant shall have a warranty period of one hundred twenty (120) days (i) (which warranty period shall commence fifteen (15) days following the Commencement Date) with respect to the HVAC systems serving the lab to confirm such condition and (ii) (which warranty period shall commence one (1) month following the Rent Commencement Date) with respect to the remaining elements of the Building referenced above to confirm such condition. Tenant's failure to notify Landlord in writing within such respective one hundred twenty (120) day periods 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; provided, except as set forth in Paragraph 1.4 above, Tenant shall not be obligated to pay Base Rent for the first five (5) months and sixteen (16) days following the 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 (1^{st}) day of each month during the Term hereof, in addition to the Base Rent, 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 (excluding the premiums and deductibles paid by Tenant to maintain the insurance coverage Tenant is required to maintain pursuant to Paragraph 8.2(a) 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; (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; (x) costs incurred because Landlord or another tenant actually violated the terms and conditions of any lease for premises within the Industrial Center or due to Landlord's gross negligence or willful misconduct; (xi) any items for which Landlord is actually reimbursed by insurance or by direct reimbursement by any other tenant of the Industrial Center; (xii) costs associated with the investigation and/or remediation of Hazardous Substances (hereafter defined) present in, on or about any portion of the Industrial Center, unless such costs and expenses are the responsibility of Tenant as provided in Paragraph 6.2 hereof; (xiii) Landlord's cost for the repairs and maintenance items set forth in the first (1st) sentence (and subject to the terms) of Paragraph 7.2; (xiv) overhead and profit increment paid to Landlord or to subsidiaries or affiliates of Landlord for goods and/or services in the Industrial Center to the extent the same exceeds the costs of such by unaffiliated third parties on a competitive basis; or any costs included in Operating Expenses representing an amount paid to a person, firm, corporation or other entity related to Landlord which is in excess of the amount which would have been paid in the absence of such relationship; (xv) the cost of correcting any building code or other code violations which were violations prior to the Commencement Date of this Lease; and (xvi) wages, salaries, or other compensation paid to any executive employees of Landlord above the grade of building manager.

(f) After delivery to Landlord of at least thirty (30) days' prior written notice, Tenant, at its sole cost and expense through any accountant designated by it, shall have the right to examine and/or audit the books and records evidencing such expenses for the previous one (1) calendar year, during Landlord's reasonable business hours but not more frequently than once during any calendar year. Tenant may not compensate any such accountant on a contingency fee basis. The results of any such audit (and any negotiations between the parties related thereto) shall be maintained strictly confidential by Tenant, its lawyers and its accounting firm and shall not be disclosed, published or otherwise disseminated to any other party other than to Landlord and its authorized agents, except as otherwise required by Applicable Requirements or court order. Landlord and Tenant each shall use its commercially reasonable efforts to cooperate in such negotiations and to promptly resolve any discrepancies between Landlord and Tenant in the accounting of such expenses.

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 reasonable 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 reasonable 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 reasonable 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; provided, however, Tenant shall have the right to have a representative present during such inspections and such inspections shall occur upon not less than 48 hours notice during normal business hours. It is further agreed that Landlord shall have the right to use any and all means Landlord deems necessary to enter the Premises in an emergency and in the case of emergency advance notice shall not be required, provided that Landlord agrees to use its commercially reasonable efforts to contact Tenant's 24/7 security number (650-269-8434) to notify Tenant of the emergency. Landlord shall use commercially reasonable efforts to minimize any interference with Tenant's business operations during any entry into the Premises. 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 <u>Tenant Move-in Questionnaire</u>. 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 **<u>Exhibit C</u>** 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, reasonable 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.

6.7 Disclosure. The land described herein contains residual Hazardous Substances. Such condition renders the land and the Landlord, Tenant or other possessor of the land subject to requirements, restrictions, provisions, and liabilities contained in Chapter 6.5 and Chapter 6.8 of Division 20 of the Health and Safety Code, as same may be amended from time, and any successor statutes thereof. This statement is not a declaration that a hazard to public health, safety and welfare exists.

6.8 Landlord Indemnification. With respect to only those Hazardous Substances present on, in or under the Industrial Center as of the date of this Lease (the "Existing Hazardous Substances"), Landlord agrees to indemnify, defend (with counsel reasonably acceptable to Tenant) and hold Tenant harmless from and against any and all claims, judgments, damages, penalties, fines, liabilities, losses, suits, administrative proceedings and costs (including, but not limited to, reasonable attorneys' and consultant fees and court costs), arising at any time during or after the Term of this Lease, to the extent arising from (1) any of the Existing Hazardous Substances and/or (2) the removal, investigation, monitoring or remediation of any of the Existing Hazardous Substances; provided, however, Landlord shall not indemnify, defend or hold Tenant harmless to the extent (x) Tenant or any of the Tenant Entities contributes to or has contributed to the presence of such Existing Hazardous Substances or Tenant and/or any of the Tenant Entities exacerbates the conditions caused by such Existing Hazardous Substances, or (y) Tenant and/or any of 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 Existing 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 Existing Hazardous Substances in, on, under, through or about any portion of the Premises, the Building or the Industrial Center. Landlord's obligations under this Paragraph 6.8 shall survive the Expiration Date or earlier termination of this Lease.

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 floors and 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 (including, without limitation, fire protection services and plumbing, mechanical (including HVAC) and electrical systems serving the Building but excluding the plumbing, mechanical and electrical systems exclusively serving the Premises), and the parking areas, pavement, landscaping, sprinkler systems, sidewalks, driveways, curbs and lighting systems in the Common Areas. 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 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 Alterations 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, except Tenant shall not remove Tenant Improvements described in **Exhibit F** to this Lease.

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 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. Except to the extent caused by the gross active or gross passive negligence or willful misconduct of Landlord or any Landlord Entity, 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 reasonable 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 or any Landlord Entity, 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 one hundred eighty (180) consecutive days with the conduct by Tenant of its business at the Premises (provided, up to an additional sixty (60) days shall be added to such one hundred eighty (180) consecutive day period to account for time Landlord may require to obtain permits for such repairs), 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. Within forty five (45) days following the occurrence of such damage, Landlord shall inform Tenant in writing of Landlord's estimate of the time required to complete repairs to the Premises. 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 reasonable 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 fifteen (15) business 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 fifteen (15) business 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 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 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 (iii) has negotiated with Landlord during the 12 month period immediately preceding the Tenant's Notice, or (j) 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 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 five (5) 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; provided, however, the foregoing late charge shall not be applicable to the first (1st) instance of late payment of Rent by Tenant until three (3) business days after written notice to Tenant of such late payment. 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 and Landlord shall, if necessary, promptly proceed to restore the Premises or the Building, as applicable, to substantially its same condition prior to such partial condemnation, allowing for the reasonable effects of such partial condemnation, and a proportionate allowance shall be made to Tenant for the Rent corresponding to the time during which, and to the part of the Premises of which, Tenant is deprived on account of such partial condemnation and restoration. Landlord shall not be required to spend funds for restoration in excess of the amount received by Landlord as compensation awarded. 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. Tenant shall not be required to deliver such financial statements to Landlord so long as Tenant is a publicly-held company whose stock is listed on a national exchange.

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, reasonable 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 reasonable 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.** Subject to the terms of Paragraph 6.4 above, 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) monument signage (in proportion to Tenant's Share) on any monument sign for the Building and exterior Building signage (so long as Tenant leases the entire Building) 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 <u>Termination; Merger</u>. 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 <u>Quiet Possession</u>. 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 <u>Subordination; Attornment; Non-Disturbance</u>.

(a) <u>Subordination</u>. Subject to the nondisturbance provisions of subparagraph 16.18(c), 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) <u>Attornment</u>. 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) <u>Non-Disturbance</u>. With respect to a Mortgage entered into by Landlord after the execution of this Lease and to any and all advances made on the security thereof, and to all renewals, modifications, consolidations, replacements and extensions thereof, 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) <u>Self-Executing</u>. 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 <u>Rules and Regulations</u>. 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 **<u>Exhibit E</u>.** Landlord shall not be responsible to Tenant for the noncompliance with said Rules and Regulations by other tenants of the Industrial Center.

16.20 <u>Security Measures</u>. 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 <u>Reservations</u>. 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 <u>Conflict</u>. 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; provided, such Renovations shall not unreasonably interfere with Tenant's access to the Premises or access to the parking areas. 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 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 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 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 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. Tenant may, at Tenant's option, remove the Cubicles and Equipment and either dispose of such Cubicles and Equipment (with Landlord's prior written consent) or return such Cubicles and Equipment to Landlord at any time during the Term.

16.32 Building Information. 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, (ii) any historical HVAC maintenance records, (iii) copies of past utilities bills, (iv) a copy of any CC&Rs relating to the Building and (v) to the extent in Landlord's possession, full CAD drawings, including mechanical and electrical.

16.33 Landlord's Work. Landlord shall perform the following work, at Landlord's sole cost and expense: installation of communications and generator power conduits connecting both the power and data among all of the premises currently occupied by Tenant, including the 1003-1005 Hamilton Avenue and 1010 Hamilton Avenue premises.

///continued on next page///

The parties hereto have executed this Lease at the place and on the dates specified below their respective signatures.

LANDLORD

WILLOW PARK HOLDING COMPANY I, L.P.,
a Delaware limited partnership

By: AMB PROPERTY, L.P.,
a Delaware limited partnership
Its: Manager

By: AMB PROPERTY CORPORATION,
a Maryland corporation, its general partner

By: /s/ Douglas P. McGregor
Douglas P. McGregor

Its: Vice President, Regional Manager
Date: 12/17/10

TENANT

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.,
a Delaware corporation, dba Pac Bio, Inc.

By: /s/ Hugh Martin
Its: President
Date: 12/16/10

By: /s/ Matthew Murphy
Its: Secretary
Date: 12/16/2010

Tenant's Address:

After the Commencement Date
The Premises Address

Prior to the Commencement Date

____
____
____

Landlord's Address:

Willow Park Holding Company I, L.P.
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 Lease dated December __, 2010 (the “Lease”), by and between Willow Park Holding Company I, 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 1350 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:	Willow Park Holding Company I, L.P., a Delaware limited partnership
Tenant:	Pacific Biosciences of California, Inc., a Delaware corporation dba Pac Bio, Inc.
Lease Date:	December __, 2010
Premises:	1350 Willow Road, Suite 101, 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 December 15, 2010.
The Expiration Date of the Lease is December 31, 2015.

LANDLORD

WILLOW PARK HOLDING COMPANY I, L.P.,
a Delaware limited partnership

By: AMB PROPERTY, L.P.,
a Delaware limited partnership
Its: Manager

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:
Willow Park Holding Company I, L.P.
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 C
Tenant Move-in and Lease Renewal Environmental Questionnaire
for Commercial and Industrial Properties

Property Name: Willow Park

Premises Address: 1350 Willow Road, Suite 101, Menlo Park, California 94025

Exhibit C to the Lease Dated December __, 2010

Between

Willow Park Holding Company I, L.P., a Delaware limited partnership **("Landlord")**

and

Pacific Biosciences of California, Inc., a Delaware corporation dba Pac Bio, Inc. **("Tenant")**

Instructions: The following questionnaire is to be completed by the Tenant Representative with knowledge of the planned/existing operations for the specified building/location. A copy of the completed form must be attached to all new leases and renewals, and forwarded to the Owner's Risk Management Department. Please print clearly and attach additional sheets as necessary.

1.0 Process Information

Describe planned use (new Lease) or existing operations (lease renewal), and include brief description of manufacturing processes employed.

____

____

____

2.0 Hazardous Materials

Are hazardous materials used or stored? If so, continue with the next question. If not, go to Section 3.0.

2.1 Are any of the following materials handled on the property? Yes__ No__
(A material is handled if it is used, generated, processed, produced, packaged, treated, stored, emitted, discharged, or disposed.) If so, complete this section. If this question is not applicable, skip this section and go on to Section 5.0.

☐ Explosives ☐ Fuels ☐ Oils
☐ Solvents ☐ Oxidizers ☐ Organics/Inorganics
☐ Acids ☐ Bases ☐ Pesticides
☐ Gases ☐ PCBs ☐ Radioactive Materials
☐ Other (please specify)

2.2 If any of the groups of materials checked in Section 2.1, please list the specific material(s), use(s), and quantity of each chemical used or stored on the site in the Table below. If convenient, you may substitute a chemical inventory and list the uses of each of the chemicals in each category separately.

Material	Physical State (Solid, Liquid, or Gas)	Usage	Container Size	Number of Containers	Total Quantity

2.3 Describe the planned storage area location(s) for these materials. Please include site maps and drawings as appropriate.

____

____

____

3.0 Hazardous Wastes

Are hazardous wastes generated? Yes__ No__

If yes, continue with the next question. If not, skip this section and go to Section 4.0.

3.1 Are any of the following wastes generated, handled, or disposed of (where applicable) on the property?

☐ Hazardous wastes ☐ Industrial Wastewater
☐ Waste oils ☐ PCBs
☐ Air emissions ☐ Sludges
☐ Regulated Wastes ☐ Other (please specify)

3.2 List and quantify the materials identified in Question 3-1 of this section. Attach separate pages as necessary.

Waste Generated	RCRA listed Waste?	Source	Approximate Monthly Quantity	Waste Characterization	Disposition

3.3 Please include name, location, and permit number (e.g. EPA ID No.) for transporter and disposal facility, if applicable). Attach separate pages as necessary.

Transporter/Disposal Facility Name	Facility Location	Transporter (T) or Disposal (D) Facility	Permit Number

3.4 Are pollution controls or monitoring employed in the process to prevent or minimize the release of wastes into the environment? Yes__ No__

If so, please describe.

___

___

___

4.0 USTS/ASTS

4.1 Are underground storage tanks (USTs), aboveground storage tanks (ASTs), or associated pipelines used for the storage of petroleum products, chemicals, or liquid wastes present on site (lease renewals) or required for planned operations (new tenants)?
Yes__ No__

If not, continue with section 5.0. If yes, please describe capacity, contents, age, type of the USTs or ASTs, as well any associated leak detection / spill prevention measures. Please attach additional pages if necessary.

Capacity	Contents	Year Installed	Type (Steel, Fiberglass, etc)	Associated Leak Detection / Spill Prevention Measures*

* Note: The following are examples of leak detection / spill prevention measures:

Integrity testing	Inventory reconciliation	Leak detection system
Overfill spill protection	Secondary containment	Cathodic protection

4.2 Please provide copies of written tank integrity test results and/or monitoring documentation, if available.

4.3 Is the UST/AST registered and permitted with the appropriate regulatory agencies?
Yes__ No__

If so, please attach a copy of the required permits.

4.4 If this Questionnaire is being completed for a lease renewal, and if any of the USTs/ASTs have leaked, please state the substance released, the media(s) impacted (e.g., soil, water, asphalt, etc.), the actions taken, and all remedial responses to the incident.

___

___

___

4.5 If this Questionnaire is being completed for a lease renewal, have USTs/ASTs been removed from the property?
Yes__ No__

If yes, please provide any official closure letters or reports and supporting documentation (e.g., analytical test results, remediation report results, etc.).

4.6 For Lease renewals, are there any above or below ground pipelines on site used to transfer chemicals or wastes?
Yes__ No__

For new tenants, are installations of this type required for the planned operations?

Yes____ No____

If yes to either question, please describe.

____
____
____

5.0 Asbestos Containing Building Materials

Please be advised that this property participates in an Asbestos Operations and Maintenance Program, and that an asbestos survey may have been performed at the Industrial Center. If provided, please review the information that identifies the locations of known asbestos containing material or presumed asbestos containing material. All personnel and appropriate subcontractors should be notified of the presence of these materials, and informed not to disturb these materials. Any activity that involves the disturbance or removal of these materials must be done by an appropriately trained individual/contractor.

6.0 Regulatory

6.1 For Lease Renewals, are there any past, current, or pending regulatory actions by federal, state, or local environmental agencies alleging noncompliance with regulations?

Yes____ No____

If so, please describe.

____
____
____

6.2 For lease renewals, are there any past, current, or pending lawsuits or administrative proceedings for alleged environmental damages involving the property, you, or any owner or tenant of the property?

Yes____ No____

If so, please describe.

____
____
____

6.3 Does the operation have or require a National Pollutant Discharge Elimination System (NPDES) or equivalent permit?

Yes____ No____

If so, please attach a copy of this permit.

6.4 For Lease renewals, have there been any complaints from the surrounding community regarding facility operations?

Yes____ No____

Have there been any worker complaints or regulatory investigations regarding hazardous material exposure at the facility?

Yes____ No____

If so, please describe status and any corrective actions taken. Please attach additional pages as necessary.

____
____
____

6.5 Has a Hazardous Materials Business Plan been developed for the site?

Yes____ No____

If so, please attach a copy.

6.6 Are any environmental documentation, chemical inventory, or management plan required by the local Fire Department or Health Department?

Yes____ No____

If so, please attach a copy.

Certification

I am familiar with the real property described in this questionnaire. By signing below, I represent and warrant that the answers to the above questions are complete and accurate to the best of my knowledge. I also understand that the Owner will rely on the completeness and accuracy of my answers in assessing any environmental liability risks associated with the property.

Signature: ______________________________
Name: ______________________________
Title: ______________________________
Date: ______________________________
Telephone: ______________________________

Please forward the completed questionnaire to:

Mr. Steve Campbell

AMB Property, L.P.
Pier 1, Bay 1
San Francisco, CA 94111

Exhibit D
Move Out Standards

This “Move Out Standards” (**Exhibit D**) is dated December __, 2010, for the reference purposes only and is made between Willow Park Holding Company I, 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 Lease (the “Lease”) concerning certain premises more commonly known as 1350 Willow Road, Suite 101, 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 except Tenant shall not remove the Tenant Improvements described in **Exhibit F** hereto. 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 __, 2010, for the reference purposes only and is made between Willow Park Holding Company I, 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 Lease (the “Lease”) concerning certain premises more commonly known as 1350 Willow Road, Suite 101, 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, which permission shall not be unreasonably withheld, delayed or conditioned.

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 December __, 2010, for reference purposes only and is made by and between Willow Park Holding Company I, 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 Lease ("Lease") concerning certain premises more commonly known as 1350 Willow Road, Suite 101, Menlo Park, California (the "Premises"). Landlord and Tenant agree that the Lease is hereby modified and supplemented as follows:

1. Tenant To Construct Tenant Improvements. Subject to the provisions below, Tenant shall be solely responsible for the planning, construction and completion of the interior tenant improvements ("Tenant Improvements") to the Premises in accordance with the terms and conditions of this **Exhibit F**. Except as set forth in Paragraph 5.A. of this **Exhibit F** with respect to Tenant's use of a portion of the Tenant Improvement Allowance for furniture costs, the Tenant Improvements shall not include any of Tenant's personal property, trade fixtures, furnishings, equipment or similar items.

2. Tenant Improvement Plans.

A. Preliminary Plans and Specifications. Promptly after execution of the Lease, and subject to Paragraph 2.F below, Tenant shall retain a licensed and insured architect ("Architect") to prepare preliminary working architectural and engineering plans and specifications ("Preliminary Plans and Specifications") for the Tenant Improvements. Tenant shall deliver the Preliminary Plans and Specifications to Landlord. The Preliminary Plans and Specifications shall be in sufficient detail to show locations, types and requirements for all heat loads, people loads, floor loads, power and plumbing, regular and special HVAC needs, telephone communications, telephone and electrical outlets, lighting, lighting fixtures and related power, and electrical and telephone switches. Landlord shall reasonably approve or disapprove the Preliminary Plans and Specifications within five (5) days after Landlord receives the Preliminary Plans and Specifications and, if disapproved, Landlord shall return the Preliminary 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 the Preliminary Plans and Specifications. The approved Preliminary Plans and Specifications, as modified, shall be deemed the "Final Preliminary Plans and Specifications".

B. Final Plans and Specifications. After the Final Preliminary Plans and Specifications are approved by Landlord and are deemed to be the Final Preliminary Plans and Specifications, Tenant shall cause the Architect to prepare in twenty (20) days following Landlord's approval of the Final Preliminary Plans and Specifications the final working architectural and engineering plans, specifications and drawings, ("Final Plans and Specifications") for the Tenant Improvements. Tenant shall then deliver the Final Plans and Specifications to Landlord. Landlord shall reasonably approve or disapprove the Final Plans and Specifications within five (5) days after Landlord receives the Final Plans and Specifications and, if disapproved, Landlord shall return the Final 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, the Final Plans and Specifications. The approved Final Plans and Specifications, as modified, shall be deemed the "Construction Documents".

C. Miscellaneous. All deliveries of the Preliminary Plans and Specifications, the Final Preliminary Plans and Specifications, the Final Plans and Specifications, and the Construction Documents shall be delivered by messenger service, by personal hand delivery or by overnight parcel service. While Landlord has the right to approve the Preliminary Plans and Specifications, the Final Preliminary Plans and Specifications, the Final Plans and Specifications, and the Construction Documents, 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 the Preliminary Plans and Specifications, the Final Preliminary Plans and Specifications, the Final Plans and Specifications, and the Construction Documents, or the compliance thereof with applicable laws, 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 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 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. Selection of Architect and Contractor. Tenant agrees to include, in Tenant's process of selection of an architect and contractor for the Tenant Improvements, an architect and contractor recommended by Landlord. Tenant shall give reasonable and adequate consideration to Landlord's selections, although Tenant shall not be required to contract with the architect and/or contractor recommended by Landlord.

3. Permits. Tenant at its sole cost and expense (subject to the provisions of Paragraph 5 below) shall obtain all governmental approvals of the Construction Documents to the full extent necessary for the issuance of a building permit for the 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 Tenant Improvements in accordance with the approved Construction Documents. Tenant at its sole cost and expense (subject to the provisions of Paragraph 5 below) shall undertake all steps necessary to insure that the construction of the Tenant Improvements is accomplished in strict compliance with all Applicable Requirements (as defined in the Lease).

4. Construction.

A. Tenant shall be solely responsible for the construction, installation and completion of the 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, except for Landlord's obligation to contribute the Tenant Improvement Allowance in accordance with the provisions of Paragraph 5 below. Tenant shall diligently proceed with the construction, installation and completion of the 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 (subject to the provisions of Paragraph 5 below) shall, subject to Paragraph 2.F above, employ a licensed, insured and bonded general contractor ("Contractor") to construct the Tenant Improvements in accordance with the Construction Documents. 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-1**, 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-1**.

C. Prior to the commencement of the construction and installation of the Tenant Improvements, Tenant shall provide the following to Landlord, all of which shall be to Landlord's reasonable satisfaction:

(i) An estimated budget and cost breakdown for the Tenant Improvements.

(ii) Estimated completion schedule for the Tenant Improvements.

(iii) Copies of all required approvals and permits from governmental agencies having jurisdiction or authority for the construction and installation of the 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 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 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. Subject to Landlord complying with its obligations in Paragraph 5 below, Tenant shall pay and discharge promptly and fully all claims for labor done and materials and services furnished in connection with the Tenant Improvements. The Tenant Improvements shall not be commenced until ten (10) days after Landlord has received notice from Tenant stating the date the construction of the 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 Tenant Improvements.

G. Tenant shall maintain, and cause to be maintained, during the construction of the Tenant Improvements, at its sole cost and expense, insurance of the types and in the amounts specified in **Exhibit F-1** and in Section 8 of the Lease, together with builders' risk insurance for the amount of the completed value of the 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 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 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 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, including a permanent and complete Certificate of Occupancy issued 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 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 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 Tenant Improvements.

5. <u>Tenant Improvement Allowance.</u>

A. Subject to Tenant's compliance with the provisions of this **<u>Exhibit F</u>**, Landlord shall provide to Tenant an allowance in the amount of One Hundred Sixty Eight Thousand Twelve and 00/100 Dollars ($168,012.00) (the "Tenant Improvement Allowance") to construct and install only the Tenant Improvements; provided, however, Tenant shall have the right to utilize (i) up to Thirty Five Thousand Two and 50/100 Dollars ($35,002.50) of the Tenant Improvement Allowance for the purchase of furniture for the Premises (as evidenced by third party invoices for such furniture costs) and (ii) all or a portion of the Tenant Improvement Allowance for the tenant improvements being constructed by Tenant at premises owned by affiliates of Landlord and to be leased by Tenant located at 1003 – 1005 and 1010 Hamilton Avenue, Menlo Park, California, subject to the terms of the leases between Tenant and such affiliates of Landlord. The Tenant Improvement Allowance shall be used to design, prepare, plan, obtain the approval of, construct and install the Tenant Improvements and for no other purpose. Except as otherwise expressly provided herein, Landlord shall have no obligation to contribute the Tenant Improvement Allowance unless and until the Construction Documents have been approved by Landlord and Tenant has complied with all requirements set forth in Paragraph 4.C. of this **<u>Exhibit F</u>**. In addition to the foregoing, Landlord shall have no obligation to disburse all or any portion of the Tenant Improvement Allowance to Tenant unless Tenant makes a progress payment request pursuant to the terms and conditions of Section 5.B. below prior to December 31, 2012 (time being of the essence). The costs to be paid out of the Tenant Improvement Allowance shall include all reasonable costs and expenses associated with the design, preparation, approval, planning, construction and installation of the Tenant Improvements (the "Tenant Improvement Costs"), including all of the following:

(i) All costs of the Preliminary Plans and Specifications, the Final Plans and Specifications, and the 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 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 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 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;

(ix) A construction management fee payable to Landlord in the amount of three percent (3%) of the total Tenant Improvement Allowance ("CM Fee"); and

(x) The costs incurred by the Architect for an initial test fit of the Premises.

Except as set forth in Paragraph 5.E below, the Tenant Improvement Allowance shall be the maximum contribution by Landlord for the Tenant Improvement Costs, and the disbursement of the Tenant Improvement Allowance is subject to the terms contained hereinbelow.

B. Except for payment of the CM Fee (which CM Fee shall be deducted from the Tenant Improvement Allowance by Landlord on a percentage completion basis), and subject to Section 5.A. above, Landlord will make payments to Tenant from the Tenant Improvement Allowance to reimburse Tenant for Tenant Improvement Costs paid or incurred by Tenant. Payment of the CM Fee shall be the first payment from the Tenant Improvement Allowance and shall be made by means of a deduction or credit against the Tenant Improvement Allowance. All other payments of the Tenant Improvement Allowance shall be by progress payments not more frequently than once per month and only after satisfaction of the following conditions precedent: (a) receipt by Landlord of conditional mechanics' lien releases for the work completed and to be paid by said progress payment, conditioned only on the payment of the sums set forth in the mechanics' lien release, executed by the Contractor and all subcontractors, labor suppliers and materialmen; (b) receipt by Landlord of unconditional mechanics' lien releases from the Contractor and all subcontractors, labor suppliers and materialmen for all work other than that being paid by the current progress payment previously completed by the Contractor, subcontractors, labor suppliers and materialmen and for which Tenant has received funds from the Tenant Improvement Allowance to pay for such work; (c) receipt by Landlord of any and all documentation reasonably required by Landlord detailing the work that has been completed and the materials and supplies used as of the date of Tenant's request for the progress payment, including, without limitation, invoices, bills, or statements for the work completed and the materials and supplies used; and (d) completion by Landlord or Landlord's agents of any inspections of the work completed and materials and supplies used as deemed reasonably necessary by Landlord. Except for the CM Fee payment (credit), Tenant Improvement Allowance progress payments shall be paid to Tenant within fourteen (14) days from the satisfaction of the conditions set forth in the immediately preceding sentence. The preceding notwithstanding, all Tenant Improvement Costs paid or incurred by Tenant prior to Landlord's approval of the Construction Documents in connection with the design and planning of the Tenant Improvements by Architect shall be paid from the Tenant Improvement Allowance, without any retention, within fourteen (14) days following Landlord's receipt of invoices, bills or statements from Architect evidencing such costs. Notwithstanding the foregoing to the contrary, Landlord shall be entitled to withhold and retain five percent (5%) of the Tenant Improvement Allowance (or of any Tenant Improvement Allowance progress payment) until the lien-free expiration of the time for filing of any mechanics' liens claimed or which might be filed on account of any work ordered by Tenant or the Contractor or any subcontractor in connection with the construction and installation of the Tenant Improvements.

C. Landlord shall not be obligated to pay any Tenant Improvement Allowance progress payment or the Tenant Improvement Allowance retention (or any payment under Paragraph 5.E. below) if on the date Tenant is entitled to receive such payment or retention, Tenant is in default of this Lease. Such payments shall resume upon Tenant curing any such default within the time periods which may be provided for in the Lease.

D. Except as provided in Paragraph 5.A. above, should the total cost of constructing the Tenant Improvements be less than the Tenant Improvement Allowance, the Tenant Improvement Allowance shall be automatically reduced to the amount equal to said actual cost.

6. <u>Termination</u>. If the Lease is terminated prior to the date on which the 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 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. Upon the expiration or earlier termination of the Lease, Tenant shall not be required to remove the Tenant Improvements it being the intention of the parties that the Tenant Improvements are to be considered incorporated into the Building.

7. <u>Lease Provisions; Conflict</u>. The terms and provisions of the Lease, insofar as they are applicable, in whole or in part, to this **<u>Exhibit F</u>**, are hereby incorporated herein by reference, and specifically including all of the provisions of Section 16 of the Lease. In the event of any conflict between the terms of the Lease and this **<u>Exhibit F</u>**, the terms of this **<u>Exhibit F</u>** 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
Construction Insurance Requirements

Before commencing work, the Contractor shall procure and maintain at its sole cost and expense until completion and final acceptance of the work, at least the following minimum levels of insurance.

A. Workers' Compensation in statutory amounts and Employers Liability Insurance in the minimum amounts of $100,000 each accident for bodily injury by accident and $100,000 each employee for bodily injury by disease with a $500,000 policy limit, covering each and every worker used in connection with the contract work.

B. Comprehensive General Liability Insurance on an occurrence basis including, but not limited to, protection for Premises/Operations Liability, Broad Form Contractual Liability, Owner's and Contractor's Protective, and Products/Completed Operations Liability*, in the following minimum limits of liability.

Bodily Injury, Property Damage, and Personal Injury Liability	$2,000,000/each occurrence
	$3,000,000/aggregate

***** Products/Completed Operations Liability Insurance is to be provided for a period of at least one (1) year after completion of work.

Coverage should include protection for Explosion, Collapse and Underground Damage.

C. Comprehensive Automobile Liability Insurance with the following minimum limits of liability.

Bodily Injury and Property	$1,000,000/each occurrence
Damage Liability	$2,000,000/aggregate

This insurance will apply to all owned, non-owned or hired automobiles to be used by the Contractor in the completion of the work.

D. Umbrella Liability Insurance in a minimum amount of five million dollars ($5,000,000), providing excess coverage on a following-form basis over the Employer's Liability limit in Paragraph A and the liability coverages outlined in Paragraphs B and C.

E. Equipment and Installation coverages in the broadest form available covering Contractor's tools and equipment and material not accepted by Tenant. Tenant will provide Builders Risk Insurance on all accepted and installed materials.

All policies of insurance, duplicates thereof or certificates evidencing coverage shall be delivered to Landlord prior to commencement of any work and shall name Landlord, and its partners and lenders as additional insureds as their interests may appear. All insurance policies shall (1) be issued by a company or companies licensed to be business in the State of California, (2) provide that no cancellation, non-renewal or material modification shall be effective without thirty (30) days prior written notice provided to Landlord, (3) provide no deductible greater than $15,000 per occurrence, (4) contain a waiver to subrogation clause in favor of Landlord, and its partners and lenders, and (5) comply with the requirements of Paragraph 8 of the Lease to the extent such requirements are applicable.

Addendum 1
Options to Extend

This Addendum 1 (the "Addendum") is incorporated as a part of that certain Lease dated December __, 2010 (the "Lease"), by and between Willow Park Holding Company I, 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 1350 Willow Road, Suite 101, 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 Options. Subject to the provisions, limitations and conditions set forth in Paragraph 5 below, Tenant shall have an Option (individually, an "Option" and collectively, the "Options") to extend the initial Term of the Lease for two (2) consecutive five (5) year periods (individually, an "Extended Term" and collectively, "Extended Terms").

2. Tenant's Option Notice. Tenant shall have the right to deliver written notice to Landlord of its intent to exercise an Option (the "Option Notice"). If Landlord does not receive an Option Notice from Tenant on a date which is neither more than three hundred sixty five (365) days nor less than two hundred twenty five (225) days prior to the end of the initial Term or first Extended Term, as applicable, all rights under the applicable Option shall automatically terminate and shall be of no further force or effect. Upon the proper exercise of the first Option, subject to the provisions, limitations and conditions set forth in this Addendum, the initial Term of the Lease shall be extended for the first Extended Term and upon the proper exercise of the second Option, subject to the provisions, limitations and conditions set forth in Paragraph 5 below, the first Extended Term shall be extended for the second Extended Term; provided, Tenant shall have no right to exercise the Option for the second Extended Term if Tenant failed to properly exercise the Option for the first Extended Term.

3. Determination of the Option Rent.

A. The Base Rent payable for each month during each 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 applicable Extended Term, the then 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 applicable Extended Term and not the commencement date of the applicable 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 applicable 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 applicable 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 applicable 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 with respect to the first Extended Term and in no event less than the Base Rent payable by Tenant immediately prior to the expiration of the first Extended Term with respect to the second Extended Term);

(ii) Tenant shall have no further renewal Option (except as expressly set forth in this Addendum 1) 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 rights 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 or first Extended Term, as applicable, 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.

Addendum 2
Option to Expand

This Addendum 2 (the "Addendum 2") is incorporated as a part of that certain Lease dated December __, 2010 (the "Lease"), by and between Willow Park Holding Company I, 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 1350 Willow Road, Suite 101, 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 Options to Expand. Subject to the provisions, limitations and conditions set forth in this Addendum 2, Tenant shall have an option (each, an "Expansion Option" and collectively, Expansion Options") to lease the premises more particularly described in Schedule 1 attached hereto and incorporated herein by this reference located on the first (1st) floor of the Building ("First Floor Expansion Space") and the premises more particularly described in Schedule 2 attached hereto and incorporated herein by this reference located on the second (2nd) floor of the Building ("Second Floor Expansion Space") (collectively, "Expansion Spaces") on the terms and conditions as set forth below. Tenant shall not have the right to lease less than all of the First Floor Expansion Space or Second Floor Expansion Space.

2. Expansion Option Notices. In order to duly exercise an Expansion Option, Tenant must deliver to Landlord prior written notice of its unconditional and unequivocal intention to exercise the particular Expansion Option (an "Expansion Option Notice"). The Expansion Option Notice with respect to the First Floor Expansion Space must be delivered to Landlord on or before February 1, 2013 and the Expansion Option Notice with respect to the Second Floor Expansion Space must be delivered to Landlord no earlier than April 1, 2011 and no later than May 31, 2011, time being of the essence. If Tenant timely and duly delivers to Landlord the applicable Expansion Option Notice and Tenant also complies with all of the other terms and provisions of this Addendum 2, the term for the applicable Expansion Space shall be coterminous with the Term of this Lease and shall begin, with respect to the First Floor Expansion Space, on May 1, 2013 and with respect to the Second Floor Expansion Space, on June 1, 2011 (except such date shall be July 1, 2011 with respect to the premises currently occupied by Membrane Technology ("Membrane"), unless Membrane exercises their option to renew the term of their lease, in which case, the Expansion Space Commencement Date for the space occupied by Membrane shall be no earlier than January 1, 2012 (each, an "Expansion Space Commencement Date"); provided, however, Landlord and Tenant acknowledge and agree that (a) the First Floor Expansion Space is presently occupied by Knowledge Networks ("Knowledge"), (b) Knowledge has the right to renew its existing term, which right has not, as of the date of this Lease, been exercised or relinquished by Knowledge, (c) the terms of Tenant's Expansion Option with respect to the First Floor Expansion Space set forth above in this Paragraph 2 shall only be applicable in the event Knowledge does in fact exercise its renewal option with respect to the First Floor Expansion Space and (d) in the event Knowledge does not exercise its renewal option, (x) the terms set forth above in this Paragraph 2 with respect to Tenant's Expansion Option for the First Floor Expansion Space shall be null and void and of no force or effect and (y) the terms of the Expansion Option with respect to the First Floor Option Space shall be identical to the terms of the Expansion Option with respect to the Second Floor Expansion Space.

3. Base Rent. The Base Rent payable by Tenant for the Expansion Spaces shall be the same Base Rent on a per square foot basis as the Base Rent payable by Tenant under this Lease. If the applicable Expansion Option is duly exercised, from and after the applicable Expansion Space Commencement Date, the term "Premises" as used herein shall mean and refer to the aggregate of the Premises, as described herein as of the date of this Lease, and the applicable Expansion Space. In addition to the increase in Base Rent, (i) the amount of the Security Deposit shall be increased by the amount of the last month's Base Rent payable for the applicable Expansion Space, and Tenant shall pay and deliver same to Landlord within ten (10) business days of delivery to Landlord of the applicable Expansion Option Notice, (ii) the Tenant's Share for all expenses shall increase commensurate with the increase in the area of the Premises, (iii) the number of Tenant's parking spaces shall be increased commensurately, and (iv) the parties shall execute an amendment to this Lease effectuating the foregoing within ten (10) business days of delivery to Landlord of the applicable Expansion Option Notice. All other terms and conditions shall remain the same.

4. Brokerage Commissions. Landlord and Tenant agree that Landlord will be responsible for any and all brokerage commissions and finder's fees payable or allegedly payable to Cornish & Carey Commercial and Cassidy Turley BT Commercial (collectively, "Brokers") in connection with Tenant's lease of the Expansion Spaces. Tenant hereby further agrees that Landlord shall in no event or circumstance be responsible or otherwise liable for the payment of any brokerage commissions and/or finder's fees to parties other than Brokers and, accordingly, Tenant shall indemnify, defend and hold Landlord and each of its partners, members, officers, directors, shareholders, representatives and agents harmless from and against any and all losses, claims, damages, judgments, liabilities, costs and expenses (including without limitation, reasonable attorneys' and experts' fees and costs (collectively, "Claims") arising from or made by any party for the payment of any brokerage commission or finder's fee, except Claims made by Brokers.

5. Limitations On, and Conditions To, Options to Expand.

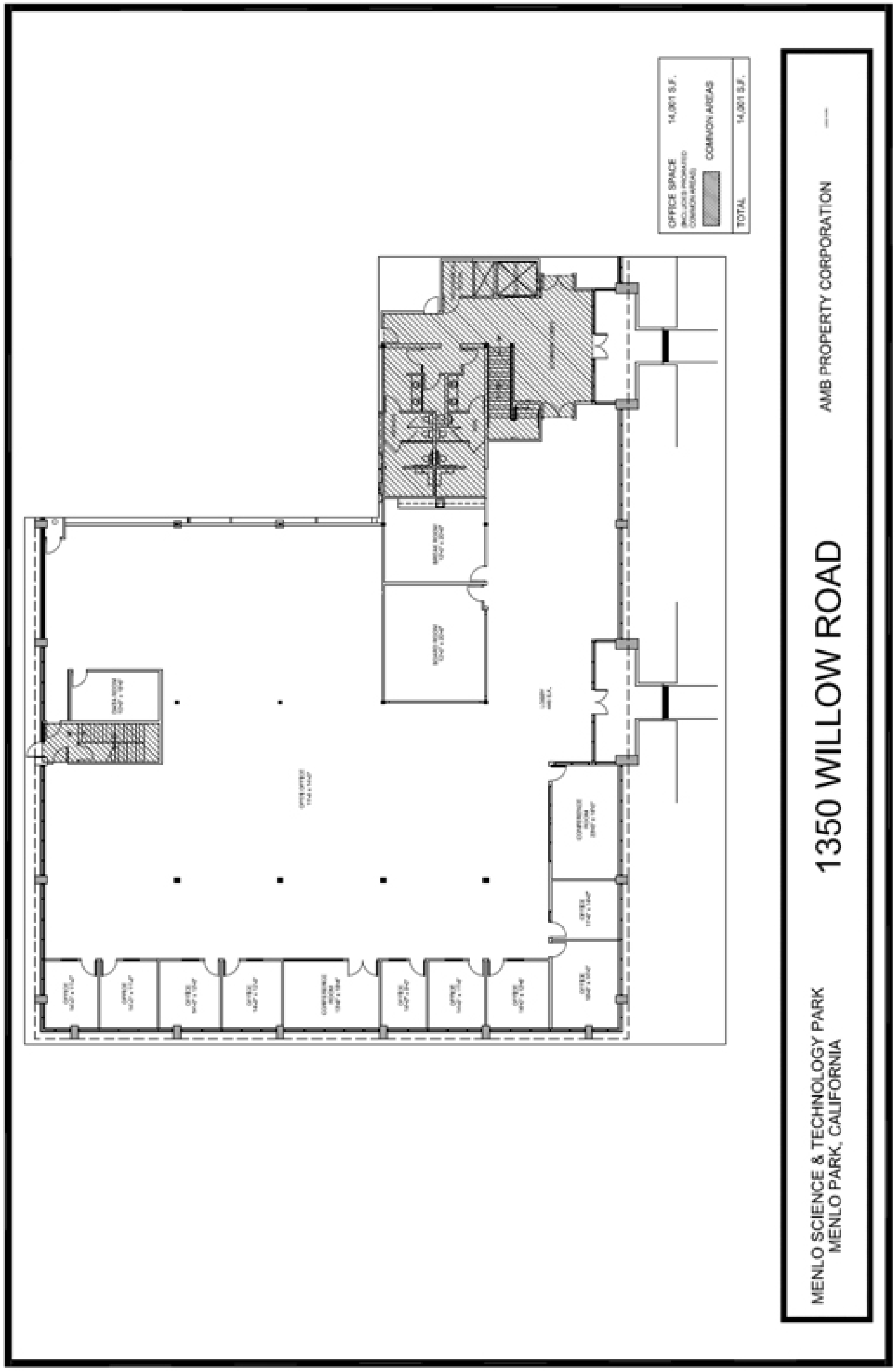
A. The Expansion Options granted to Tenant herein are personal to Tenant and may not be assigned, voluntarily or involuntarily, separate from or as a part of the Lease except for an assignment to an Affiliate as part of the assignment of the entirety of this Lease. At Landlord's sole option, all rights of Tenant and any Affiliate in, to and under this Addendum 2 shall terminate and be of no force or effect if any of the following individual events occur or any combination thereof occur at any time during the Term of the Lease: (i) Tenant or the Affiliate, as the case may be, is in default of any provision of the Lease at the time of Tenant's or the Affiliate's (as the case may be) delivery to Landlord of an Expansion Option Notice; and/or (ii) Tenant or the Affiliate (as the case may be) has assigned all of its rights and delegated its obligations under the Lease to a party other than a Affiliate or Tenant has subleased all or any portion of the Premises; and/or (iii) Tenant has failed to timely, properly and duly exercise the applicable Expansion Option in strict accordance with the provisions of this Addendum 2; and/or (iv) Tenant or the Affiliate (as the case may be) no longer has possession of all or any portion of the Premises.

B. If any of the following described events shall occur, the applicable Expansion Option shall automatically terminate with respect to the applicable Expansion Space and thereafter be of no further force or effect: (i) Tenant elects not to exercise the applicable Expansion Option; (ii) Tenant fails to timely deliver the applicable Expansion Option Notice to Landlord prior to the dates set forth herein; or (iii) Tenant fails to deliver timely the increased amount of the Security Deposit to Landlord. If any of the foregoing events occur, Tenant shall have no further right to exercise the applicable Expansion Option thereafter. It is the express intention of the parties hereto that the Expansion Options are only available to be exercised, declined or deemed declined by Tenant one time and neither of the Expansion Options shall be construed nor interpreted as being continuing rights of Tenant or of a continuing nature.

6. Time is of the Essence. Time is of the essence in the performance of the parties’ respective obligations set forth in this Addendum 2.

Schedule 1

First Floor Expansion Space



Schedule 2

Second Floor Expansion Space

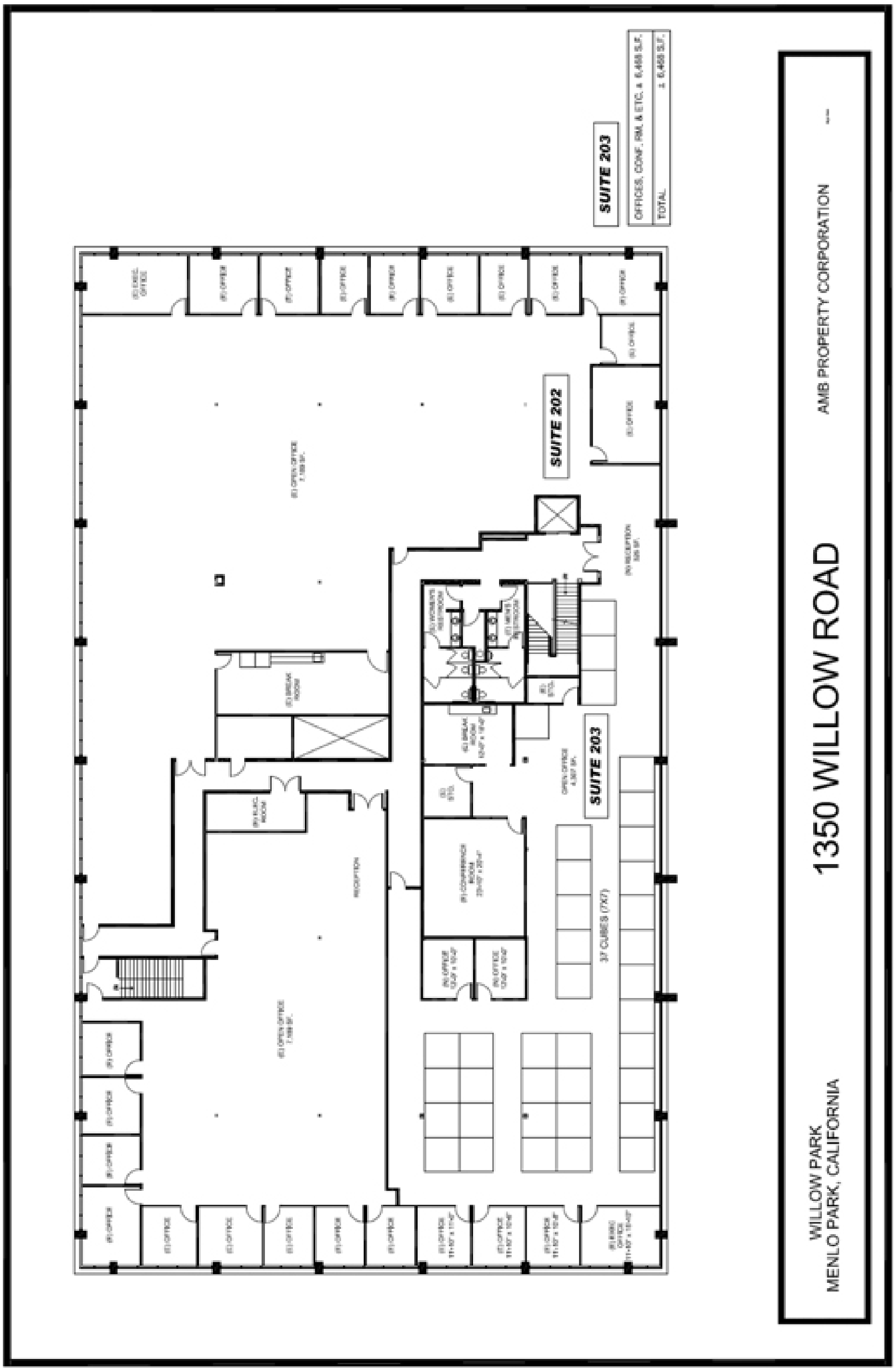


Exhibit 10.21

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

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AMB Property Corporation
Lease

1. Basic Provisions ("Basic Provisions").

1.1 Parties. This Lease ("Lease") dated December __, 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 approximately 21,240 square feet of space commonly known as 1010 Hamilton Avenue, Menlo Park, California and as depicted on **Exhibit A**. The Premises is a part of the building ("Building") 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.

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 (except as set forth in Paragraph 7.1 below), 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 five (5) years and sixteen (16) days ("Term") commencing on January 15, 2011 ("Commencement Date") and ending December 31, 2015 ("Expiration Date"). Pursuant to the terms of this Lease, including without limitation, **Exhibit F** hereto, Tenant shall have the right to access the Premises for purposes of constructing the Tenant Improvements (as defined in **Exhibit F**), office set-up and conducting large company meetings commencing on the Commencement Date.

1.4 Base Rent. Base monthly rent ("Base Rent") shall be payable as follows:

Months of Term	Monthly Base Rent
Commencement Date – 2/28/11	$ 0
3/1/11 – 6/30/11	$ 0
7/1/11 – 1/31/12	$ 35,046.00
2/1/12 – 1/31/13	$ 36,532.80
2/1/13 – 1/31/14	$ 37,628.78
2/1/14 – 1/31/15	$ 38,757.64
2/1/15 – 12/31/15	$ 39,920.37

As used in this Lease, the term "Rent Commencement Date' shall mean March 1, 2011 unless Landlord does not deliver possession of the Premises on or before January 15, 2011, in which case "Rent Commencement Date" shall mean the date which is two (2) months and fifteen (15) days following the date Landlord delivers possession of the Premises to Tenant.

1.5 Tenant's Share of Operating Expenses ("Tenant's Share").

(a)	Common Area Operating Expenses	2.1%
(b)	Building Operating Expenses	63.2%
(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 upon the execution of this Lease for the first month of the Lease Term for which Rent is payable.

(a)	Base Rent (Paragraph 4.1)	$35,046.00
(b)	Operating Expenses (Paragraph 4.2, excluding Real Property Taxes, Landlord Insurance, and HVAC)	$ 4,461.00
(c)	Landlord Insurance (Paragraph 8.3)	$ 425.00
(d)	Real Property Taxes (Paragraph 10)	$ 2,761.00
	Estimated **Total** Monthly Payment	$42,693.00

1.7 Security Deposit. $39,920.37 ("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: Options 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:	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 Cassidy Turley 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. Tenant accepts the Premises in its present "As-Is" condition, state of repair and operating order. On the Commencement Date, 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. Tenant shall have a warranty period of one hundred twenty (120) days (i) (which warranty period shall commence fifteen (15) days following the Commencement Date) with respect to the clean room and HVAC systems serving the lab to confirm such condition and (ii) (which warranty period shall commence one (1) month following the Rent Commencement Date) with respect to the remaining elements of the Building referenced above to confirm such condition. Tenant's failure to notify Landlord in writing within such respective one hundred twenty (120) day periods 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. In the event Landlord fails to deliver the Premises to Tenant on or before March 1, 2011 (which date shall be extended by Tenant Delays (defined below) and Force Majeure Delays (defined below)), Tenant shall have the right to terminate this Lease by delivering written notice of such termination to Landlord on or before March 10, 2011 (provided, in the event Landlord delivers possession of the Premises on or before March 10, 2011, Tenant's written notice of termination shall be null and void, and of no force or effect). Within ten (10) days following such termination, Tenant shall reimburse Landlord for all Landlord funded tenant improvement or architectural costs and permitting costs associated with Tenant's potential occupancy of the Building. For purposes of this Paragraph 3.2, the term "Force Majeure Delays" means delays due to (i) acts or events beyond Landlord's control including, but not limited to, acts of God, earthquakes, strikes, lockouts, boycotts, casualties, discontinuance of any utility or other service, moratoriums, governmental agencies, delays on the part of governmental agencies and weather, and (ii) any requirements of the fire department, building and/or planning department, building inspectors or any other agency having jurisdiction over the Building. Also for purposes of this Paragraph 3.2, the term "Tenant Delays" means any delay attributable to Tenant and/or any Tenant Entity (defined below) or Tenant's Permitted Use, including, but not limited to, any of the following described events or occurrences: (x) the performance of work in or about the Premises by any person, firm or corporation employed by or on behalf of Tenant, and/or (y) any and all delays caused by or arising from acts or omissions of Tenant and/or any Tenant Entity, in any manner whatsoever.

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, except as set forth in Paragraph 1.4 above, Tenant shall not be obligated to pay Base Rent for the first six (6) months and fifteen (15) days following the 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, 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 (excluding the premiums and deductibles paid by Tenant to maintain the insurance coverage Tenant is required to maintain pursuant to Paragraph 8.2(a) 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; (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; (x) costs incurred because Landlord or another tenant actually violated the terms and conditions of any lease for premises within the Industrial Center or due to Landlord's gross negligence or willful misconduct; (xi) any items for which Landlord is actually reimbursed by insurance or by direct reimbursement by any other tenant of the Industrial Center; (xii) costs associated with the investigation and/or remediation of Hazardous Substances (hereafter defined) present in, on or about any portion of the Industrial Center, unless such costs and expenses are the responsibility of Tenant as provided in Paragraph 6.2 hereof; (xiii) Landlord's cost for the repairs and maintenance items set forth in the first (1st) sentence (and subject to the terms) of Paragraph 7.2; (xiv) overhead and profit increment paid to Landlord or to subsidiaries or affiliates of Landlord for goods and/or services in the Industrial Center to the extent the same exceeds the costs of such by unaffiliated third parties on a competitive basis; or any costs included in Operating Expenses representing an amount paid to a person, firm, corporation or other entity related to Landlord which is in excess of the amount which would have been paid in the absence of such relationship; (xv) the cost of correcting any building code or other code violations which were violations prior to the Commencement Date of this Lease; and (xvi) wages, salaries, or other compensation paid to any executive employees of Landlord above the grade of building manager.

(f) After delivery to Landlord of at least thirty (30) days' prior written notice, Tenant, at its sole cost and expense through any accountant designated by it, shall have the right to examine and/or audit the books and records evidencing such expenses for the previous one (1) calendar year, during Landlord's reasonable business hours but not more frequently than once during any calendar year. Tenant may not compensate any such accountant on a contingency fee basis. The results of any such audit (and any negotiations between the parties related thereto) shall be maintained strictly confidential by Tenant, its lawyers and its accounting firm and shall not be disclosed, published or otherwise disseminated to any other party other than to Landlord and its authorized agents, except as otherwise required by Applicable Requirements or court order. Landlord and Tenant each shall use its commercially reasonable efforts to cooperate in such negotiations and to promptly resolve any discrepancies between Landlord and Tenant in the accounting of such expenses.

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 reasonable 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 <u>Permitted Use</u>. 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 <u>Hazardous Substances</u>.

(a) <u>Reportable Uses Require Consent</u>. 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) <u>Duty to Inform Landlord</u>. 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) <u>Indemnification</u>. 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 reasonable 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 reasonable 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 <u>Tenant's Compliance with Requirements</u>. 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 <u>Inspection; Compliance with Law</u>. 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; provided, however, Tenant shall have the right to have a representative present during such inspections and such inspections shall occur upon not less than 48 hours notice during normal business hours. It is further agreed that Landlord shall have the right to use any and all means Landlord deems necessary to enter the Premises in an emergency and in the case of emergency advance notice shall not be required, provided that Landlord agrees to use its commercially reasonable efforts to contact Tenant's 24/7 security number (650-269-8434) to notify Tenant of the emergency. Landlord shall use commercially reasonable efforts to minimize any interference with Tenant's business operations during any entry into the Premises. 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, reasonable 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.

6.7 Disclosure. The land described herein contains residual Hazardous Substances. Such condition renders the land and the Landlord, Tenant or other possessor of the land subject to requirements, restrictions, provisions, and liabilities contained in Chapter 6.5 and Chapter 6.8 of Division 20 of the Health and Safety Code, as same may be amended from time, and any successor statutes thereof. This statement is not a declaration that a hazard to public health, safety and welfare exists.

6.8 Landlord Indemnification. With respect to only those Hazardous Substances present on, in or under the Industrial Center as of the date of this Lease (the "Existing Hazardous Substances"), Landlord agrees to indemnify, defend (with counsel reasonably acceptable to Tenant) and hold Tenant harmless from and against any and all claims, judgments, damages, penalties, fines, liabilities, losses, suits, administrative proceedings and costs (including, but not limited to, reasonable attorneys' and consultant fees and court costs), arising at any time during or after the Term of this Lease, to the extent arising from (1) any of the Existing Hazardous Substances and/or (2) the removal, investigation, monitoring or remediation of any of the Existing Hazardous Substances; provided, however, Landlord shall not indemnify, defend or hold Tenant harmless to the extent (x) Tenant or any of the Tenant Entities contributes to or has contributed to the presence of such Existing Hazardous Substances or Tenant and/or any of the Tenant Entities exacerbates the conditions caused by such Existing Hazardous Substances, or (y) Tenant and/or any of 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 Existing 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 Existing Hazardous Substances in, on, under, through or about any portion of the Premises, the Building or the Industrial Center. Landlord's obligations under this Paragraph 6.8 shall survive the Expiration Date or earlier termination of this Lease.

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. Subject to Tenant obtaining Landlord's prior written consent and imposing such conditions as Landlord deems reasonably necessary, including without limitation, having a Landlord representative present, Tenant shall have the right to access the roof of the Building for purposes of performing Tenant's obligations under this Paragraph 7.1.

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 floors and 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 (including, without limitation, fire protection services and plumbing, mechanical (including HVAC) and electrical systems serving the Building but excluding the plumbing, mechanical and electrical systems exclusively serving the Premises), and the parking areas, pavement, landscaping, sprinkler systems, sidewalks, driveways, curbs and lighting systems in the Common Areas. 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 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 (i) remove all Alterations 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, except Tenant shall not remove Tenant Improvements described in **__Exhibit F__** to this Lease and (ii) repaint the exterior of the Building to the standard colors then in use by Landlord for the Industrial Center.

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 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. Except to the extent caused by the gross active or gross passive negligence or willful misconduct of Landlord or any Landlord Entity, 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 reasonable 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 or any Landlord Entity, 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 one hundred eighty (180) consecutive days with the conduct by Tenant of its business at the Premises (provided, up to an additional sixty (60) days shall be added to such one hundred eighty (180) consecutive day period to account for time Landlord may require to obtain permits for such repairs), 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. Within forty five (45) days following the occurrence of such damage, Landlord shall inform Tenant in writing of Landlord's estimate of the time required to complete repairs to the Premises. 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 reasonable 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 <u>Prohibition</u>. 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 <u>Request for Consent</u>. 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 fifteen (15) business 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 fifteen (15) business 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 <u>Criteria for Consent</u>. 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 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 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 (iii) has negotiated with Landlord during the 12 month period immediately preceding the Tenant’s Notice, or (j) 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 <u>Effectiveness of Transfer and Continuing Obligations</u>. 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 **<u>Exhibit C</u>** 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 <u>Rent Adjustment/Recapture</u>. 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 <u>Transfer Premium</u>. 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 <u>Waiver</u>. 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 <u>Special Transfer Prohibitions</u>. 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 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 five (5) 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; provided, however, the foregoing late charge shall not be applicable to the first (1st) instance of late payment of Rent by Tenant until three (3) business days after written notice to Tenant of such late payment. 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 and Landlord shall, if necessary, promptly proceed to restore the Premises or the Building, as applicable, to substantially its same condition prior to such partial condemnation, allowing for the reasonable effects of such partial condemnation, and a proportionate allowance shall be made to Tenant for the Rent corresponding to the time during which, and to the part of the Premises of which, Tenant is deprived on account of such partial condemnation and restoration. Landlord shall not be required to spend funds for restoration in excess of the amount received by Landlord as compensation awarded. 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 <u>Estoppel Certificate</u>. 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 <u>Financial Statement</u>. 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. Tenant shall not be required to deliver such financial statements to Landlord so long as Tenant is a publicly-held company whose stock is listed on a national exchange.

16. Additional Covenants and Provisions.

16.1 <u>Severability</u>. 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 <u>Interest on Past-Due Obligations</u>. 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 <u>Time of Essence</u>. 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 <u>Landlord Liability</u>. 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, reasonable 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 reasonable 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. Subject to the terms of Paragraph 6.4 above, 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) monument signage (in proportion to Tenant's Share) on any monument sign for the Building and exterior Building signage (so long as Tenant leases the entire Building) 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. Subject to the nondisturbance provisions of subparagraph 16.18(c), 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 and to any and all advances made on the security thereof, and to all renewals, modifications, consolidations, replacements and extensions thereof, 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; provided, such Renovations shall not unreasonably interfere with Tenant's access to the Premises or access to the parking areas. 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 <u>Clean Room Equipment</u>. 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 **<u>Exhibit G</u>** 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 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 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 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 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 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. Tenant may, at Tenant's option, remove the Cubicles and Equipment and either dispose of such Cubicles and Equipment (with Landlord's prior written consent) or return such Cubicles and Equipment to Landlord at any time during the Term.

16.33 Building Information. 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, (ii) any historical HVAC maintenance records, (iii) copies of past utilities bills, (iv) a copy of any CC&Rs relating to the Building and (v) to the extent in Landlord's possession, full CAD drawings, including mechanical and electrical.

16.34 Landlord's Work. Landlord shall perform the following work, at Landlord's sole cost and expense: (i) install communications and generator power conduits connecting both the power and data among all of the premises currently occupied by Tenant, including the 1003 – 1005 Hamilton Avenue and 1350 Willow Road premises and (ii) paint the exterior of the Building to a color reasonably approved by both Landlord and Tenant.

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 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 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/ Douglas P. McGregor
Douglas P. McGregor
Its: Vice President, Regional Manager
Date: 12/17/10

Landlord's Address:

AMB Property, L.P.
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

TENANT

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.,
a Delaware corporation, dba Pac Bio, Inc.

By: /s/ Hugh Martin
Its: President
Date: 12/16/10

By: /s/ Matthew Murphy
Its: Secretary
Date: 12/16/10

Tenant's Address:

After the Commencement Date
The Premises Address

Prior to the Commencement Date

____
____
____

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 Lease dated December __, 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 1010 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:	December __, 2010
Premises:	1010 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 December 15, 2010.
The Expiration Date of the Lease is December 31, 2015.

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: ______________________________

Landlord's Address:

AMB Property, L.P.
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

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
____
____
____

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 C
Tenant Move-in and Lease Renewal Environmental Questionnaire
for Commercial and Industrial Properties

Property Name: Willow Park

Premises Address: 1010 Hamilton Avenue, Menlo Park, California 94025

Exhibit C to the Lease Dated December __, 2010

Between

AMB Property, L.P., a Delaware limited partnership **("Landlord")**

and

Pacific Biosciences of California, Inc., a Delaware corporation dba Pac Bio, Inc. **("Tenant")**

Instructions: The following questionnaire is to be completed by the Tenant Representative with knowledge of the planned/existing operations for the specified building/location. A copy of the completed form must be attached to all new leases and renewals, and forwarded to the Owner's Risk Management Department. Please print clearly and attach additional sheets as necessary.

1.0 Process Information

Describe planned use (new Lease) or existing operations (lease renewal), and include brief description of manufacturing processes employed.

____
____
____

2.0 Hazardous Materials

Are hazardous materials used or stored? If so, continue with the next question. If not, go to Section 3.0.

2.1 Are any of the following materials handled on the property? Yes__ No__
(A material is handled if it is used, generated, processed, produced, packaged, treated, stored, emitted, discharged, or disposed.) If so, complete this section. If this question is not applicable, skip this section and go on to Section 5.0.

☐ Explosives
☐ Solvents
☐ Acids
☐ Gases
☐ Other (please specify)

☐ Fuels
☐ Oxidizers
☐ Bases
☐ PCBs

☐ Oils
☐ Organics/Inorganics
☐ Pesticides
☐ Radioactive Materials

2.2 If any of the groups of materials checked in Section 2.1, please list the specific material(s), use(s), and quantity of each chemical used or stored on the site in the Table below. If convenient, you may substitute a chemical inventory and list the uses of each of the chemicals in each category separately.

Material	Physical State (Solid, Liquid, or Gas)	Usage	Container Size	Number of Containers	Total Quantity

2.3 Describe the planned storage area location(s) for these materials. Please include site maps and drawings as appropriate.

____
____
____

3.0 Hazardous Wastes

Are hazardous wastes generated? Yes__ No__

If yes, continue with the next question. If not, skip this section and go to Section 4.0.

3.1 Are any of the following wastes generated, handled, or disposed of (where applicable) on the property?

☐ Hazardous wastes
☐ Waste oils
☐ Air emissions
☐ Regulated Wastes

☐ Industrial Wastewater
☐ PCBs
☐ Sludges
☐ Other (please specify)

3.2 List and quantify the materials identified in Question 3-1 of this section. Attach separate pages as necessary.

Waste Generated	RCRA listed Waste?	Source	Approximate Monthly Quantity	Waste Characterization	Disposition

3.3 Please include name, location, and permit number (e.g. EPA ID No.) for transporter and disposal facility, if applicable). Attach separate pages as necessary.

Transporter/Disposal Facility Name	Facility Location	Transporter (T) or Disposal (D) Facility	Permit Number

3.4 Are pollution controls or monitoring employed in the process to prevent or minimize the release of wastes into the environment? Yes__ No__

If so, please describe.

____

____

____

4.0 USTS/ASTS

4.1 Are underground storage tanks (USTs), aboveground storage tanks (ASTs), or associated pipelines used for the storage of petroleum products, chemicals, or liquid wastes present on site (lease renewals) or required for planned operations (new tenants)?
Yes__ No__

If not, continue with section 5.0. If yes, please describe capacity, contents, age, type of the USTs or ASTs, as well any associated leak detection / spill prevention measures. Please attach additional pages if necessary.

Capacity	Contents	Year Installed	Type (Steel, Fiberglass, etc)	Associated Leak Detection / Spill Prevention Measures*

* Note: The following are examples of leak detection / spill prevention measures:

Integrity testing
Inventory reconciliation
Leak detection system
Overfill spill protection
Secondary containment
Cathodic protection

4.2 Please provide copies of written tank integrity test results and/or monitoring documentation, if available.

4.3 Is the UST/AST registered and permitted with the appropriate regulatory agencies?
Yes__ No__

If so, please attach a copy of the required permits.

4.4 If this Questionnaire is being completed for a lease renewal, and if any of the USTs/ASTs have leaked, please state the substance released, the media(s) impacted (e.g., soil, water, asphalt, etc.), the actions taken, and all remedial responses to the incident.

____

____

____

4.5 If this Questionnaire is being completed for a lease renewal, have USTs/ASTs been removed from the property?
Yes__ No__

If yes, please provide any official closure letters or reports and supporting documentation (e.g., analytical test results, remediation report results, etc.).

4.6 For Lease renewals, are there any above or below ground pipelines on site used to transfer chemicals or wastes?
Yes__ No__

For new tenants, are installations of this type required for the planned operations?

Yes____ No____

If yes to either question, please describe.

____
____
____

5.0 Asbestos Containing Building Materials

Please be advised that this property participates in an Asbestos Operations and Maintenance Program, and that an asbestos survey may have been performed at the Industrial Center. If provided, please review the information that identifies the locations of known asbestos containing material or presumed asbestos containing material. All personnel and appropriate subcontractors should be notified of the presence of these materials, and informed not to disturb these materials. Any activity that involves the disturbance or removal of these materials must be done by an appropriately trained individual/contractor.

6.0 Regulatory

6.1 For Lease Renewals, are there any past, current, or pending regulatory actions by federal, state, or local environmental agencies alleging noncompliance with regulations?

Yes____ No____

If so, please describe.

____
____
____

6.2 For lease renewals, are there any past, current, or pending lawsuits or administrative proceedings for alleged environmental damages involving the property, you, or any owner or tenant of the property?

Yes____ No____

If so, please describe.

____
____
____

6.3 Does the operation have or require a National Pollutant Discharge Elimination System (NPDES) or equivalent permit?

Yes____ No____

If so, please attach a copy of this permit.

6.4 For Lease renewals, have there been any complaints from the surrounding community regarding facility operations?

Yes____ No____

Have there been any worker complaints or regulatory investigations regarding hazardous material exposure at the facility?

Yes____ No____

If so, please describe status and any corrective actions taken. Please attach additional pages as necessary.

____
____
____

6.5 Has a Hazardous Materials Business Plan been developed for the site?

Yes____ No____

If so, please attach a copy.

6.6 Are any environmental documentation, chemical inventory, or management plan required by the local Fire Department or Health Department?

Yes____ No____

If so, please attach a copy.

Certification

I am familiar with the real property described in this questionnaire. By signing below, I represent and warrant that the answers to the above questions are complete and accurate to the best of my knowledge. I also understand that the Owner will rely on the completeness and accuracy of my answers in assessing any environmental liability risks associated with the property.

Signature: ______________________
Name: ______________________
Title: ______________________
Date: ______________________
Telephone: ______________________

Please forward the completed questionnaire to:

Mr. Steve Campbell

Exhibit D
Move Out Standards

This "Move Out Standards" (**Exhibit D**) is dated December __, 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 Lease (the "Lease") concerning certain premises more commonly known as 1010 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 except Tenant shall not remove the Tenant Improvements described in **Exhibit F** hereto. 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.
12.	Repainting:	Tenant shall repaint the exterior of the Building to the standard colors then in use by Landlord for the Industrial Center.

Exhibit E
Rules & Regulations

This Exhibit (**Exhibit E**) is dated December __, 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 Lease (the "Lease") concerning certain premises more commonly known as 1010 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, which permission shall not be unreasonably withheld, delayed or conditioned.

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 December __, 2010, 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 Lease (“Lease”) concerning certain premises more commonly known as 1010 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 Tenant Improvements. Subject to the provisions below, Tenant shall be solely responsible for the planning, construction and completion of the interior tenant improvements (“Tenant Improvements”) to the Premises in accordance with the terms and conditions of this **Exhibit F**. Except as set forth in Paragraph 5.A. of this **Exhibit F** with respect to Tenant’s use of a portion of the Tenant Improvement Allowance for furniture costs, the Tenant Improvements shall not include any of Tenant’s personal property, trade fixtures, furnishings, equipment or similar items.

2. Tenant Improvement Plans.

A. Preliminary Plans and Specifications. Promptly after execution of the Lease, and subject to Paragraph 2.F below, Tenant shall retain a licensed and insured architect (“Architect”) to prepare preliminary working architectural and engineering plans and specifications (“Preliminary Plans and Specifications”) for the Tenant Improvements. Tenant shall deliver the Preliminary Plans and Specifications to Landlord. The Preliminary Plans and Specifications shall be in sufficient detail to show locations, types and requirements for all heat loads, people loads, floor loads, power and plumbing, regular and special HVAC needs, telephone communications, telephone and electrical outlets, lighting, lighting fixtures and related power, and electrical and telephone switches. Landlord shall reasonably approve or disapprove the Preliminary Plans and Specifications within five (5) days after Landlord receives the Preliminary Plans and Specifications and, if disapproved, Landlord shall return the Preliminary 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 the Preliminary Plans and Specifications. The approved Preliminary Plans and Specifications, as modified, shall be deemed the “Final Preliminary Plans and Specifications”.

B. Final Plans and Specifications. After the Final Preliminary Plans and Specifications are approved by Landlord and are deemed to be the Final Preliminary Plans and Specifications, Tenant shall cause the Architect to prepare in twenty (20) days following Landlord’s approval of the Final Preliminary Plans and Specifications the final working architectural and engineering plans, specifications and drawings, (“Final Plans and Specifications”) for the Tenant Improvements. Tenant shall then deliver the Final Plans and Specifications to Landlord. Landlord shall reasonably approve or disapprove the Final Plans and Specifications within five (5) days after Landlord receives the Final Plans and Specifications and, if disapproved, Landlord shall return the Final 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, the Final Plans and Specifications. The approved Final Plans and Specifications, as modified, shall be deemed the “Construction Documents”.

C. Miscellaneous. All deliveries of the Preliminary Plans and Specifications, the Final Preliminary Plans and Specifications, the Final Plans and Specifications, and the Construction Documents shall be delivered by messenger service, by personal hand delivery or by overnight parcel service. While Landlord has the right to approve the Preliminary Plans and Specifications, the Final Preliminary Plans and Specifications, the Final Plans and Specifications, and the Construction Documents, 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 the Preliminary Plans and Specifications, the Final Preliminary Plans and Specifications, the Final Plans and Specifications, and the Construction Documents, or the compliance thereof with applicable laws, 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 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 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. Selection of Architect and Contractor. Tenant agrees to include, in Tenant’s process of selection of an architect and contractor for the Tenant Improvements, an architect and contractor recommended by Landlord. Tenant shall give reasonable and adequate consideration to Landlord’s selections, although Tenant shall not be required to contract with the architect and/or contractor recommended by Landlord.

3. Permits. Tenant at its sole cost and expense (subject to the provisions of Paragraph 5 below) shall obtain all governmental approvals of the Construction Documents to the full extent necessary for the issuance of a building permit for the 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 Tenant Improvements in accordance with the approved Construction Documents. Tenant at its sole cost and expense (subject to the provisions of Paragraph 5 below) shall undertake all steps necessary to insure that the construction of the Tenant Improvements is accomplished in strict compliance with all Applicable Requirements (as defined in the Lease).

4. Construction.

A. Tenant shall be solely responsible for the construction, installation and completion of the 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, except for Landlord's obligation to contribute the Tenant Improvement Allowance in accordance with the provisions of Paragraph 5 below. Tenant shall diligently proceed with the construction, installation and completion of the 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 (subject to the provisions of Paragraph 5 below) shall, subject to Paragraph 2.F above, employ a licensed, insured and bonded general contractor ("Contractor") to construct the Tenant Improvements in accordance with the Construction Documents. 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-1**, 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-1**.

C. Prior to the commencement of the construction and installation of the Tenant Improvements, Tenant shall provide the following to Landlord, all of which shall be to Landlord's reasonable satisfaction:

(i) An estimated budget and cost breakdown for the Tenant Improvements.

(ii) Estimated completion schedule for the Tenant Improvements.

(iii) Copies of all required approvals and permits from governmental agencies having jurisdiction or authority for the construction and installation of the 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 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 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. Subject to Landlord complying with its obligations in Paragraph 5 below, Tenant shall pay and discharge promptly and fully all claims for labor done and materials and services furnished in connection with the Tenant Improvements. The Tenant Improvements shall not be commenced until ten (10) days after Landlord has received notice from Tenant stating the date the construction of the 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 Tenant Improvements.

G. Tenant shall maintain, and cause to be maintained, during the construction of the Tenant Improvements, at its sole cost and expense, insurance of the types and in the amounts specified in **Exhibit F-1** and in Section 8 of the Lease, together with builders' risk insurance for the amount of the completed value of the 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 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 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 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, including a permanent and complete Certificate of Occupancy issued 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 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 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 Tenant Improvements.

5. Tenant Improvement Allowance.

A. Subject to Tenant's compliance with the provisions of this **Exhibit F**, Landlord shall provide to Tenant an allowance in the amount of Two Hundred Fifty Four Thousand Eight Hundred Eighty and 00/100 Dollars ($254,880.00) (the "Tenant Improvement Allowance") to construct and install only the Tenant Improvements; provided, however, Tenant shall have the right to utilize (i) up to Fifty Three Thousand One Hundred Dollars ($53,100.00) of the Tenant Improvement Allowance for the purchase of furniture for the Premises (as evidenced by third party invoices for such furniture costs) and (ii) all or a portion of the Tenant Improvement Allowance for the tenant improvements being constructed by Tenant at premises owned by affiliates of Landlord and to be leased by Tenant located at 1003 – 1005 Hamilton Avenue, Menlo Park, California and 1350 Willow Road, Menlo Park, California, subject to the terms of the leases between Tenant and such affiliates of Landlord. The Tenant Improvement Allowance shall be used to design, prepare, plan, obtain the approval of, construct and install the Tenant Improvements and for no other purpose. Except as otherwise expressly provided herein, Landlord shall have no obligation to contribute the Tenant Improvement Allowance unless and until the Construction Documents have been approved by Landlord and Tenant has complied with all requirements set forth in Paragraph 4.C. of this **Exhibit F**. In addition to the foregoing, Landlord shall have no obligation to disburse all or any portion of the Tenant Improvement Allowance to Tenant unless Tenant makes a progress payment request pursuant to the terms and conditions of Section 5.B. below prior to December 31, 2012 (time being of the essence). The costs to be paid out of the Tenant Improvement Allowance shall include all reasonable costs and expenses associated with the design, preparation, approval, planning, construction and installation of the Tenant Improvements (the "Tenant Improvement Costs"), including all of the following:

(i) All costs of the Preliminary Plans and Specifications, the Final Plans and Specifications, and the 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 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 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 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;

(ix) A construction management fee payable to Landlord in the amount of three percent (3%) of the total Tenant Improvement Allowance ("CM Fee"); and

(x) The costs incurred by the Architect for an initial test fit of the Premises.

Except as set forth in Paragraph 5.E below, the Tenant Improvement Allowance shall be the maximum contribution by Landlord for the Tenant Improvement Costs, and the disbursement of the Tenant Improvement Allowance is subject to the terms contained hereinbelow.

B. Except for payment of the CM Fee (which CM Fee shall be deducted from the Tenant Improvement Allowance by Landlord on a percentage completion basis), and subject to Section 5.A. above, Landlord will make payments to Tenant from the Tenant Improvement Allowance to reimburse Tenant for Tenant Improvement Costs paid or incurred by Tenant. Payment of the CM Fee shall be the first payment from the Tenant Improvement Allowance and shall be made by means of a deduction or credit against the Tenant Improvement Allowance. All other payments of the Tenant Improvement Allowance shall be by progress payments not more frequently than once per month and only after satisfaction of the following conditions precedent: (a) receipt by Landlord of conditional mechanics' lien releases for the work completed and to be paid by said progress payment, conditioned only on the payment of the sums set forth in the mechanics' lien release, executed by the Contractor and all subcontractors, labor suppliers and materialmen; (b) receipt by Landlord of unconditional mechanics' lien releases from the Contractor and all subcontractors, labor suppliers and materialmen for all work other than that being paid by the current progress payment previously completed by the Contractor, subcontractors, labor suppliers and materialmen and for which Tenant has received funds from the Tenant Improvement Allowance to pay for such work; (c) receipt by Landlord of any and all documentation reasonably required by Landlord detailing the work that has been completed and the materials and supplies used as of the date of Tenant's request for the progress payment, including, without limitation, invoices, bills, or statements for the work completed and the materials and supplies used; and (d) completion by Landlord or Landlord's agents of any inspections of the work completed and materials and supplies used as deemed reasonably necessary by Landlord. Except for the CM Fee payment (credit), Tenant Improvement Allowance progress payments shall be paid to Tenant within fourteen (14) days from the satisfaction of the conditions set forth in the immediately preceding sentence. The preceding notwithstanding, all Tenant Improvement Costs paid or incurred by Tenant prior to Landlord's approval of the Construction Documents in connection with the design and planning of the Tenant Improvements by Architect shall be paid from the Tenant Improvement Allowance, without any retention, within fourteen (14) days following Landlord's receipt of invoices, bills or statements from Architect evidencing such costs. Notwithstanding the foregoing to the contrary, Landlord shall be entitled to withhold and retain five percent (5%) of the Tenant Improvement Allowance (or of any Tenant Improvement Allowance progress payment) until the lien-free expiration of the time for filing of any mechanics' liens claimed or which might be filed on account of any work ordered by Tenant or the Contractor or any subcontractor in connection with the construction and installation of the Tenant Improvements.

C. Landlord shall not be obligated to pay any Tenant Improvement Allowance progress payment or the Tenant Improvement Allowance retention (or any payment under Paragraph 5.E. below) if on the date Tenant is entitled to receive such payment or retention, Tenant is in default of this Lease. Such payments shall resume upon Tenant curing any such default within the time periods which may be provided for in the Lease.

D. Except as provided in Paragraph 5.A. above, should the total cost of constructing the Tenant Improvements be less than the Tenant Improvement Allowance, the Tenant Improvement Allowance shall be automatically reduced to the amount equal to said actual cost.

6. Termination. If the Lease is terminated prior to the date on which the 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 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. Upon the expiration or earlier termination of the Lease, Tenant shall not be required to remove the Tenant Improvements it being the intention of the parties that the Tenant Improvements are to be considered incorporated into the Building.

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, and specifically including all of the provisions of Section 16 of the Lease. 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 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.

8. ADA Survey. Prior to execution of this Lease, Landlord has employed an architect selected by Landlord to perform an ADA Survey of the Premises. The costs of such ADA Survey shall be shared equally by Landlord and Tenant and Tenant shall pay Tenant's share of such costs within thirty (30) days following written demand therefor.

Exhibit F-1
Construction Insurance Requirements

Before commencing work, the Contractor shall procure and maintain at its sole cost and expense until completion and final acceptance of the work, at least the following minimum levels of insurance.

A. Workers' Compensation in statutory amounts and Employers Liability Insurance in the minimum amounts of $100,000 each accident for bodily injury by accident and $100,000 each employee for bodily injury by disease with a $500,000 policy limit, covering each and every worker used in connection with the contract work.

B. Comprehensive General Liability Insurance on an occurrence basis including, but not limited to, protection for Premises/Operations Liability, Broad Form Contractual Liability, Owner's and Contractor's Protective, and Products/Completed Operations Liability*, in the following minimum limits of liability.

Bodily Injury, Property Damage, and	
Personal Injury Liability	$2,000,000/each occurrence
	$3,000,000/aggregate

***** Products/Completed Operations Liability Insurance is to be provided for a period of at least one (1) year after completion of work.

Coverage should include protection for Explosion, Collapse and Underground Damage.

C. Comprehensive Automobile Liability Insurance with the following minimum limits of liability.

Bodily Injury and Property	$1,000,000/each occurrence
Damage Liability	$2,000,000/aggregate

This insurance will apply to all owned, non-owned or hired automobiles to be used by the Contractor in the completion of the work.

D. Umbrella Liability Insurance in a minimum amount of five million dollars ($5,000,000), providing excess coverage on a following-form basis over the Employer's Liability limit in Paragraph A and the liability coverages outlined in Paragraphs B and C.

E. Equipment and Installation coverages in the broadest form available covering Contractor's tools and equipment and material not accepted by Tenant. Tenant will provide Builders Risk Insurance on all accepted and installed materials.

All policies of insurance, duplicates thereof or certificates evidencing coverage shall be delivered to Landlord prior to commencement of any work and shall name Landlord, and its partners and lenders as additional insureds as their interests may appear. All insurance policies shall (1) be issued by a company or companies licensed to be business in the State of California, (2) provide that no cancellation, non-renewal or material modification shall be effective without thirty (30) days prior written notice provided to Landlord, (3) provide no deductible greater than $15,000 per occurrence, (4) contain a waiver to subrogation clause in favor of Landlord, and its partners and lenders, and (5) comply with the requirements of Paragraph 8 of the Lease to the extent such requirements are applicable.

Exhibit G
List of Clean Room Equipment

Addendum 1
Options to Extend

This Addendum 1 (the "Addendum") is incorporated as a part of that certain Lease dated December __, 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 1010 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 Options. Subject to the provisions, limitations and conditions set forth in Paragraph 5 below, Tenant shall have an Option (individually, an "Option" and collectively, the "Options") to extend the initial Term of the Lease for two (2) consecutive five (5) year periods (individually, an "Extended Term" and collectively, "Extended Terms").

2. Tenant's Option Notice. Tenant shall have the right to deliver written notice to Landlord of its intent to exercise an Option (the "Option Notice"). If Landlord does not receive an Option Notice from Tenant on a date which is neither more than three hundred sixty five (365) days nor less than two hundred twenty five (225) days prior to the end of the initial Term or first Extended Term, as applicable, all rights under the applicable Option shall automatically terminate and shall be of no further force or effect. Upon the proper exercise of the first Option, subject to the provisions, limitations and conditions set forth in this Addendum, the initial Term of the Lease shall be extended for the first Extended Term and upon the proper exercise of the second Option, subject to the provisions, limitations and conditions set forth in Paragraph 5 below, the first Extended Term shall be extended for the second Extended Term; provided, Tenant shall have no right to exercise the Option for the second Extended Term if Tenant failed to properly exercise the Option for the first Extended Term.

3. Determination of the Option Rent.

A. The Base Rent payable for each month during each 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 applicable Extended Term, the then 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 applicable Extended Term and not the commencement date of the applicable 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 applicable 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 applicable 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 applicable 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 with respect to the first Extended Term and in no event less than the Base Rent payable by Tenant immediately prior to the expiration of the first Extended Term with respect to the second Extended Term);

(ii) Tenant shall have no further renewal Option (except as expressly set forth in this Addendum 1) 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 rights 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 or first Extended Term, as applicable, 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.

Lease

Willow Park
Menlo Park, California

Willow Park Holding Company II, L.P., a Delaware limited partnership,

as Landlord,

and

Pacific Biosciences of California, Inc., a Delaware corporation
dba Pac Bio, Inc.,

as Tenant

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AMB Property Corporation
Lease

1. Basic Provisions ("Basic Provisions").

1.1 <u>Parties</u>. This Lease ("Lease") dated December __, 2010, is made by and between Willow Park Holding Company II, 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 <u>Premises</u>. 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 54,586 square foot building ("Building") commonly known as 1003-1005 Hamilton Avenue, Menlo Park, California and as depicted on **<u>Exhibit A</u>**. The Building is also identified on **<u>Exhibit A</u>**. The phase ("Phase"), which is also identified on **<u>Exhibit A</u>**, 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 (except as set forth in Paragraph 7.1 below), 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 <u>Term</u>. Approximately four (4) years, eleven (11) months and fifteen (15) days ("Term") commencing on January 15, 2011 ("Commencement Date") and ending December 31, 2015 ("Expiration Date"). Pursuant to the terms of this Lease, including without limitation, **<u>Exhibit F</u>** hereto, Tenant shall have the right to access the Premises for purposes of constructing the Tenant Improvements (as defined in **<u>Exhibit F</u>**), office set-up and conducting large company meetings commencing on the Commencement Date.

1.4 <u>Base Rent</u>. Base monthly rent ("Base Rent") shall be payable as follows:

Months of Term	Monthly Base Rent
Commencement Date – 3/31/11	$ 0
4/1/11 – 7/31/11	$ 0
8/1/11 – 1/31/12	$ 90,066.90
2/1/12 – 1/31/13	$ 93,887.92
2/1/13 – 1/31/14	$ 96,704.56
2/1/14 – 1/31/15	$ 99,605.70
2/1/15 – 12/31/15	$ 102,593.87

As used in this Lease, the term "Rent Commencement Date' shall mean April 1, 2011 unless Landlord does not deliver possession of the Premises on or before January 16, 2011, in which case "Rent Commencement Date" shall mean the date which is two (2) months and fifteen (15) days following the date Landlord delivers possession of the Premises to Tenant.

1.5 Tenant's Share of Operating Expenses ("Tenant's Share").

(a)	Common Area Operating Expenses	5.40%
(b)	Building Operating Expenses	100%
(c)	Phase Operating Expenses	0%

1.6 <u>Tenant's Estimated Monthly Rent Payment</u>. 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 for the first month of the Lease Term for which Rent is payable.

(a)	Base Rent (Paragraph 4.1)	$ 90,066.90
(b)	Operating Expenses (Paragraph 4.2, excluding Real Property Taxes, Landlord Insurance, and HVAC)	$ 8,188.00
(c)	Landlord Insurance (Paragraph 8.3)	$ 1,092.00
(d)	Real Property Taxes (Paragraph 10)	$ 8,188.00
	Estimated **Total** Monthly Payment	$107,534.90

1.7 <u>Security Deposit</u>. $102,593.87 ("Security Deposit").

1.8 <u>Permitted Use ("Permitted Use")</u>. 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: Options to Extend
Addendum 2: Right of First Offer
Addendum 3: Right of First Refusal

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:

Willow Park Holding Company II, 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 Cassidy Turley 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. Tenant accepts the Premises in its present "As-Is" condition, state of repair and operating order. On the Commencement Date, 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. Tenant shall have a warranty period of one hundred twenty (120) days (i) (which warranty period shall commence fifteen (15) days following the Commencement Date) with respect to the clean room and HVAC systems serving the lab to confirm such condition and (ii) (which warranty period shall commence one (1) month following the Rent Commencement Date) with respect to the remaining elements of the Building referenced above to confirm such condition. Tenant's failure to notify Landlord in writing within such respective one hundred twenty (120) day periods 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. In the event Landlord fails to deliver the Premises to Tenant on or before March 1, 2011 (which date shall be extended by Tenant Delays (defined below) and Force Majeure Delays (defined below)), Tenant shall have the right to terminate this Lease by delivering written notice of such termination to Landlord on or before March 10, 2011 (provided, in the event Landlord delivers possession of the Premises on or before March 10, 2011, Tenant's written notice of termination shall be null and void, and of no force or effect). Within ten (10) days following such termination, Tenant shall reimburse Landlord for all Landlord funded tenant improvement or architectural costs and permitting costs associated with Tenant's potential occupancy of the Building. For purposes of this Paragraph 3.2, the term "Force Majeure Delays" means delays due to (i) acts or events beyond Landlord's control including, but not limited to, acts of God, earthquakes, strikes, lockouts, boycotts, casualties, discontinuance of any utility or other service, moratoriums, governmental agencies, delays on the part of governmental agencies and weather, and (ii) any requirements of the fire department, building and/or planning department, building inspectors or any other agency having jurisdiction over the Building. Also for purposes of this Paragraph 3.2, the term "Tenant Delays" means any delay attributable to Tenant and/or any Tenant Entity (defined below) or Tenant's Permitted Use, including, but not limited to, any of the following described events or occurrences: (x) the performance of work in or about the Premises by any person, firm or corporation employed by or on behalf of Tenant, and/or (y) any and all delays caused by or arising from acts or omissions of Tenant and/or any Tenant Entity, in any manner whatsoever.

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, except as set forth in Paragraph 1.4 above, Tenant shall not be obligated to pay Base Rent for the first six (6) months and fifteen (15) days following the 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, 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 (excluding the premiums and deductibles paid by Tenant to maintain the insurance coverage Tenant is required to maintain pursuant to Paragraph 8.2(a) 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; (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; (x) costs incurred because Landlord or another tenant actually violated the terms and conditions of any lease for premises within the Industrial Center or due to Landlord's gross negligence or willful misconduct; (xi) any items for which Landlord is actually reimbursed by insurance or by direct reimbursement by any other tenant of the Industrial Center; (xii) costs associated with the investigation and/or remediation of Hazardous Substances (hereafter defined) present in, on or about any portion of the Industrial Center, unless such costs and expenses are the responsibility of Tenant as provided in Paragraph 6.2 hereof; (xiii) Landlord's cost for the repairs and maintenance items set forth in the first (1st) sentence (and subject to the terms) of Paragraph 7.2; (xiv) overhead and profit increment paid to Landlord or to subsidiaries or affiliates of Landlord for goods and/or services in the Industrial Center to the extent the same exceeds the costs of such by unaffiliated third parties on a competitive basis; or any costs included in Operating Expenses representing an amount paid to a person, firm, corporation or other entity related to Landlord which is in excess of the amount which would have been paid in the absence of such relationship; (xv) the cost of correcting any building code or other code violations which were violations prior to the Commencement Date of this Lease; and (xvi) wages, salaries, or other compensation paid to any executive employees of Landlord above the grade of building manager.

(f) After delivery to Landlord of at least thirty (30) days' prior written notice, Tenant, at its sole cost and expense through any accountant designated by it, shall have the right to examine and/or audit the books and records evidencing such expenses for the previous one (1) calendar year, during Landlord's reasonable business hours but not more frequently than once during any calendar year. Tenant may not compensate any such accountant on a contingency fee basis. The results of any such audit (and any negotiations between the parties related thereto) shall be maintained strictly confidential by Tenant, its lawyers and its accounting firm and shall not be disclosed, published or otherwise disseminated to any other party other than to Landlord and its authorized agents, except as otherwise required by Applicable Requirements or court order. Landlord and Tenant each shall use its commercially reasonable efforts to cooperate in such negotiations and to promptly resolve any discrepancies between Landlord and Tenant in the accounting of such expenses.

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 reasonable 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 reasonable 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 reasonable 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; provided, however, Tenant shall have the right to have a representative present during such inspections and such inspections shall occur upon not less than 48 hours notice during normal business hours. It is further agreed that Landlord shall have the right to use any and all means Landlord deems necessary to enter the Premises in an emergency and in the case of emergency advance notice shall not be required, provided that Landlord agrees to use its commercially reasonable efforts to contact Tenant's 24/7 security number (650-269-8434) to notify Tenant of the emergency. Landlord shall use commercially reasonable efforts to minimize any interference with Tenant's business operations during any entry into the Premises. 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 <u>Tenant Move-in Questionnaire</u>. 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 **<u>Exhibit C</u>** 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 <u>Exculpation</u>. 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, reasonable 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.

6.7 <u>Disclosure</u>. The land described herein contains residual Hazardous Substances. Such condition renders the land and the Landlord, Tenant or other possessor of the land subject to requirements, restrictions, provisions, and liabilities contained in Chapter 6.5 and Chapter 6.8 of Division 20 of the Health and Safety Code, as same may be amended from time, and any successor statutes thereof. This statement is not a declaration that a hazard to public health, safety and welfare exists.

6.8 <u>Landlord Indemnification</u>. With respect to only those Hazardous Substances present on, in or under the Industrial Center as of the date of this Lease (the "Existing Hazardous Substances"), Landlord agrees to indemnify, defend (with counsel reasonably acceptable to Tenant) and hold Tenant harmless from and against any and all claims, judgments, damages, penalties, fines, liabilities, losses, suits, administrative proceedings and costs (including, but not limited to, reasonable attorneys' and consultant fees and court costs), arising at any time during or after the Term of this Lease, to the extent arising from (1) any of the Existing Hazardous Substances and/or (2) the removal, investigation, monitoring or remediation of any of the Existing Hazardous Substances; provided, however, Landlord shall not indemnify, defend or hold Tenant harmless to the extent (x) Tenant or any of the Tenant Entities contributes to or has contributed to the presence of such Existing Hazardous Substances or Tenant and/or any of the Tenant Entities exacerbates the conditions caused by such Existing Hazardous Substances, or (y) Tenant and/or any of 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 Existing 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 Existing Hazardous Substances in, on, under, through or about any portion of the Premises, the Building or the Industrial Center. Landlord's obligations under this Paragraph 6.8 shall survive the Expiration Date or earlier termination of this Lease.

7. Maintenance, Repairs, Trade Fixtures and Alterations.

7.1 <u>Tenant's Obligations</u>. 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. Subject to Tenant obtaining Landlord's prior written consent and imposing such conditions as Landlord deems reasonably necessary, including without limitation, having a Landlord representative present, Tenant shall have the right to access the roof of the Building for purposes of performing Tenant's obligations under this Paragraph 7.1.

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 floors and 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 (including, without limitation, fire protection services and plumbing, mechanical (including HVAC) and electrical systems serving the Building but excluding the plumbing, mechanical and electrical systems exclusively serving the Premises), and the parking areas, pavement, landscaping, sprinkler systems, sidewalks, driveways, curbs and lighting systems in the Common Areas. 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 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 (i) remove all Alterations 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, except Tenant shall not remove Tenant Improvements described in **Exhibit F** to this Lease and (ii) repaint the exterior of the Building to the standard colors then in use by Landlord for the Industrial Center.

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 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. Except to the extent caused by the gross active or gross passive negligence or willful misconduct of Landlord or any Landlord Entity, 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 reasonable 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 or any Landlord Entity, 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 one hundred eighty (180) consecutive days with the conduct by Tenant of its business at the Premises (provided, up to an additional sixty (60) days shall be added to such one hundred eighty (180) consecutive day period to account for time Landlord may require to obtain permits for such repairs), 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. Within forty five (45) days following the occurrence of such damage, Landlord shall inform Tenant in writing of Landlord's estimate of the time required to complete repairs to the Premises. 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 reasonable 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 fifteen (15) business 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 fifteen (15) business 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 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 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 (iii) has negotiated with Landlord during the 12 month period immediately preceding the Tenant’s Notice, or (j) 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 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 five (5) 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; provided, however, the foregoing late charge shall not be applicable to the first (1st) instance of late payment of Rent by Tenant until three (3) business days after written notice to Tenant of such late payment. 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 and Landlord shall, if necessary, promptly proceed to restore the Premises or the Building, as applicable, to substantially its same condition prior to such partial condemnation, allowing for the reasonable effects of such partial condemnation, and a proportionate allowance shall be made to Tenant for the Rent corresponding to the time during which, and to the part of the Premises of which, Tenant is deprived on account of such partial condemnation and restoration. Landlord shall not be required to spend funds for restoration in excess of the amount received by Landlord as compensation awarded. 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 <u>Estoppel Certificate</u>. 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 <u>Financial Statement</u>. 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. Tenant shall not be required to deliver such financial statements to Landlord so long as Tenant is a publicly-held company whose stock is listed on a national exchange.

16. Additional Covenants and Provisions.

16.1 <u>Severability</u>. 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 <u>Interest on Past-Due Obligations</u>. 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 <u>Time of Essence</u>. 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 <u>Landlord Liability</u>. 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, reasonable 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 reasonable 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. Subject to the terms of Paragraph 6.4 above, 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) monument signage (in proportion to Tenant's Share) on any monument sign for the Building and exterior Building signage (so long as Tenant leases the entire Building) 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. Subject to the nondisturbance provisions of subparagraph 16.18(c), 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 and to any and all advances made on the security thereof, and to all renewals, modifications, consolidations, replacements and extensions thereof, 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; provided, such Renovations shall not unreasonably interfere with Tenant's access to the Premises or access to the parking areas. 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 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 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 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 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 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. Tenant may, at Tenant's option, remove the Cubicles and Equipment and either dispose of such Cubicles and Equipment (with Landlord's prior written consent) or return such Cubicles and Equipment to Landlord at any time during the Term.

16.33 Building Information. 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, (ii) any historical HVAC maintenance records, (iii) copies of past utilities bills, (iv) a copy of any CC&Rs relating to the Building and (v) to the extent in Landlord's possession, full CAD drawings, including mechanical and electrical.

16.34 Landlord's Work. Landlord shall perform the following work, at Landlord's sole cost and expense: (i) installation of communications and generator power conduits connecting both the power and data among all of the premises currently occupied by Tenant, including the 1010 Hamilton Avenue and 1350 Willow Road premises, (ii) upgrade the exterior of the Building similarly to the exterior of 1380 Willow Road (inclusive of glass and metal upgrades) and (iii) paint the exterior of the Building to a color reasonably approved by Landlord and Tenant.

The parties hereto have executed this Lease at the place and on the dates specified below their respective signatures.

LANDLORD

WILLOW PARK HOLDING COMPANY II, L.P.,
a Delaware limited partnership

By: AMB PROPERTY, L.P.,
a Delaware limited partnership
Its: Manager

By: AMB PROPERTY CORPORATION,
a Maryland corporation, its general partner

By: /s/ Douglas P. McGregor
Douglas P. McGregor
Its: Vice President, Regional Manager
Date: 12/17/10

TENANT

PACIFIC BIOSCIENCES OF CALIFORNIA, INC.,
a Delaware corporation, dba Pac Bio, Inc.

By: /s/ Hugh Martin
Its: President
Date: 12/16/10

By: /s/ Matthew Murphy
Its: Secretary
Date: 12/16/10

Tenant's Address:

After the Commencement Date
The Premises Address

Prior to the Commencement Date

____
____
____

Landlord's Address:

Willow Park Holding Company II, L.P.
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 Lease dated December __, 2010 (the “Lease”), by and between Willow Park Holding Company II, 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 1003 – 1005 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:

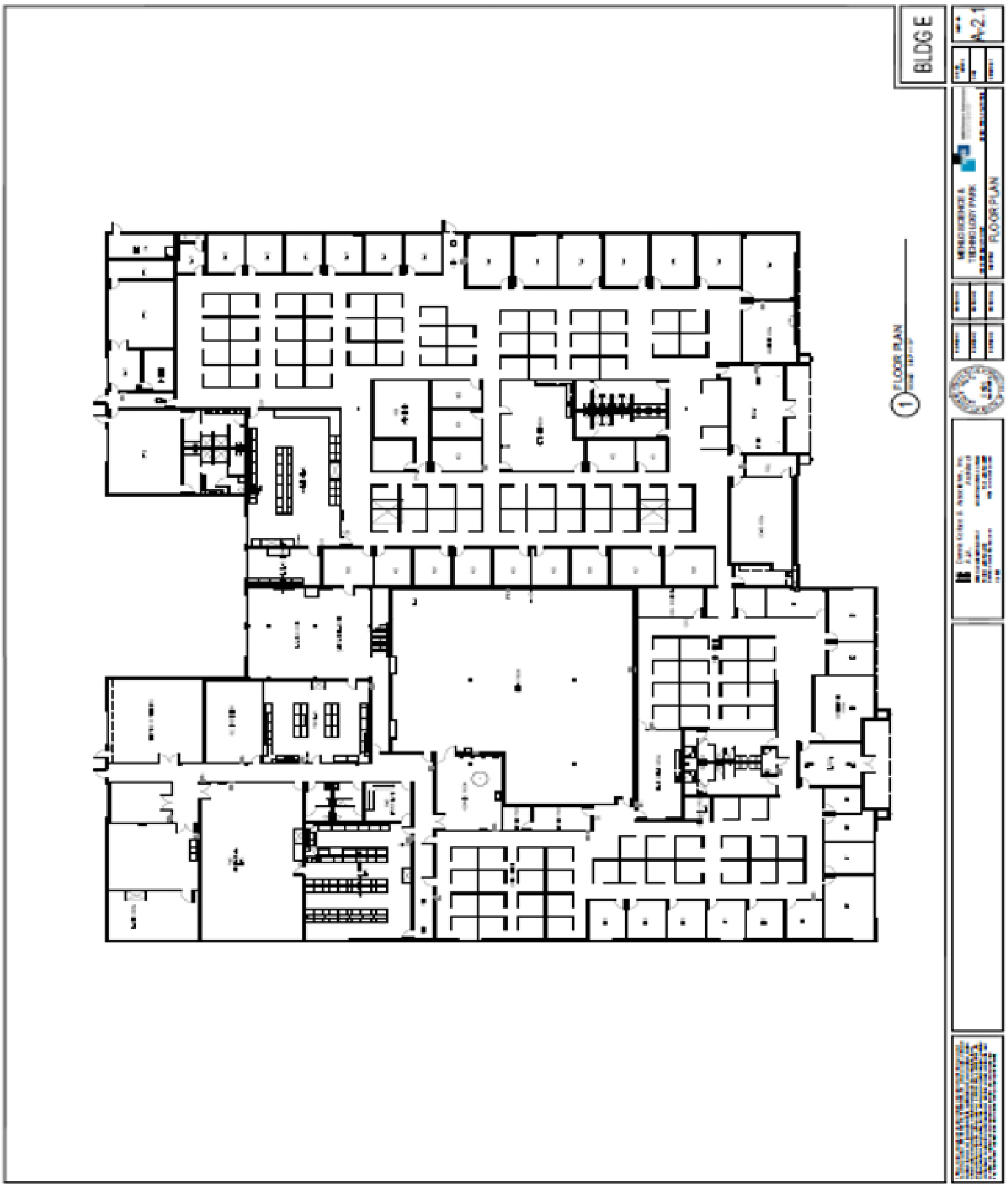

Exhibit B
Commencement Date Certificate

Landlord:	Willow Park Holding Company II, L.P., a Delaware limited partnership
Tenant:	Pacific Biosciences of California, Inc., a Delaware corporation dba Pac Bio, Inc.
Lease Date:	December __, 2010
Premises:	1003 – 1005 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 January 16, 2011.
The Expiration Date of the Lease is December 31, 2015.

LANDLORD

WILLOW PARK HOLDING COMPANY II, L.P.,
a Delaware limited partnership

By: AMB PROPERTY, L.P.,
a Delaware limited partnership
Its: Manager

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:

Willow Park Holding Company II, L.P.
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 C
Tenant Move-in and Lease Renewal Environmental Questionnaire
for Commercial and Industrial Properties

Property Name: Willow Park

Premises Address: 1003 – 1005 Hamilton Avenue, Menlo Park, California 94025

Exhibit C to the Lease Dated December __, 2010

Between

Willow Park Holding Company II, L.P., a Delaware limited partnership **("Landlord")**

and

Pacific Biosciences of California, Inc., a Delaware corporation dba Pac Bio, Inc. **("Tenant")**

Instructions: The following questionnaire is to be completed by the Tenant Representative with knowledge of the planned/existing operations for the specified building/location. A copy of the completed form must be attached to all new leases and renewals, and forwarded to the Owner's Risk Management Department. Please print clearly and attach additional sheets as necessary.

1.0 Process Information

Describe planned use (new Lease) or existing operations (lease renewal), and include brief description of manufacturing processes employed.

____
____
____

2.0 Hazardous Materials

Are hazardous materials used or stored? If so, continue with the next question. If not, go to Section 3.0.

2.1 Are any of the following materials handled on the property? Yes__ No__
(A material is handled if it is used, generated, processed, produced, packaged, treated, stored, emitted, discharged, or disposed.) If so, complete this section. If this question is not applicable, skip this section and go on to Section 5.0.

☐ Explosives
☐ Solvents
☐ Acids
☐ Gases
☐ Other (please specify)
☐ Fuels
☐ Oxidizers
☐ Bases
☐ PCBs
☐ Oils
☐ Organics/Inorganics
☐ Pesticides
☐ Radioactive Materials

2.2 If any of the groups of materials checked in Section 2.1, please list the specific material(s), use(s), and quantity of each chemical used or stored on the site in the Table below. If convenient, you may substitute a chemical inventory and list the uses of each of the chemicals in each category separately.

Material	Physical State (Solid, Liquid, or Gas)	Usage	Container Size	Number of Containers	Total Quantity

2.3 Describe the planned storage area location(s) for these materials. Please include site maps and drawings as appropriate.

____
____
____

3.0 Hazardous Wastes

Are hazardous wastes generated? Yes__ No__

If yes, continue with the next question. If not, skip this section and go to Section 4.0.

3.1 Are any of the following wastes generated, handled, or disposed of (where applicable) on the property?

☐ Hazardous wastes
☐ Waste oils
☐ Air emissions
☐ Regulated Wastes
☐ Industrial Wastewater
☐ PCBs
☐ Sludges
☐ Other (please specify)

3.2 List and quantify the materials identified in Question 3-1 of this section. Attach separate pages as necessary.

Waste Generated	RCRA listed Waste?	Source	Approximate Monthly Quantity	Waste Characterization	Disposition

3.3 Please include name, location, and permit number (e.g. EPA ID No.) for transporter and disposal facility, if applicable). Attach separate pages as necessary.

Transporter/Disposal Facility Name	Facility Location	Transporter (T) or Disposal (D) Facility	Permit Number

3.4 Are pollution controls or monitoring employed in the process to prevent or minimize the release of wastes into the environment? Yes__ No__

If so, please describe.

____

____

____

4.0 USTS/ASTS

4.1 Are underground storage tanks (USTs), aboveground storage tanks (ASTs), or associated pipelines used for the storage of petroleum products, chemicals, or liquid wastes present on site (lease renewals) or required for planned operations (new tenants)? Yes__ No__

If not, continue with section 5.0. If yes, please describe capacity, contents, age, type of the USTs or ASTs, as well any associated leak detection / spill prevention measures. Please attach additional pages if necessary.

Capacity	Contents	Year Installed	Type (Steel, Fiberglass, etc)	Associated Leak Detection / Spill Prevention Measures*

* Note: The following are examples of leak detection / spill prevention measures:

Integrity testing	Inventory reconciliation	Leak detection system
Overfill spill protection	Secondary containment	Cathodic protection

4.2 Please provide copies of written tank integrity test results and/or monitoring documentation, if available.

4.3 Is the UST/AST registered and permitted with the appropriate regulatory agencies? Yes__ No__

If so, please attach a copy of the required permits.

4.4 If this Questionnaire is being completed for a lease renewal, and if any of the USTs/ASTs have leaked, please state the substance released, the media(s) impacted (e.g., soil, water, asphalt, etc.), the actions taken, and all remedial responses to the incident.

____

____

____

4.5 If this Questionnaire is being completed for a lease renewal, have USTs/ASTs been removed from the property? Yes__ No__

If yes, please provide any official closure letters or reports and supporting documentation (e.g., analytical test results, remediation report results, etc.).

4.6 For Lease renewals, are there any above or below ground pipelines on site used to transfer chemicals or wastes? Yes__ No__

For new tenants, are installations of this type required for the planned operations?

Yes____ No____

If yes to either question, please describe.

____

____

____

5.0 Asbestos Containing Building Materials

Please be advised that this property participates in an Asbestos Operations and Maintenance Program, and that an asbestos survey may have been performed at the Industrial Center. If provided, please review the information that identifies the locations of known asbestos containing material or presumed asbestos containing material. All personnel and appropriate subcontractors should be notified of the presence of these materials, and informed not to disturb these materials. Any activity that involves the disturbance or removal of these materials must be done by an appropriately trained individual/contractor.

6.0 Regulatory

6.1 For Lease Renewals, are there any past, current, or pending regulatory actions by federal, state, or local environmental agencies alleging noncompliance with regulations?

Yes____ No____

If so, please describe.

____

____

____

6.2 For lease renewals, are there any past, current, or pending lawsuits or administrative proceedings for alleged environmental damages involving the property, you, or any owner or tenant of the property?

Yes____ No____

If so, please describe.

____

____

____

6.3 Does the operation have or require a National Pollutant Discharge Elimination System (NPDES) or equivalent permit?

Yes____ No____

If so, please attach a copy of this permit.

6.4 For Lease renewals, have there been any complaints from the surrounding community regarding facility operations?

Yes____ No____

Have there been any worker complaints or regulatory investigations regarding hazardous material exposure at the facility?

Yes____ No____

If so, please describe status and any corrective actions taken. Please attach additional pages as necessary.

____

____

____

6.5 Has a Hazardous Materials Business Plan been developed for the site?

Yes____ No____

If so, please attach a copy.

6.6 Are any environmental documentation, chemical inventory, or management plan required by the local Fire Department or Health Department?

Yes____ No____

If so, please attach a copy.

Certification

I am familiar with the real property described in this questionnaire. By signing below, I represent and warrant that the answers to the above questions are complete and accurate to the best of my knowledge. I also understand that the Owner will rely on the completeness and accuracy of my answers in assessing any environmental liability risks associated with the property.

Signature: ______________________________

Name: ______________________________

Title: ______________________________

Date: ______________________________

Telephone: ______________________________

Please forward the completed questionnaire to:

Mr. Steve Campbell

AMB Property, L.P.
Pier 1, Bay 1
San Francisco, CA 94111

Exhibit D
Move Out Standards

This "Move Out Standards" (**Exhibit D**) is dated December __, 2010, for the reference purposes only and is made between Willow Park Holding Company II, 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 Lease (the "Lease") concerning certain premises more commonly known as 1003 – 1005 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 except Tenant shall not remove the Tenant Improvements described in **Exhibit F** hereto. 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.
12.	Repainting:	Tenant shall repaint the exterior of the Building to the standard colors then in use by Landlord for the Industrial Center.

Exhibit E
Rules & Regulations

This Exhibit (**Exhibit E**) is dated December __, 2010, for the reference purposes only and is made between Willow Park Holding Company II, 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 Lease (the “Lease”) concerning certain premises more commonly known as 1003 – 1005 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, which permission shall not be unreasonably withheld, delayed or conditioned.

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 December __, 2010, for reference purposes only and is made by and between Willow Park Holding Company II, 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 Lease ("Lease") concerning certain premises more commonly known as 1003 – 1005 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 Tenant Improvements. Subject to the provisions below, Tenant shall be solely responsible for the planning, construction and completion of the interior tenant improvements ("Tenant Improvements") to the Premises in accordance with the terms and conditions of this **Exhibit F**. Except as set forth in Paragraph 5.A. of this **Exhibit F** with respect to Tenant's use of a portion of the Tenant Improvement Allowance for furniture costs, the Tenant Improvements shall not include any of Tenant's personal property, trade fixtures, furnishings, equipment or similar items.

2. Tenant Improvement Plans.

A. Preliminary Plans and Specifications. Promptly after execution of the Lease, and subject to Paragraph 2.F below, Tenant shall retain a licensed and insured architect ("Architect") to prepare preliminary working architectural and engineering plans and specifications ("Preliminary Plans and Specifications") for the Tenant Improvements. Tenant shall deliver the Preliminary Plans and Specifications to Landlord. The Preliminary Plans and Specifications shall be in sufficient detail to show locations, types and requirements for all heat loads, people loads, floor loads, power and plumbing, regular and special HVAC needs, telephone communications, telephone and electrical outlets, lighting, lighting fixtures and related power, and electrical and telephone switches. Landlord shall reasonably approve or disapprove the Preliminary Plans and Specifications within five (5) days after Landlord receives the Preliminary Plans and Specifications and, if disapproved, Landlord shall return the Preliminary 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 the Preliminary Plans and Specifications. The approved Preliminary Plans and Specifications, as modified, shall be deemed the "Final Preliminary Plans and Specifications".

B. Final Plans and Specifications. After the Final Preliminary Plans and Specifications are approved by Landlord and are deemed to be the Final Preliminary Plans and Specifications, Tenant shall cause the Architect to prepare in twenty (20) days following Landlord's approval of the Final Preliminary Plans and Specifications the final working architectural and engineering plans, specifications and drawings, ("Final Plans and Specifications") for the Tenant Improvements. Tenant shall then deliver the Final Plans and Specifications to Landlord. Landlord shall reasonably approve or disapprove the Final Plans and Specifications within five (5) days after Landlord receives the Final Plans and Specifications and, if disapproved, Landlord shall return the Final 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, the Final Plans and Specifications. The approved Final Plans and Specifications, as modified, shall be deemed the "Construction Documents".

C. Miscellaneous. All deliveries of the Preliminary Plans and Specifications, the Final Preliminary Plans and Specifications, the Final Plans and Specifications, and the Construction Documents shall be delivered by messenger service, by personal hand delivery or by overnight parcel service. While Landlord has the right to approve the Preliminary Plans and Specifications, the Final Preliminary Plans and Specifications, the Final Plans and Specifications, and the Construction Documents, 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 the Preliminary Plans and Specifications, the Final Preliminary Plans and Specifications, the Final Plans and Specifications, and the Construction Documents, or the compliance thereof with applicable laws, 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 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 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. Selection of Architect and Contractor. Tenant agrees to include, in Tenant's process of selection of an architect and contractor for the Tenant Improvements, an architect and contractor recommended by Landlord. Tenant shall give reasonable and adequate consideration to Landlord's selections, although Tenant shall not be required to contract with the architect and/or contractor recommended by Landlord.

3. Permits. Tenant at its sole cost and expense (subject to the provisions of Paragraph 5 below) shall obtain all governmental approvals of the Construction Documents to the full extent necessary for the issuance of a building permit for the 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 Tenant Improvements in accordance with the approved Construction Documents. Tenant at its sole cost and expense (subject to the provisions of Paragraph 5 below) shall undertake all steps necessary to insure that the construction of the Tenant Improvements is accomplished in strict compliance with all Applicable Requirements (as defined in the Lease).

4. Construction.

A. Tenant shall be solely responsible for the construction, installation and completion of the 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, except for Landlord's obligation to contribute the Tenant Improvement Allowance in accordance with the provisions of Paragraph 5 below. Tenant shall diligently proceed with the construction, installation and completion of the 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 (subject to the provisions of Paragraph 5 below) shall, subject to Paragraph 2.F above, employ a licensed, insured and bonded general contractor ("Contractor") to construct the Tenant Improvements in accordance with the Construction Documents. 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-1**, 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-1**.

C. Prior to the commencement of the construction and installation of the Tenant Improvements, Tenant shall provide the following to Landlord, all of which shall be to Landlord's reasonable satisfaction:

(i) An estimated budget and cost breakdown for the Tenant Improvements.

(ii) Estimated completion schedule for the Tenant Improvements.

(iii) Copies of all required approvals and permits from governmental agencies having jurisdiction or authority for the construction and installation of the 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 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 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. Subject to Landlord complying with its obligations in Paragraph 5 below, Tenant shall pay and discharge promptly and fully all claims for labor done and materials and services furnished in connection with the Tenant Improvements. The Tenant Improvements shall not be commenced until ten (10) days after Landlord has received notice from Tenant stating the date the construction of the 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 Tenant Improvements.

G. Tenant shall maintain, and cause to be maintained, during the construction of the Tenant Improvements, at its sole cost and expense, insurance of the types and in the amounts specified in **Exhibit F-1** and in Section 8 of the Lease, together with builders' risk insurance for the amount of the completed value of the 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 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 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 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, including a permanent and complete Certificate of Occupancy issued 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 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 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 Tenant Improvements.

5. Tenant Improvement Allowance.

A. Subject to Tenant's compliance with the provisions of this **Exhibit F**, Landlord shall provide to Tenant an allowance in the amount of Seven Hundred Thirty Six Thousand Nine Hundred Eleven and 00/100 Dollars ($736,911.00) (the "Tenant Improvement Allowance") to construct and install only the Tenant Improvements; provided, however, Tenant shall have the right to utilize (i) up to One Hundred Thirty Six Thousand Four Hundred Sixty Five Dollars ($136,465.00) of the Tenant Improvement Allowance for the purchase of furniture for the Premises (as evidenced by third party invoices for such furniture costs) and (ii) all or a portion of the Tenant Improvement Allowance for the tenant improvements being constructed by Tenant at premises owned by affiliates of Landlord and to be leased by Tenant located at 1010 Hamilton Avenue, Menlo Park, California and 1350 Willow Road, Menlo Park, California, subject to the terms of the leases between Tenant and such affiliates of Landlord. The Tenant Improvement Allowance shall be used to design, prepare, plan, obtain the approval of, construct and install the Tenant Improvements and for no other purpose. Except as otherwise expressly provided herein, Landlord shall have no obligation to contribute the Tenant Improvement Allowance unless and until the Construction Documents have been approved by Landlord and Tenant has complied with all requirements set forth in Paragraph 4.C. of this **Exhibit F**. In addition to the foregoing, Landlord shall have no obligation to disburse all or any portion of the Tenant Improvement Allowance to Tenant unless Tenant makes a progress payment request pursuant to the terms and conditions of Section 5.B. below prior to December 31, 2012 (time being of the essence). The costs to be paid out of the Tenant Improvement Allowance shall include all reasonable costs and expenses associated with the design, preparation, approval, planning, construction and installation of the Tenant Improvements (the "Tenant Improvement Costs"), including all of the following:

(i) All costs of the Preliminary Plans and Specifications, the Final Plans and Specifications, and the 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 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 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 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;

(ix) A construction management fee payable to Landlord in the amount of three percent (3%) of the total Tenant Improvement Allowance ("CM Fee"); and

(x) The costs incurred by the Architect for an initial test fit of the Premises.

Except as set forth in Paragraph 5.E below, the Tenant Improvement Allowance shall be the maximum contribution by Landlord for the Tenant Improvement Costs, and the disbursement of the Tenant Improvement Allowance is subject to the terms contained hereinbelow.

B. Except for payment of the CM Fee (which CM Fee shall be deducted from the Tenant Improvement Allowance by Landlord on a percentage completion basis), and subject to Section 5.A. above, Landlord will make payments to Tenant from the Tenant Improvement Allowance to reimburse Tenant for Tenant Improvement Costs paid or incurred by Tenant. Payment of the CM Fee shall be the first payment from the Tenant Improvement Allowance and shall be made by means of a deduction or credit against the Tenant Improvement Allowance. All other payments of the Tenant Improvement Allowance shall be by progress payments not more frequently than once per month and only after satisfaction of the following conditions precedent: (a) receipt by Landlord of conditional mechanics' lien releases for the work completed and to be paid by said progress payment, conditioned only on the payment of the sums set forth in the mechanics' lien release, executed by the Contractor and all subcontractors, labor suppliers and materialmen; (b) receipt by Landlord of unconditional mechanics' lien releases from the Contractor and all subcontractors, labor suppliers and materialmen for all work other than that being paid by the current progress payment previously completed by the Contractor, subcontractors, labor suppliers and materialmen and for which Tenant has received funds from the Tenant Improvement Allowance to pay for such work; (c) receipt by Landlord of any and all documentation reasonably required by Landlord detailing the work that has been completed and the materials and supplies used as of the date of Tenant's request for the progress payment, including, without limitation, invoices, bills, or statements for the work completed and the materials and supplies used; and (d) completion by Landlord or Landlord's agents of any inspections of the work completed and materials and supplies used as deemed reasonably necessary by Landlord. Except for the CM Fee payment (credit), Tenant Improvement Allowance progress payments shall be paid to Tenant within fourteen (14) days from the satisfaction of the conditions set forth in the immediately preceding sentence. The preceding notwithstanding, all Tenant Improvement Costs paid or incurred by Tenant prior to Landlord's approval of the Construction Documents in connection with the design and planning of the Tenant Improvements by Architect shall be paid from the Tenant Improvement Allowance, without any retention, within fourteen (14) days following Landlord's receipt of invoices, bills or statements from Architect evidencing such costs. Notwithstanding the foregoing to the contrary, Landlord shall be entitled to withhold and retain five percent (5%) of the Tenant Improvement Allowance (or of any Tenant Improvement Allowance progress payment) until the lien-free expiration of the time for filing of any mechanics' liens claimed or which might be filed on account of any work ordered by Tenant or the Contractor or any subcontractor in connection with the construction and installation of the Tenant Improvements.

C. Landlord shall not be obligated to pay any Tenant Improvement Allowance progress payment or the Tenant Improvement Allowance retention (or any payment under Paragraph 5.E. below) if on the date Tenant is entitled to receive such payment or retention, Tenant is in default of this Lease. Such payments shall resume upon Tenant curing any such default within the time periods which may be provided for in the Lease.

D. Except as provided in Paragraph 5.A. above, should the total cost of constructing the Tenant Improvements be less than the Tenant Improvement Allowance, the Tenant Improvement Allowance shall be automatically reduced to the amount equal to said actual cost.

6. Termination. If the Lease is terminated prior to the date on which the 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 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. Upon the expiration or earlier termination of the Lease, Tenant shall not be required to remove the Tenant Improvements it being the intention of the parties that the Tenant Improvements are to be considered incorporated into the Building.

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, and specifically including all of the provisions of Section 16 of the Lease. 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 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.

8. ADA Survey. Prior to execution of this Lease, Landlord has employed an architect selected by Landlord to perform an ADA Survey of the Premises. The costs of such ADA Survey shall be shared equally by Landlord and Tenant and Tenant shall pay Tenant's share of such costs within thirty (30) days following written demand therefor.

Exhibit F-1
Construction Insurance Requirements

Before commencing work, the Contractor shall procure and maintain at its sole cost and expense until completion and final acceptance of the work, at least the following minimum levels of insurance.

A. Workers' Compensation in statutory amounts and Employers Liability Insurance in the minimum amounts of $100,000 each accident for bodily injury by accident and $100,000 each employee for bodily injury by disease with a $500,000 policy limit, covering each and every worker used in connection with the contract work.

B. Comprehensive General Liability Insurance on an occurrence basis including, but not limited to, protection for Premises/Operations Liability, Broad Form Contractual Liability, Owner's and Contractor's Protective, and Products/Completed Operations Liability*, in the following minimum limits of liability.

Bodily Injury, Property Damage, and Personal Injury Liability	$2,000,000/each occurrence $3,000,000/aggregate

* Products/Completed Operations Liability Insurance is to be provided for a period of at least one (1) year after completion of work.

Coverage should include protection for Explosion, Collapse and Underground Damage.

C. Comprehensive Automobile Liability Insurance with the following minimum limits of liability.

Bodily Injury and Property Damage Liability	$1,000,000/each occurrence $2,000,000/aggregate

This insurance will apply to all owned, non-owned or hired automobiles to be used by the Contractor in the completion of the work.

D. Umbrella Liability Insurance in a minimum amount of five million dollars ($5,000,000), providing excess coverage on a following-form basis over the Employer's Liability limit in Paragraph A and the liability coverages outlined in Paragraphs B and C.

E. Equipment and Installation coverages in the broadest form available covering Contractor's tools and equipment and material not accepted by Tenant. Tenant will provide Builders Risk Insurance on all accepted and installed materials.

All policies of insurance, duplicates thereof or certificates evidencing coverage shall be delivered to Landlord prior to commencement of any work and shall name Landlord, and its partners and lenders as additional insureds as their interests may appear. All insurance policies shall (1) be issued by a company or companies licensed to be business in the State of California, (2) provide that no cancellation, non-renewal or material modification shall be effective without thirty (30) days prior written notice provided to Landlord, (3) provide no deductible greater than $15,000 per occurrence, (4) contain a waiver to subrogation clause in favor of Landlord, and its partners and lenders, and (5) comply with the requirements of Paragraph 8 of the Lease to the extent such requirements are applicable.

Exhibit G
List of Clean Room Equipment

Addendum 1
Options to Extend

This Addendum 1 (the "Addendum") is incorporated as a part of that certain Lease dated December __, 2010 (the "Lease"), by and between Willow Park Holding Company II, 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 1003 – 1005 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 Options. Subject to the provisions, limitations and conditions set forth in Paragraph 5 below, Tenant shall have an Option (individually, an "Option" and collectively, the "Options") to extend the initial Term of the Lease for two (2) consecutive five (5) year periods (individually, an "Extended Term" and collectively, "Extended Terms").

2. Tenant's Option Notice. Tenant shall have the right to deliver written notice to Landlord of its intent to exercise an Option (the "Option Notice"). If Landlord does not receive an Option Notice from Tenant on a date which is neither more than three hundred sixty five (365) days nor less than two hundred twenty five (225) days prior to the end of the initial Term or first Extended Term, as applicable, all rights under the applicable Option shall automatically terminate and shall be of no further force or effect. Upon the proper exercise of the first Option, subject to the provisions, limitations and conditions set forth in this Addendum, the initial Term of the Lease shall be extended for the first Extended Term and upon the proper exercise of the second Option, subject to the provisions, limitations and conditions set forth in Paragraph 5 below, the first Extended Term shall be extended for the second Extended Term; provided, Tenant shall have no right to exercise the Option for the second Extended Term if Tenant failed to properly exercise the Option for the first Extended Term.

3. Determination of the Option Rent.

A. The Base Rent payable for each month during each 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 applicable Extended Term, the then 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 applicable Extended Term and not the commencement date of the applicable 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 applicable 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 applicable 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 applicable 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 with respect to the first Extended Term and in no event less than the Base Rent payable by Tenant immediately prior to the expiration of the first Extended Term with respect to the second Extended Term);

(ii) Tenant shall have no further renewal Option (except as expressly set forth in this Addendum 1) 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 rights 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 or first Extended Term, as applicable, 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.

Addendum 2
Right of First Offer

This Addendum 2 ("Addendum 2") is incorporated as a part of that certain Lease dated December __, 2010 (the "Lease"), by and between Willow Park Holding Company II, 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 1003 – 1005 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.

During the first three (3) years of the initial Term of the Lease only, Tenant shall have a one-time right of first offer to lease (the "Offer") any portion of the buildings located at: (a) 1050-1098 Hamilton Court, (b) 923-925 Hamilton Avenue, and (c) 990-998 Hamilton Avenue (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 any existing tenants (and their respective 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 any of the Expansion Spaces during the period of time that an Expansion Space remains subject to the rights and options of the existing tenants (and their respective 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 their respective 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 an Expansion Space at 1050-1098 Hamilton Court, and Tenant does not deliver timely an Election Notice to Landlord for such Expansion Space, Landlord shall no longer be obligated to re-offer such Expansion Space at 1050-1098 Hamilton Court but Tenant's Right of First Offer shall remain in effect and valid with respect to the other Expansion Spaces and any other Expansion Space at 1050-1098 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.

Schedule 1

[To Be Attached]

Addendum 3
Right of First Refusal

This Right of First Refusal Addendum ("Addendum") is incorporated as a part of that certain Lease dated December __, 2010 (the "Lease"), by and between Willow Park Holding Company II, 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 1003-1005 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.

Commencing on the first (1st) day of the ____(____) year of the initial Term and continuing through and until the expiration of the ____(____) year of the initial Term, Tenant shall have a one-time first right of refusal to lease (the "Right of First Refusal") any portion of the building located at 1360 Willow Road, Menlo Park, California (the Building and a portion of the Building which is the subject of a Landlord's Notice (defined below), an "Expansion Space"). A description of all of the Expansion Space is attached hereto and incorporated herein by this reference as Schedule 1 to this Addendum 3. Tenant's Right of First Refusal, as granted herein, is subject to the following conditions:

i. The Right of First Refusal shall be void if, at the time of exercise of the Right of First Refusal, Tenant is then currently in Default under the Lease beyond the expiration of applicable cure periods;

ii. The Right of First Refusal shall be void if there has occurred a material and adverse change to Tenant's financial condition; and

iii. The Right of First Refusal is subject to the rights and options of the existing tenants (and their respective successors and assigns) presently occupying the Expansion Space.

This Right of First Refusal is a one-time right with respect to a particular Expansion Space and not a continuing right. For example, if Tenant does not deliver timely an Election Notice to Landlord for a particular Expansion Space (i.e., the particular Expansion Space which is the subject of a Landlord's Notice), Landlord shall not be obligated to notify Tenant at any future date of Landlord's receipt of an offer Landlord is willing to accept with respect to such Expansion Space.

So long as the above conditions are satisfied, and upon Landlord's receipt of a third party offer to lease an Expansion Space which offer Landlord is willing to accept, 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 all of the Expansion Space then offered by Landlord upon all of the terms and conditions set forth in this Lease. If Tenant elects not to lease all of the Expansion Space then offered by Landlord or Tenant fails to notify Landlord of Tenant's election to lease all the Expansion Space then offered by Landlord within the time specified herein, it shall be deemed that (i) Tenant has elected not to lease said Expansion Space, (ii) Landlord may thereafter enter into a lease agreement with the third party which triggered this Right of First Refusal with respect to such Expansion Space; and (iii) all rights of Tenant in and to this Right of First Refusal with respect to such Expansion Space shall be null and void and of no further force or effect. Time is of the essence herein.

In the event Tenant properly and timely exercises this Right of First Refusal 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, 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 Expansion Space to the Premises, the adjustment of the Base Rent and the percentage of Tenant's Share. Upon full execution of an amendment for the Expansion Space, the non-refundable deposit shall be credited toward Base Rent for the Expansion Space, 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 Expansion Space 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 3.

The Right of First Refusal 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 Refusal is offered to Tenant. The Right of First Refusal 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 Refusal granted herein, 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 Refusal shall terminate and be of no further force or effect.

Schedule 1

[To Be Attached]

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-170211) of Pacific Biosciences of California, Inc. of our report dated March 23, 2011 relating to the consolidated financial statements, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
San Jose, California
March 23, 2011

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECURITIES EXCHANGE ACT RULES 13a-15(e), AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Hugh Martin, certify that:

1. I have reviewed this annual report on Form 10-K of Pacific Biosciences of California, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ Hugh C. Martin

Hugh C. Martin
Chairman, Chief Executive Officer and President
(Principal Executive Officer)

Dated: March 23, 2011

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECURITIES EXCHANGE ACT RULES 13a-15(e), AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Susan Barnes, certify that:

1. I have reviewed this annual report on Form 10-K of Pacific Biosciences of California, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ Susan K. Barnes

Susan K. Barnes
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

Dated: March 23, 2011

Exhibit 32.1

**Certification of CEO Furnished Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant To
Section 906 of The Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Pacific Biosciences of California, Inc. (the "Company") on Form 10-K for the period ended December 31, 2010, as filed with the Securities and Exchange Commission on the date hereof, I, Hugh Martin, Chief Executive Officer of the Company, certify for the purposes of section 1350 of chapter 63 of title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge,

(i) the Annual Report of the Company on Form 10-K for the period ended December 31, 2010 (the "Report"), fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 23, 2011

/s/ Hugh C. Martin
Hugh C. Martin
Chairman, Chief Executive Officer and President
(Principal Executive Officer)

Exhibit 32.2

**Certification of CFO Furnished Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant To
Section 906 of The Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Pacific Biosciences of California, Inc. (the "Company") on Form 10-K for the period ended December 31, 2010, as filed with the Securities and Exchange Commission on the date hereof, I, Susan Barnes, Chief Financial Officer of the Company, certify for the purposes of section 1350 of chapter 63 of title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge,

(i) the Annual Report of the Company on Form 10-K for the period ended December 31, 2010 (the "Report"), fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 23, 2011

/s/ Susan K. Barnes

Susan K. Barnes
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)