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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

OR

o 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 001-36156

VERACYTE, INC.
(Exact name of registrant as specified in its charter)

Delaware	**20-5455398**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

7000 Shoreline Court, Suite 250
South San Francisco, California 94080
(Address of principal executive offices, zip code)

(650) 243-6300
(Registrant's telephone number, including area code)

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

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 x No o

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

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

As of August 3, 2015, there were 27,664,118 shares of common stock, par value $0.001 per share, outstanding.

Table of Contents

VERACYTE, INC.
INDEX

Table of Contents

PART I. — FINANCIAL INFORMATION

Item 1. Financial Statements

VERACYTE, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	June 30, 2015 (Unaudited)	December 31, 2014 (Derived from audited financial statements)
Assets		
Current assets:		
Cash and cash equivalents	$ 51,045	$ 35,014
Accounts receivable, net of allowance of $92 and $84 as of June 30, 2015 and December 31, 2014	3,586	3,050
Supplies inventory	3,976	3,696
Prepaid expenses and other current assets	1,735	1,218
Deferred tax asset	254	300
Restricted cash	118	70
Total current assets	60,714	43,348
Property and equipment, net	4,211	4,161
Finite-lived intangible assets, net	15,733	—
Indefinite-lived intangible assets: in-process research and development	—	16,000
Goodwill	1,057	1,057
Restricted cash	603	118
Other assets	185	155
Total assets	$ 82,503	$ 64,839
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 2,688	$ 7,397
Accrued liabilities	7,217	7,851
Deferred Genzyme co-promotion fee	1,897	1,897
Total current liabilities	11,802	17,145
Long-term debt	4,975	4,923
Deferred tax liability	254	300
Deferred rent, net of current portion	384	149
Deferred Genzyme co-promotion fee, net of current portion	—	948
Total liabilities	17,415	23,465
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Preferred stock, $0.001 par value; 5,000,000 shares authorized, no shares issued and outstanding as of June 30, 2015 and December 31, 2014	—	—
Common stock, $0.001 par value; 125,000,000 shares authorized, 27,595,971 and 22,523,529 shares issued and outstanding as of June 30, 2015 and December 31, 2014, respectively	27	23
Additional paid-in capital	196,829	156,373

Accumulated deficit	(131,768)	(115,022)
Total stockholders' equity	65,088	41,374
Total liabilities and stockholders' equity	$ 82,503	$ 64,839

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

VERACYTE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(Unaudited)

(In thousands, except share and per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenue	$ 11,908	$ 8,677	$ 23,126	$ 16,153
Operating expenses:				
Cost of revenue	5,139	3,966	9,705	7,573
Research and development	3,103	2,243	5,890	4,369
Selling and marketing	6,937	5,101	12,557	9,437
General and administrative	5,536	3,928	11,334	7,910
Intangible asset amortization	267	—	267	—
Total operating expenses	20,982	15,238	39,753	29,289
Loss from operations	(9,074)	(6,561)	(16,627)	(13,136)
Interest expense	(90)	(113)	(177)	(224)
Other income, net	28	19	58	31
Net loss and comprehensive loss	$ (9,136)	$ (6,655)	$ (16,746)	$ (13,329)
Net loss per common share, basic and diluted	$ (0.35)	$ (0.31)	$ (0.69)	$ (0.63)
Shares used to compute net loss per common share, basic and diluted	26,048,934	21,237,196	24,304,022	21,193,014

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

VERACYTE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Six Months Ended June 30,	
	2015	2014
Operating activities		
Net loss	$ (16,746)	$ (13,329)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	996	541
Bad debt expense	54	39
Genzyme co-promotion fee amortization	(949)	(1,250)
Stock-based compensation	2,712	1,367
Amortization of debt discount and issuance costs	23	54
Interest on debt balloon payment	39	40
Changes in operating assets and liabilities:		
Accounts receivable	(589)	(326)
Supplies inventory	(279)	(733)
Prepaid expenses and other current assets	(349)	93
Other assets	(39)	(11)
Accounts payable	(4,637)	3,377
Accrued liabilities and deferred rent	(569)	(2,526)
Net cash used in operating activities	(20,333)	(12,664)
Investing activities		
Purchases of property and equipment	(852)	(904)
Change in restricted cash	(533)	—
Net cash used in investing activities	(1,385)	(904)
Financing activities		

Proceeds from issuance of common stock in a private placement, net of costs	37,258	—
Commissions and issuance costs relating to the initial public offering	—	(129)
Proceeds from the exercise of common stock options	491	475
Net cash provided by financing activities	37,749	346
Net increase (decrease) in cash and cash equivalents	16,031	(13,222)
Cash and cash equivalents at beginning of period	35,014	71,220
Cash and cash equivalents at end of period	$ 51,045	$ 57,998

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

VERACYTE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Summary of Significant Accounting Policies

Veracyte, Inc. (the "Company") was incorporated in the state of Delaware in August 2006 as Calderome, Inc. Calderome operated as an incubator until early 2008. In March 2008, the Company changed its name to Veracyte, Inc. Veracyte is a diagnostics company pioneering the field of molecular cytology to improve patient outcomes and lower healthcare costs. The Company specifically targets diseases that often require invasive procedures for an accurate diagnosis—diseases where many healthy patients undergo costly interventions that ultimately prove unnecessary. The Company improves the accuracy of diagnosis at an earlier stage of patient care by deriving clinically actionable genomic information from cytology samples.

The Company's first commercial solution, the Afirma® Thyroid FNA Analysis, includes as its centerpiece the Gene Expression Classifier ("GEC"). The GEC helps physicians reduce the number of unnecessary surgeries by employing a proprietary 142-gene signature to preoperatively determine whether thyroid nodules previously classified by cytopathology as indeterminate can be reclassified as benign. The comprehensive offering also includes cytopathology testing and the Afirma Malignancy Classifiers, launched in May 2014. The Company markets and sells Afirma through a co-promotion agreement with Genzyme Corporation, a subsidiary of Sanofi.

In September 2014, the Company acquired Allegro Diagnostics Corp. ("Allegro") to accelerate its entry into pulmonology, the Company's second planned clinical area. Allegro was focused on the development of genomic tests to improve the preoperative diagnosis of lung cancer. In April 2015, the Company entered the lung cancer diagnostics market with the Percepta™ Bronchial Genomic Classifier, a new genomic test to resolve ambiguity in lung cancer diagnosis.

In April 2015, the Company received $37.3 million in net proceeds from the sale of its common stock in a private placement. See Note 7.

The Company's operations are based in South San Francisco, California and Austin, Texas, and it operates in one segment in the United States.

Basis of Presentation

The accompanying interim period condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") and applicable rules and regulations of the Securities and Exchange Commission ("SEC") regarding interim financial reporting. The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All intercompany accounts and transactions have been eliminated in consolidation. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The condensed consolidated balance sheet as of June 30, 2015, the condensed consolidated statements of operations and comprehensive loss and the condensed consolidated statements of cash flows for the three and six months ended June 30, 2015 and 2014, are unaudited, but include all adjustments, consisting only of normal recurring adjustments, which the Company considers necessary for a fair presentation of its financial position, operating results and cash flows for the periods presented. The condensed consolidated balance sheet at December 31, 2014 has been derived from audited financial statements. The results for the three and six months ended June 30, 2015 are not necessarily indicative of the results expected for the full fiscal year or any other period.

The accompanying interim period condensed consolidated financial statements and related financial information included in this Quarterly Report on Form 10-Q should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

Use of Estimates

The preparation of the unaudited interim consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant items subject to such estimates include: revenue recognition; contractual allowances; allowance for doubtful accounts; the useful lives of property and equipment; the recoverability of long-lived assets; stock options; income tax uncertainties, including a valuation allowance for deferred tax assets; and contingencies. The Company bases these estimates on historical and anticipated results, trends, and various other assumptions that the Company believes are reasonable under the circumstances, including assumptions as to future events. These estimates form the basis for making judgments about the carrying values of assets and liabilities and recorded revenue and expenses that are not readily apparent from other sources. Actual results could differ from these estimates and assumptions.

Table of Contents

Concentrations of Credit Risk and Other Risks and Uncertainties

The Company's cash and cash equivalents are deposited with one major financial institution in the United States, as required by the loan and security agreement discussed in Note 6. Deposits in this institution may exceed the amount of insurance provided on such deposits. The Company has not experienced any losses on its deposits of cash and cash equivalents.

Several of the components of the Company's sample collection kit and test reagents are obtained from single-source suppliers. If these single-source suppliers fail to satisfy the Company's requirements on a timely basis, it could suffer delays in being able to deliver its diagnostic solutions, a possible loss of revenue, or incur higher costs, any of which could adversely affect its operating results.

The Company is also subject to credit risk from its accounts receivable related to its sales of Afirma. The Company generally does not perform evaluations of customers' financial condition and generally does not require collateral.

Through June 30, 2015, all of the Company's revenues have been derived from the sale of Afirma. To date, Afirma has been delivered primarily to physicians in the United States. The Company's third-party payers in excess of 10% of revenue and their related revenue as a percentage of revenue were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Medicare	28%	27%	26%	28%
Aetna	9%	12%	9%	11%
UnitedHealthcare	14%	16%	14%	16%
	51%	55%	49%	55%

As the number of payers reimbursing for Afirma increases, the percentage of revenue derived from Medicare and other significant third-party payers has changed and will continue to change as a percentage of revenue.

The Company's significant third-party payers and their related accounts receivable balance at June 30, 2015 and December 31, 2014 as a percentage of total accounts receivable are as follows:

	June 30, 2015	December 31, 2014
Medicare	30%	64%
Aetna	25%	12%
UnitedHealthcare	28%	14%

No other third-party payer represented more than 10% of the Company's accounts receivable balances at those dates.

Cash Equivalents

Cash equivalents consist of amounts invested in a money market account primarily consisting of U.S. Treasury reserves.

Restricted Cash

The Company had deposits of $118,000 as of June 30, 2015 and December 31, 2014, restricted from withdrawal and held by a bank in the form of collateral for irrevocable standby letters of credit totaling $118,000 held as security for the lease of the Company's headquarters and laboratory facilities in South San Francisco that expires March 31, 2016. This restricted cash is included in current assets as of June 30, 2015 and in long-term assets as of December 31, 2014 on the Company's condensed consolidated balance sheets. The Company also had deposits of $603,000 included in long-term assets as of June 30, 2015, restricted from withdrawal and held by a bank in the form of collateral for an irrevocable standby letter of credit totaling $603,000 held as security for the lease of the Company's new headquarters and laboratory facilities in South San Francisco signed on April 29, 2015.

Table of Contents

The Company reserved $70,000 in cash as of December 31, 2014 to cover liabilities associated with the acquisition of Allegro. This amount was paid in March 2015. This restricted cash was included in current assets on the Company's condensed consolidated balance sheet at December 31, 2014.

Allowance for Doubtful Accounts

The Company estimates an allowance for doubtful accounts against its individual accounts receivable based on estimates of expected reimbursement consistent with historical payment experience in relation to the amounts billed. Bad debt expense is included in general and administrative expense on the Company's statements of operations and comprehensive loss. Accounts receivable are written off against the allowance when there is substantive evidence that the account will not be paid.

The balance of allowance for doubtful accounts as of June 30, 2015 and December 31, 2014 was $92,000 and $84,000, respectively. Bad debt expense was $32,000 and $54,000 for the three and six months ended June 30, 2015, respectively, and $11,000 and $39,000 for the three and six months ended June 30, 2014, respectively. Write offs for doubtful accounts of $26,000 and $46,000 were recorded against the allowance during the three and six months ended June 30, 2015, respectively. Write offs for doubtful accounts of $34,000 were recorded against the allowance during the three and six months ended June 30, 2014.

Supplies Inventory

Supplies inventory consists of test reagents and other consumables used in the sample collection kits and in cytopathology and GEC test processing and are valued at the lower of cost or market value. Cost is determined using actual costs on a first-in, first-out basis.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally between three and five years. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful life of the asset or the term of the lease. Maintenance and repairs are charged to expense as incurred, and improvements and betterments are capitalized. When assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the balance sheet and any resulting gain or loss is reflected in the statements of operations and comprehensive loss in the period realized.

Internal-use Software

The Company capitalizes costs incurred in the application development stage to design and implement the software used in the tracking and reporting of laboratory activity. Costs incurred in the development of application software are capitalized and amortized over an estimated useful life of three years on a straight-line basis. The total cost, accumulated depreciation and net book value was $1.1 million, $440,000 and $654,000, respectively, as of June 30, 2015, and was $927,000, $330,000 and $597,000, respectively, as of December 31, 2014, and are included in property and equipment in the Company's condensed consolidated balance sheets. During the six months ended June 30, 2015 and 2014, the Company capitalized $167,000 and $125,000, respectively, of software development costs. Amortization expense totaled $55,000 and $109,000 in the three and six months ended June 30, 2015, respectively, and $32,000 and $64,000 in the three and six months ended June 30, 2014, respectively.

Business Combination

The Company accounts for acquisitions using the acquisition method of accounting which requires the recognition of tangible and identifiable intangible assets acquired and liabilities assumed at their estimated fair values as of the business combination date. The Company allocates any excess purchase price over the estimated fair value assigned to the net tangible and identifiable intangible assets acquired and liabilities assumed to goodwill. Transaction costs are expensed as incurred in general and administrative expenses. Results of operations and cash flows of acquired companies are included in the Company's operating results from the date of acquisition.

Finite-lived Intangible Assets

Finite-lived intangible assets relates to intangible assets reclassified from indefinite-lived intangible assets, following the launch of Percepta in April 2015. The Company amortizes finite-lived intangible assets using the straight-line method over their estimated useful life. The estimated useful life of 15 years was used for the intangible asset related to the Percepta test based on management's estimate of product life, product life of other diagnostic tests and patent life, The Company reviews this finite-lived intangible asset for impairment when facts or circumstances indicate a reduction in the fair value below its carrying amount.

Table of Contents

Indefinite-lived Intangible Assets — In-process Research and Development

The Company's indefinite-lived intangible assets are comprised of acquired in-process research and development ("IPR&D"). The fair value of IPR&D acquired through a business combination is capitalized as an indefinite-lived intangible asset until the completion or abandonment of the related research and development activities. When research and development is complete, the associated assets are amortized on a straight-line basis over their estimated useful lives. IPR&D is tested for impairment annually or more frequently if events or circumstances indicate that the fair value may be below the carrying value of the asset. The Company recognizes an impairment loss when the total of estimated future undiscounted cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount. Impairment, if any, would be assessed using discounted cash flows or other appropriate measures of fair value. There was no impairment for the six months ended June 30, 2015.

Goodwill

Goodwill, derived from the Company's acquisition of Allegro, is reviewed for impairment annually or more frequently if events or circumstances indicate that it may be impaired. The Company's goodwill evaluation is based on both qualitative and quantitative assessments regarding the fair value of goodwill relative to its carrying value. The Company has determined that it operates in a single segment and has a single reporting unit associated with the development and commercialization of diagnostic products. In the event the Company determines that it is more likely than not the carrying value of the reporting unit is higher than its fair value, quantitative testing is performed comparing recorded values to estimated fair values. If impairment is present, the impairment loss is measured as the excess of the recorded goodwill over its implied fair value. The Company performs its annual evaluation of goodwill during the fourth quarter of each fiscal year. There was no impairment for the six months ended June 30, 2015.

Bonus Accruals

The Company accrues for liabilities under discretionary employee and executive bonus plans. These estimated compensation liabilities are based on progress against corporate objectives approved by the Board of Directors, compensation levels of eligible individuals, and target bonus percentage levels. The Board of Directors and the Compensation Committee of the Board of Directors review and evaluate the performance against these objectives and ultimately determine what discretionary payments are made. The Company accrued $1.3 million and $1.1 million as of June 30, 2015 and December 31, 2014, respectively, for liabilities associated with these employee and executive bonus plans which are included in accrued liabilities in the Company's condensed consolidated balance sheets.

Fair Value of Financial Instruments

The carrying amounts of certain financial instruments including cash and cash equivalents, accounts receivable, prepaid expenses and other current assets, accounts payable and accrued liabilities approximate fair value due to their relatively short maturities.

Revenue Recognition

The Company's revenue is generated from the provision of diagnostic services using the Afirma solution. The Company's service is completed upon the delivery of test results to the prescribing physician which triggers the billing for the service. The Company recognizes revenue related to billings for Medicare and commercial payers on an accrual basis, net of contractual adjustments, when a reasonable estimate of reimbursement can be made. These contractual adjustments represent the difference between the list price (the billing rate) and the reimbursement rate for each payer. Upon ultimate collection, the amount received from Medicare and commercial payers where reimbursement was estimated is compared to previous estimates and the contractual allowance is adjusted accordingly. Until a contract has been negotiated with a commercial payer or governmental program, the Afirma solution may or may not be covered by these entities' existing reimbursement policies. In addition, patients do not enter into direct agreements with the Company that commit them to pay any portion of the cost of the tests in the event that their insurance declines to reimburse the Company. In the absence of an agreement with the patient or other clearly enforceable legal right to demand payment from the patient, the related revenue is only recognized upon the earlier of payment notification, if applicable, or cash receipt.

For all services performed, the Company considers whether or not the following revenue recognition criteria are met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; and a reasonable estimate of reimbursement can be made.

Table of Contents

Persuasive evidence of an arrangement exists and delivery is deemed to have occurred upon delivery of a patient report to the prescribing physician. The assessment of whether a reasonable estimate of reimbursement can be made requires significant judgment by management. Where management's judgment indicates a reasonable estimate of reimbursement can be made, revenue is recognized upon delivery of the patient report. Some patients have out-of-pocket costs for amounts not covered by their insurance carrier, and the Company may bill the patient directly for these amounts in the form of co-payments and co-insurance in accordance with their insurance carrier and health plans. Some payers may not cover the Company's GEC as ordered by the prescribing physician under their reimbursement policies. The Company pursues reimbursement from such patients on a case-by-case basis. In the absence of contracted reimbursement coverage or the ability to reasonably estimate reimbursement, the Company recognizes revenue upon receipt of third-party payer notification of payment or when cash is received.

Revenue recognized when cash is received and on an accrual basis for the three and six months ended June 30, 2015 and 2014 was as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenue recognized when cash is received	$ 5,321	$ 6,046	$ 11,153	$ 11,163
Revenue recognized on an accrual basis	6,587	2,631	11,973	4,990
Total	$ 11,908	$ 8,677	$ 23,126	$ 16,153

Cost of Revenue

Cost of revenue is expensed as incurred and includes material and service costs, cytopathology testing services performed by a third-party pathology group, stock-based compensation expense, direct labor costs, equipment and infrastructure expenses associated with testing samples, shipping charges to transport samples, and allocated overhead including rent, information technology, equipment depreciation and utilities.

Research and Development

Research and development costs are charged to operations as incurred. Research and development costs include payroll and personnel-related expenses, stock-based compensation expense, prototype materials, laboratory supplies, consulting costs, costs associated with setting up and conducting clinical studies at domestic and international sites, and allocated overhead including rent, information technology, equipment depreciation and utilities.

Income Taxes

The Company accounts for income taxes under the liability method. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

The Company assesses 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. The Company's assessment of 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 more-likely-than-not of being realized upon ultimate settlement. As of each balance sheet date, unresolved uncertain tax positions must be reassessed, and the Company will determine whether (i) the factors underlying the sustainability assertion have changed and (ii) the amount of the recognized tax benefit is still appropriate. The recognition and measurement of tax benefits requires significant judgment. Judgments concerning the recognition and measurement of a tax benefit may change as new information becomes available.

Stock-based Compensation

Stock-based compensation expense for equity instruments issued to employees is measured based on the grant-date fair value of the awards. The fair value of each employee stock option is estimated on the date of grant using the Black-Scholes option-pricing model. The Company recognizes compensation costs on a straight-line basis for all employee stock-based compensation awards that are expected to vest over the requisite service period of the awards, which is generally the awards' vesting period. Forfeitures are required to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Table of Contents

Equity awards issued to non-employees are valued using the Black-Scholes option-pricing model and are subject to re-measurement as the underlying equity awards vest.

Net Loss per Common Share

Basic net loss per common share is calculated by dividing net loss attributable to common stockholders by the weighted-average number of common shares outstanding during the period, without consideration of common stock equivalents. Diluted net loss per common share is computed by dividing net loss attributable to common stockholders by the weighted-average number of common share equivalents outstanding for the period determined using the treasury stock method. Potentially dilutive securities consisting of options to purchase common stock of 4,223,267 and 2,983,509 for the six months ended June 30, 2015 and 2014, respectively, are considered to be common stock equivalents and were excluded from the calculation of diluted net loss per common share because their effect would be anti-dilutive for all periods presented.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either the retrospective or cumulative effect transition method. Adoption is permitted as early as the first quarter of 2017 and is required by the first quarter of 2018. The Company has not yet selected a transition method and is currently evaluating the potential effect of the updated standard on its consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, to require debt issuance costs to be presented as an offset against debt outstanding. The ASU is effective for interim and annual periods beginning after December 15, 2015. Adoption of the ASU is retrospective to each prior period presented. The Company does not anticipate that the adoption of the ASU will have a material impact on its condensed consolidated balance sheets.

2. Business Combination

On September 16, 2014, the Company acquired Allegro via a merger with Full Moon Acquisition, Inc., a wholly-owned subsidiary of the Company. Allegro was a privately-held company based in Maynard, Massachusetts, focused on the development of genomic tests to improve the preoperative diagnosis of lung cancer. Allegro merged with Full Moon (the "Merger"), with Allegro surviving the Merger as a wholly-owned subsidiary of the Company. The subsidiary was dissolved in July 2015. At the effective time of the Merger, each share of the common stock of Full Moon issued and outstanding immediately prior to the effective time of the Merger was automatically converted into one share of common stock of Allegro and represented the only outstanding common stock of Allegro at the effective time of the Merger; all previously issued and outstanding shares of common stock of Allegro were canceled. The Series A preferred stock of Allegro issued and outstanding immediately prior to the effective time of the Merger was canceled and automatically converted into the right to receive a total of 964,377 shares of the Company's common stock and $2.7 million in cash. Outstanding indebtedness of Allegro totaling $4.3 million was settled in cash by the Company on the effective date of the Merger. All outstanding stock options under Allegro's equity incentive plan were canceled.

The acquisition of Allegro accelerated the Company's entry into the pulmonology diagnostics market. Allegro's lung cancer test, called Percepta, is designed to help physicians determine which patients with lung nodules who have had a non-diagnostic bronchoscopy result are at low risk for cancer and can thus be safely monitored with CT scans rather than undergoing invasive procedures. The Company launched the Percepta test in April 2015.

The Merger was accounted for using the acquisition method of accounting with the Company treated as the accounting acquirer. The purchase price was allocated based on the estimated fair value of the assets acquired and liabilities assumed at the date of the acquisition.

The Company incurred approximately $0.5 million in acquisition-related costs related to the Merger, which primarily consisted of legal, accounting and valuation-related expenses. In addition, the Company incurred $1.2 million related to transaction bonuses and severance payments to former Allegro employees associated with the Merger. These expenses were recorded in general and administrative expense in the condensed consolidated statements of operations and comprehensive loss.

Table of Contents

The acquisition consideration was comprised of (in thousands):

Stock	$	10,078
Cash		2,725
Payment of outstanding indebtedness		4,290
Total acquisition consideration	$	17,093

The stock consideration of $10.1 million was determined based on the closing price of the Company's common stock on September 16, 2014 ($10.45 per share).

The fair value of the assets acquired and liabilities assumed at the closing date of the Merger are summarized below (in thousands):

Cash and cash equivalents	$	29
Other assets, net		7
In-process research and development ("IPR&D")		16,000
Goodwill		1,057
Total acquisition consideration	$	17,093

The fair value of IPR&D was determined using the multi-period excess earnings method of the income approach, which estimates the economic benefits of the IPR&D over multiple time periods by identifying the cash flows associated with the use of the asset, based on forecasts prepared by management, and deducting a periodic charge reflecting a fair return for the use of contributory assets. The forecasted cash flows were discounted based on a discount rate of 18.5%. The discount rate represents the Company's weighted average return on assets and was benchmarked against the internal rate of return and cost of capital of guideline publicly traded companies. The fair value of the IPR&D was capitalized as of the closing date of the Merger and was accounted for as an indefinite-lived intangible asset prior to the beginning of amortization.

Amortization of the IPR&D began in April 2015 when research and development activities were deemed to be completed and is recorded on a straight-line basis. The amortization period of the IPR&D is over its estimated useful life of 15 years after taking into consideration expected use of the asset, legal or regulatory provisions that may limit or extend the life of the asset, as well as the effects of obsolescence and other economic factors. Amortization of $267,000 was recorded in the three months and six months ended June 30, 2015, as compared with $0 for the three and six months ended June 30, 2014. Accumulated amortization was $267,000 as of June 30, 2015. Amortization expense will be approximately $1.1 million per year.

Goodwill, which represents the purchase price in excess of the fair value of net assets acquired, is not expected to be deductible for income tax purposes. This goodwill is reflective of the value derived from the acceleration of the Company's entry into the pulmonology market.

The following pro forma financial information is based on the historical financial statements of the Company and presents the Company's results as if the Merger had occurred as of January 1, 2013 (in thousands):

	Three Months Ended June 30, 2014	Six Months Ended June 30, 2014
Revenue	$ 8,677	$ 16,153
Net loss	$ (7,284)	$ (14,495)

The pro forma results present the combined historical results of operations with adjustments to reflect one-time charges representing the elimination of interest expense related to Allegro indebtedness of $1.9 million and $2.0 million for the three and six months ended June 30, 2014, respectively.

The pro forma information presented does not purport to present what the actual results would have been had the Merger actually occurred on January 1, 2013, nor is the information intended to project results for any future period.

Table of Contents

3. Accrued Liabilities

Accrued liabilities consisted of the following (in thousands):

	June 30, 2015	December 31, 2014
Accrued compensation expenses	$ 3,277	$ 2,673
Accrued Genzyme co-promotion fees	1,685	3,309
Accrued other	2,255	1,869
Total accrued liabilities	$ 7,217	$ 7,851

4. Fair Value Measurements

The Company records its financial assets and liabilities at fair value. The carrying amounts of certain financial instruments of the Company, including cash and cash equivalents, prepaid expenses and other current assets, accounts payable and accrued liabilities, approximate fair value due to their relatively short maturities. The carrying value of debt approximates its fair value because the interest rate approximates market rates that the Company could obtain for debt with similar terms. The accounting guidance for fair value provides a framework for measuring fair value, clarifies the definition of fair value, and expands disclosures regarding fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the reporting date. The accounting guidance establishes a three-tiered hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value as follows:

- Level I: Inputs which include quoted prices in active markets for identical assets and liabilities.
- Level II: Inputs other than Level I that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level III: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The fair value of the Company's financial assets, which consist of money market funds, was $50.1 million and $33.2 million as of June 30, 2015 and December 31, 2014, respectively, and are Level I assets as described above.

5. Commitments and Contingencies

Operating Leases

The Company leases its headquarters and laboratory facilities in South San Francisco under a non-cancelable lease agreement that expires on March 31, 2016.

On April 29, 2015, the Company signed a non-cancelable lease agreement for approximately 59,000 square feet to serve as its new South San Francisco headquarters and laboratory facilities. The lease begins in June 2015 and ends in March 2026 and contains extension of lease term and expansion

options. In conjunction with this lease, the landlord is providing funding of approximately $3.3 million for tenant improvements. As of June 30, 2015 the Company had recorded approximately $0.1 million as receivable from the landlord. The Company had deposits of $603,000 included in long-term assets as of June 30, 2015, restricted from withdrawal and held by a bank in the form of collateral for an irrevocable standby letter of credit totaling $603,000 held as security for the lease of the new headquarters and laboratory facilities.

The Company also leases laboratory space in Austin, Texas. The lease expires on July 31, 2018. The Company provided a security deposit of $75,000, which is included in other assets in the Company's condensed consolidated balance sheets as of June 30, 2015 and December 31, 2014.

Table of Contents

Future minimum lease payments under non-cancelable operating leases as of June 30, 2015, are as follows (in thousands):

Year Ending December 31,	Amounts
July through December 31, 2015	$ 500
2016	1,822
2017	2,142
2018	2,102
2019	2,026
Thereafter	14,038
Total minimum lease payments	$ 22,630

The Company recognizes rent expense on a straight-line basis over the non-cancelable lease period. Facilities rent expense was $352,000 and $213,000 for the three months ended June 30, 2015 and 2014, respectively, and $565,000 and $426,000 for the six months ended June 30, 2015 and 2014, respectively. Until the new headquarters is utilized, rent of approximately $500,000 per quarter will be charged to general and administrative expense.

Supplies Purchase Commitments

The Company had a non-cancelable purchase commitment with a supplier to purchase a minimum quantity of supplies for approximately $0.5 million at June 30, 2015, all of which is expected to be paid in 2015.

Debt Obligations

See Note 6.

Contingencies

From time to time, the Company may be involved in legal proceedings arising in the ordinary course of business. The Company believes there is no litigation pending that could have, individually or in the aggregate, a material adverse effect on the financial position, results of operations or cash flows.

6. Debt

In June 2013, the Company entered into a loan and security agreement ("Original Loan") with a financial institution. The Original Loan provided for term loans of up to $10.0 million in aggregate. The Company drew down $5.0 million in funds under the agreement in June 2013, and did not draw the remaining $5.0 million on or before the expiration date of March 31, 2014. The Company was required to repay the outstanding principal in 30 equal installments beginning 18 months after the date of the borrowing, and the loan was due in full in June 2017. The Original Loan had an interest rate of 6.06% per annum, carried prepayment penalties of 2.25% and 1.50% for prepayment within one and two years, respectively, and 0.75% thereafter.

In December 2014, the Company amended certain terms and conditions of the Original Loan ("Amended Loan"). The Amended Loan provides for term loans of up to $15.0 million in aggregate, in three tranches of $5.0 million each. The Company borrowed $5.0 million under the first tranche in December 2014 and used the funds for repayment of the $5.0 million in principal outstanding under the Original Loan, in a cashless transaction. In addition, the Company paid the accrued but unpaid interest of $14,000 due on the Original Loan and the related end-of-term payment of $110,000. The Amended Loan waived the prepayment premium of $75,000 under the Original Loan and reduced the end-of-term payment of $225,000 under the Original Loan to $110,000. The second $5.0 million tranche under the Amended Loan is available through December 31, 2015, and the Company may borrow the third $5.0 million tranche any time through June 30, 2016 after achieving the third tranche revenue milestone as defined in the Amended Loan.

The carrying value of the debt approximates its fair value because the interest rate approximates market rates that the Company could obtain for debt with similar terms. Under the Amended Loan, the Company is required to repay the outstanding principal in 24 equal installments beginning 24 months after the date of the borrowing, and the loan is due in full in December 2018. The first tranche of the Amended Loan bears interest at a rate of 5.00% per annum. The Amended Loan carries prepayment penalties of 2.00% and 1.00% for prepayment within one and two years, respectively, and no prepayment penalty thereafter. In connection with the Amended Loan, the Company paid approximately $45,000 in third-party fees.

The Amended Loan results in a debt modification under ASC 470-50, *Modifications and Extinguishments*, as the change in present value of the remaining cash flows associated with the Original Loan and Amended Loan are not substantial.

Table of Contents

As of June 30, 2015 and December 31, 2014, the net debt obligation was as follows (in thousands):

	June 30, 2015	December 31, 2014

Debt and unpaid accrued end-of-term payment	$ 5,042	$ 5,003
Unamortized note discount	(67)	(80)
Net debt obligation	$ 4,975	$ 4,923

Future principal payments under the Amended Loan are as follows (in thousands):

Year Ending December 31,	Amounts
July through December 31, 2015	$ —
2016	—
2017	2,437
2018	2,563
Total	$ 5,000

The obligation includes an end-of-term payment of $237,500, representing 4.75% of the total outstanding principal balance, which accretes over the life of the loan as interest expense. As a result of the debt discount and the end-of-term payment, the effective interest rate for the loan differs from the contractual rate.

Interest expense on the debt was as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Nominal interest	$ 63	$ 77	$ 125	$ 153
Amortization of debt discount	7	16	13	31
End-of-term payment	20	20	39	40
Total	$ 90	$ 113	$ 177	$ 224

Loans drawn under the Original Loan and the Amended Loan were used for working capital and general corporate purposes. The Company's obligations under the Amended Loan are secured by a security interest in substantially all of its assets, excluding its intellectual property and certain other assets. The Amended Loan contains customary conditions related to borrowing, events of default, and covenants, including covenants limiting the Company's ability to dispose of assets, undergo a change in control, merge with or acquire other entities, incur debt, incur liens, pay dividends or other distributions to holders of its capital stock, repurchase stock and make investments, in each case subject to certain exceptions. The Amended Loan also allows the lender to call the debt in the event there is a material adverse change in the Company's business or financial condition. The Company is required to be in compliance with a minimum liquidity or minimum revenue covenant. As of June 30, 2015, the Company was in compliance with all covenants.

7. Stockholders' Equity

Common Stock

The Company's Restated Certificate of Incorporation authorizes the Company to issue 125,000,000 shares of common stock with a par value of $0.001 per share. The holder of each share of common stock shall have one vote for each share of stock. The common stockholders are also entitled to receive dividends whenever funds and assets are legally available and when declared by the Board of Directors, subject to the prior rights of holders of all series of convertible preferred stock outstanding. No dividends have been declared as of June 30, 2015.

Table of Contents

As of June 30, 2015 and December 31, 2014, the Company had reserved shares of common stock for issuance as follows:

	June 30, 2015	December 31, 2014
Options issued and outstanding	4,223,267	3,249,469
Options available for grant under stock option plans	1,103,928	1,341,252
Shares available for issuance under the ESPP	750,000	—
Total	6,077,195	4,590,721

On April 28, 2015, the Company completed a private placement of 4,907,975 shares of its common stock to certain accredited investors (the "Investors") at a purchase price of $8.15 per share. The sale of the shares was made pursuant to the terms of a Securities Purchase Agreement dated as of April 22, 2015. Gross proceeds to the Company were $40.0 million and the Company received $37.3 million in net proceeds, after deducting the placement agent fees and other expenses payable by the Company of $2.7 million. Under the Securities Purchase Agreement, the Company has agreed to use the net proceeds from the private placement for research and development, for product commercialization, and for working capital and general corporate purposes.

In connection with the sale of the common stock in the private placement, the Company entered into a Registration Rights Agreement with the Investors, pursuant to which the Company filed in May 2015 a registration statement with the SEC covering the resale of the common stock sold in the private placement. The Registration Rights Agreement includes customary indemnification rights in connection with the registration statement.

In June 2015, the Company filed a universal shelf registration statement with the SEC which provides the Company the ability to offer for sale up to $125.0 million of securities in a primary offering, including common stock, preferred stock, debt securities, depositary shares and rights. This shelf registration statement provides the Company, within the $125.0 million, the ability to offer for sale up to $25.0 million of its common stock at market prices pursuant to the terms of a controlled Equity Sales Agreement. This shelf registration statement also registered for resale up to 5,000,000 shares of common stock held by certain existing stockholders. Approximately $0.2 million of costs associated with this registration statement have been deferred in other current assets as of June 30, 2015.

Employee Stock Purchase Plan

In May 2015, the Company's stockholders approved the Company's Employee Stock Purchase Plan ("ESPP"). The ESPP provides eligible employees with an opportunity to purchase common stock from the Company and to pay for their purchases through payroll deductions. The ESPP will be implemented through a series of offerings of purchase rights to eligible employees. Under the ESPP, the Compensation Committee of the Company's Board of Directors may specify offerings with a duration of not more than 12 months, and may specify shorter purchase periods within each offering. During each purchase period, payroll deductions will accumulate, without interest. On the last day of the purchase period, accumulated payroll deductions will be used to purchase common stock for employees participating in the offering.

The purchase price will be specified pursuant to the offering, but cannot, under the terms of the ESPP, be less than 85% of the fair market value per share of the Company's common stock on either the last trading day preceding the offering date or on the purchase date, whichever is less.

The Company's Board of Directors has determined that the purchase periods initially shall have a duration of six months, will begin August 1, 2015 and that the purchase price will be 85% of the fair market value per share of the Company's common stock on either the last trading day preceding the offering date or the purchase date, whichever is less. The length of the purchase period applicable to U.S. employees and the purchase price may not be changed without the approval of the independent members of the Company's Board of Directors.

The Compensation Committee may specify that if the fair market value of a share of the Company's common stock on any purchase date within a particular offering period is less than or equal to the fair market value on the start date of that offering period, then the offering period will automatically terminate and the employee in that offering period will automatically be transferred and enrolled in a new offering period which will begin on the next day following such purchase date.

No employee may purchase more than 2,500 shares, or such lesser number of shares as may be determined by the Compensation Committee with respect to a single offering period, or purchase period, if applicable. In addition, no employee is permitted to accrue, under the ESPP, a right to purchase stock of the Company having a value in excess of $25,000 of the fair market value of such stock (determined at the time the right is granted) for each calendar year.

Table of Contents

A total of 750,000 shares of common stock have been reserved for issuance under the ESPP, all of which were available for issuance as of June 30, 2015.

Preferred Stock

The Company's Restated Certificate of Incorporation authorizes the Company to issue 5,000,000 shares of preferred stock with a par value of $0.001 per share. No shares were issued and outstanding at June 30, 2015 or December 31, 2014.

8. Stock Incentive Plans

The following table summarizes activity under the Company's stock option plans (aggregate intrinsic value in thousands):

	Shares Available for Grant	Stock Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Balance - December 31, 2014	1,341,252	3,249,469	$ 7.59	7.88	$ 12,400
Additional options authorized	900,941	—			
Granted	(1,204,300)	1,204,300	8.89		
Canceled	66,035	(66,035)	9.48		
Exercised	—	(164,467)	2.99		
Balance - June 30, 2015	1,103,928	4,223,267	$ 8.11	8.04	$ 16,689
Options vested and exercisable - June 30, 2015		1,719,030	$ 5.45	6.64	$ 11,046
Options vested and expected to vest - June 30, 2015		4,223,243	$ 8.11	8.04	$ 16,689

The aggregate intrinsic value was calculated as the difference between the exercise price of the options to purchase common stock and the fair market value of the Company's common stock, which was $11.14 per share as of June 30, 2015.

The weighted average fair value of options to purchase common stock granted was $5.36 and $9.97 for the six months ended June 30, 2015 and 2014, respectively.

The weighted-average fair value of stock options exercised was $2.12 and $1.25 for the six months ended June 30, 2015 and 2014, respectively. The intrinsic value of stock options exercised was $1.2 million and $2.8 million for the six months ended June 30, 2015 and 2014.

Stock-based Compensation

The following table summarizes stock-based compensation expense related to stock options for the three and six months ended June 30, 2015 and 2014, and are included in the condensed consolidated statements of operations and comprehensive loss as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Cost of revenue	$ 15	$ 14	$ 32	$ 23
Research and development	342	155	595	262
Selling and marketing	321	192	590	285
General and administrative	811	514	1,495	797
Total	$ 1,489	$ 875	$ 2,712	$ 1,367

As of June 30, 2015, the Company had $13.6 million of unrecognized compensation expense related to unvested stock options, which is expected to be recognized over an estimated weighted-average period of 2.9 years.

Table of Contents

The estimated grant date fair value of employee stock options was calculated using the Black-Scholes option-pricing model, based on the following assumptions:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Weighted-average volatility	59.10 - 65.28%	73.20-76.87%	59.10 - 68.82%	73.20 - 78.54%
Weighted-average expected term (years)	5.50 - 6.08	5.50 - 6.08	5.50 - 6.08	5.50 - 6.08
Risk-free interest rate	1.58 - 2.03%	1.66 - 2.00%	1.55 - 2.03%	1.66 - 2.00%
Expected dividend yield	—	—	—	—

There were no stock options granted to non-employees during the six months ended June 30, 2015. The estimated grant-date fair value of stock options granted to non-employees during the six months ended June 30, 2014 was calculated using the Black-Scholes option-pricing model, based on the following assumptions: weighted-average volatility from 75.11% to 75.48%, weighted-average expected term from 8.44 years to 9.26 years, risk-free interest rate from 2.32% to 2.43%, and expected dividend yield of 0%.

9. Genzyme Co-promotion Agreement

In January 2012, the Company and Genzyme Corporation ("Genzyme") executed a co-promotion agreement for the co-exclusive rights and license to promote and market the Company's Afirma thyroid diagnostic solution in the United States and in 40 named countries. In exchange, the Company received a $10.0 million upfront co-promotion fee from Genzyme in February 2012. Under the terms of the agreement, Genzyme will receive a percentage of U.S. cash receipts that the Company has received related to Afirma as co-promotion fees. The percentage was 50% in 2012, 40% from January 2013 through February 2014, and 32% beginning in February 2014. Genzyme's obligation to also spend up to $500,000 for qualifying clinical development activities in countries that require additional testing for approval expired in July 2014.

In November 2014, the Company signed an Amended and Restated U.S. Co-promotion Agreement ("Amended Agreement") with Genzyme. Under the Amended Agreement, the co-promotion fees Genzyme receives as a percentage of U.S. cash receipts were reduced from 32% to 15% beginning January 1, 2015. Through August 11, 2014, the Company amortized the $10.0 million upfront co-promotion fee over a four-year period, which was management's best estimate of the life of the agreement, in part because after that period either party could have terminated the agreement without penalty. Effective August 12, 2014, the Company extended the amortization period from January 2016 to June 2016, the modified earliest period either party can terminate the agreement without penalty. The Company accounted for the change in accounting estimate prospectively. Either party may terminate the agreement with six months prior notice, however, under the Amended Agreement, neither party can terminate the agreement for convenience prior to June 30, 2016. The agreement with Genzyme expires in 2027.

In February 2015, the Company entered into an Ex-U.S. Co-promotion Agreement with Genzyme for the promotion of the Afirma GEC test with exclusivity in five countries outside the United States initially and in other countries agreed to from time to time. The term of the agreement is January 1, 2015 and continues until December 31, 2019, with extension of the agreement possible upon agreement of the parties. Country-specific terms have been established under this agreement for Brazil and Singapore and a right of first negotiation has been established for Canada, the Netherlands and Italy. The Company will pay Genzyme 25% of net revenue from the sale of the Afirma GEC test in Brazil and Singapore over a five-year period commencing January 1, 2015. Beginning in the fourth year of the agreement, if the Company terminates the agreement for convenience, the Company may be required to pay a termination fee contingent on the number of GEC billable results generated.

The Company incurred $1.7 million and $2.7 million in co-promotion expense in the three months ended June 30, 2015 and 2014, respectively, and $3.4 million and $5.5 million in the six months ended June 30, 2015 and 2014, respectively, which is included in selling and marketing expenses in the condensed consolidated statements of operations and comprehensive loss. The Company's outstanding obligation to Genzyme totaled $1.7 million at June 30, 2015 and is included in accrued liabilities on the Company's condensed consolidated balance sheet. At December 31, 2014 the obligation was $6.0 million of which $2.7 million is included in accounts payable and $3.3 million is included in accrued liabilities on the Company's condensed consolidated balance sheet.

The Company amortized $0.5 million and $0.6 million of the $10.0 million up-front co-promotion fee in the three months ended June 30, 2015 and 2014, respectively, and $0.9 million and $1.3 million in the six months ended June 30, 2015 and 2014, respectively, which is reflected as a reduction to selling and marketing expenses in the condensed consolidated statements of operations and comprehensive loss.

Table of Contents

10. Thyroid Cytopathology Partners

In 2010, the Company entered into an arrangement with Pathology Resource Consultants, P.A. ("PRC") to set up and manage a specialized pathology practice to provide testing services to the Company. There is no direct monetary compensation from the Company to PRC as a result of this arrangement. The Company's service agreement is with the specialized pathology practice, Thyroid Cytopathology Partners ("TCP"), and is effective through December 31, 2015, and thereafter automatically renews every year unless either party provides notice of intent not to renew at least 12 months prior to the end of the then-current term. Under the service agreement, the Company pays TCP based on a fixed price per test schedule, which is reviewed periodically for changes in market pricing. Subsequent to December 2012, an amendment to the service agreement allows TCP to use a portion of the Company's facility in Austin, Texas. The Company does not have an ownership interest in or provide any form of financial or other support to TCP.

The Company has concluded that TCP represents a variable interest entity and that the Company is not the primary beneficiary as it does not have the ability to direct the activities that most significantly impact TCP's economic performance. Therefore, the Company does not consolidate TCP. All amounts paid to TCP under the service agreement are expensed as incurred and included in cost of revenue in the condensed consolidated statements of operations and comprehensive loss. The Company incurred $1.2 million and $1.0 million in the three months ended June 30, 2015 and 2014, respectively, and $2.3 million and $1.9 million in the six months ended June 30, 2015 and 2014, respectively, in cytopathology testing and evaluation services expenses with TCP. The Company's outstanding obligations to TCP for cytopathology testing services were $0.8 million and $1.1 million as of June 30, 2015 and December 31, 2014, respectively, and are included in accounts payable in the Company's condensed consolidated balance sheets.

TCP reimburses the Company for a proportionate share of the Company's rent and related operating expense costs for the leased facility. TCP's portion of rent and related operating expense costs for the shared space at the Austin, Texas facility was $22,000 and $21,000 for the three months ended June 30, 2015 and 2014, respectively, and $45,000 and $41,000 for the six months ended June 30, 2015 and 2014, respectively, is included in other income, net in the Company's condensed statements of operations and comprehensive loss.

11. Income Taxes

The Company did not record a provision or benefit for income taxes during the three and six months ended June 30, 2015 and 2014, respectively. The Company continues to maintain a full valuation allowance against its net deferred tax assets.

As of June 30, 2015, the Company had unrecognized tax benefits of $1.6 million, none of which would currently affect the Company's effective tax rate if recognized due to the Company's net deferred tax assets being fully offset by a valuation allowance. The Company does not anticipate that the amount of unrecognized tax benefits relating to tax positions existing at June 30, 2015 will significantly increase or decrease within the next 12 months. There was no interest expense or penalties related to unrecognized tax benefits recorded through June 30, 2015.

A number of years may elapse before an uncertain tax position is audited and finally resolved. While it is often difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position, the Company believes that its reserves for income taxes reflect the most likely outcome. The Company adjusts these reserves, as well as the related interest, in light of changing facts and circumstances. Settlement of any particular position could require the use of cash.

Table of Contents

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

The following discussion and analysis of financial condition and results of operations should be read together with the condensed consolidated financial statements and the related notes included in Item 1 of Part I of this Quarterly Report on Form 10-Q, and with our audited financial statements and the related notes included in our Annual Report on Form 10-K for the year ended December 31, 2014.

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. When used in this report, the words "expects," "anticipates," "intends," "estimates," "plans," "believes," "continuing," "ongoing," and similar expressions are intended to identify forward-looking statements. These are statements that relate to future events and include, but are not limited to, the factors that may impact our financial results; our expectations regarding revenue; our expectations with respect to our future research and development, general and administrative and selling and marketing expenses and our anticipated uses of our funds; our expectations regarding capital expenditures; our anticipated cash needs and our estimates regarding our capital requirements; our need for additional financing; potential future sources of cash; our business strategy and our ability to execute our strategy; our ability to achieve and maintain reimbursement from third-party payers at acceptable levels; our belief that our published evidence provides a basis for inclusion of our Afirma GEC test in practice guidelines; the estimated size of the global markets for our current and future tests; the potential benefits of our tests and any future tests we may develop to patients, physicians and payers; the factors we believe drive demand for and reimbursement of our tests; our ability to sustain or increase demand for our tests; our intent to expand into other clinical areas; our ability to develop new tests, including tests for lung cancer and interstitial lung disease, and the timeframes for development or commercialization; our ability to get our data and clinical studies accepted in peer-reviewed publications; our dependence on and the terms of our agreements with Genzyme and TCP, and on other strategic relationships, and the success of those relationships; our beliefs regarding our laboratory capacity; the applicability of clinical results to actual outcomes; our expectations regarding our international expansion, including entering new international markets and the timing thereof; the occurrence, timing, outcome or success of clinical trials or studies; the ability of our tests to impact treatment decisions; our beliefs regarding our competitive position; our ability to compete with potential competitors; our compliance with federal, state and international regulations; the potential impact of regulation of our tests by the FDA or other regulatory bodies; the impact of new or changing policies, regulation or legislation, or of judicial decisions, on our business; our ability to comply with the requirements of being a public company; the impact of seasonal fluctuations and economic conditions on our business; our belief that we have taken reasonable steps to protect our intellectual property; the impact of accounting pronouncements and our critical accounting policies, judgments, estimates, models and assumptions on our financial results; and anticipated trends and challenges in our business and the markets in which we operate.

Forward-looking statements are based on our current plans and expectations and involve risks and uncertainties which could cause actual results to differ materially. These risks and uncertainties include, but are not limited to, those risks discussed in Part II, Item 1A of this report, as well as risks and uncertainties related to: our limited operating history and history of losses since inception; our ability to increase usage of and reimbursement for the Afirma GEC and any other tests we may develop, including the Percepta test; our dependence on a limited number of payers for a significant portion of our revenue; the complexity, time and expense associated with billing and collecting for our test; current and future laws, regulations and judicial decisions applicable to our business, including potential regulation by the FDA or by regulatory bodies outside of the United States; changes in legislation related to the U.S. healthcare system; our dependence on strategic relationships, collaborations and co-promotion arrangements; unanticipated delays in research and development efforts; our ability to develop and commercialize new products and the timing of commercialization; our ability to successfully enter new product or geographic markets; our ability to conduct clinical studies and the outcomes of such clinical studies; the applicability of clinical results to actual outcomes; trends and challenges in our business; our ability to compete against other companies and products; our ability to protect our intellectual property; and our ability to obtain capital when needed. These forward-looking statements speak only as of the date hereof. We expressly disclaim any obligation or undertaking to update any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

When used in this report, all references to "Veracyte," the "company," "we," "our" and "us" refer to Veracyte, Inc.

Veracyte, Afirma, Percepta, the Veracyte logo and the Afirma logo are our trademarks or registered trademarks. We also refer to trademarks of other corporations or organizations in this report.

This report contains statistical data and estimates that we obtained from industry publications and reports. These publications typically indicate that they have obtained their information from sources they believe to be reliable, but do not guarantee the accuracy and completeness of their information. Some data contained in this report is also based on our internal estimates.

Overview

We are a diagnostics company pioneering the field of molecular cytology, focusing on genomic solutions that resolve diagnostic ambiguity and enable physicians to make more informed treatment decisions at an early stage in patient care. By improving preoperative diagnostic accuracy, we aim to help patients avoid unnecessary invasive procedures while reducing healthcare costs. Our first commercial solution, the Afirma Thyroid FNA Analysis, or Afirma, centers on the proprietary Gene Expression Classifier, or GEC, to resolve ambiguity in diagnosis and is becoming a new standard of care in thyroid nodule assessment. The GEC helps physicians reduce the number of unnecessary surgeries by approximately 50% by employing a proprietary 142-gene signature to preoperatively identify benign thyroid nodules among those deemed indeterminate by cytopathology alone. We have demonstrated the clinical utility and cost effectiveness of the GEC in multiple studies published in peer-reviewed journals and established the clinical validity of the GEC in a study published in *The New England Journal of Medicine* in 2012. The comprehensive Afirma offering also includes cytopathology testing and the Afirma Malignancy Classifiers, launched in May 2014. Since we commercially launched Afirma in January 2011, we have received over 165,000 FNA samples for evaluation using Afirma and performed nearly 40,000 GECs to resolve indeterminate cytopathology results.

We are expanding our molecular cytology franchise into other clinical areas of unmet need, focusing first on difficult-to-diagnose lung diseases, where current diagnostic ambiguity frequently requires invasive, risky and costly procedures to obtain a definitive diagnosis. Through our acquisition of Allegro Diagnostics Corp., or Allegro, in September 2014, we acquired our genomic test aimed at improving the risk stratification of patients with lung nodules that are suspicious for cancer. Our proprietary technology has been developed to help physicians determine which patients with non-diagnostic bronchoscopy results can be safely monitored with routine CT scans versus an invasive surgical biopsy. In April 2015, we entered the lung cancer diagnostics market with the Percepta Bronchial Genomic Classifier, a new genomic test to resolve ambiguity in lung cancer diagnosis. We have demonstrated the validity of the Percepta test in our prospective multi-center AEGIS I and AEGIS II studies which were published in *The New England Journal of Medicine* in July 2015.

Table of Contents

Our second pulmonology product, which we currently plan to introduce in 2016, is intended to help patients with suspected interstitial lung diseases, or ILDs, specifically idiopathic pulmonary fibrosis, or IPF, obtain an accurate diagnosis without surgery. ILDs present a significant challenge for diagnosis today without invasive surgical biopsy, leaving many patients with ambiguous diagnoses that can lead to suboptimal or even harmful treatment.

In November 2014, we signed an Amended and Restated U.S. Co-promotion Agreement, or Amended Agreement, with Genzyme that reduced the co-promotion fees we owe to Genzyme from 32% to 15% beginning January 1, 2015. The Amended Agreement expires in January 2027. In February 2015, we entered into an Ex-U.S. Co-promotion Agreement, or Ex-U.S. Agreement, with Genzyme for the promotion of the Afirma GEC test with exclusivity in five countries outside the United States initially and in other countries agreed to from time to time. The term of the agreement is January 1, 2015 and continues until December 31, 2019, with extension of the agreement possible upon agreement of the parties. Country-specific terms have been established under this agreement for Brazil and Singapore and a right of first negotiation has been established for Canada, the Netherlands and Italy.

We increased the list price billed for the GEC from $4,875 to $6,400 per test in July 2015, while the list price billed for routine cytopathology remained at $490 per test. We obtained Medicare coverage for the GEC effective in January 2012 and contracted reimbursement at an agreed upon rate of $3,200. We received positive coverage determinations from United Healthcare and Cigna in 2013 and in late 2014 signed contracts with these payers establishing in-network allowable rates for both our GEC and cytopathology tests. Aetna granted positive coverage in 2014, and in June 2015 we signed a contract which established in-network allowable rates for our thyroid tests. We have also received positive coverage determinations from numerous other commercial payers and, as of June 2015, the GEC is covered by payers representing nearly 150 million covered lives. We now have over 120 million lives under contract. Payers that have agreed to pay for Afirma under contract are also counted as covered lives. Contracted and reimbursement rates vary by payer.

We recognized revenue of $11.9 million and $23.1 million in the three and six months ended June 30, 2015, an increase of $3.2 million and $7.0 million, or 37% and 43%, respectively, compared to the same periods in 2014. We incurred a net loss of $9.1 million and $16.7 million for the three and six months ended June 30, 2015 compared to a net loss of $6.7 million and $13.3 million in the same periods in 2014. As of June 30, 2015, we had an accumulated deficit of $131.8 million.

Factors Affecting Our Performance

The Number of FNAs We Receive and Test

The growth in our business is tied to the number of FNAs we receive and the number of GECs performed. Approximately 89% of FNAs we receive are for the Afirma solution, which consists of services related to rendering a cytopathology diagnosis, and if the cytopathology result is indeterminate, the GEC is performed. The remaining approximate 11% of FNAs are received from customers performing cytopathology and when the cytopathology result is indeterminate the FNA is sent to us for the GEC only. The rate at which adoption occurs in these two settings will cause these two percentages to fluctuate over time. Less than 1% of the FNA samples we receive for cytopathology have insufficient cellular material from which to render a cytopathology diagnosis. We only bill the technical component, including slide preparation, for these tests. For results that are benign or suspicious/malignant by cytopathology, we bill for these services when we issue the report to the physician. If the cytopathology result is indeterminate, defined as atypia/follicular lesions of undetermined significance (AUS/FLUS) or suspicious for FN/HCN, we perform the GEC. Historically, approximately 14%-17% of samples we have received for the Afirma solution have yielded indeterminate results by cytopathology. Approximately 5%-10% of the samples for GEC testing have insufficient ribonucleic acid, or RNA, from which to render a result. The GEC can be reported as Benign, Suspicious or No Result. We bill for the GEC Benign and GEC Suspicious results only. After the GEC is completed, we issue the cytopathology report for the indeterminate results as well as the GEC report, and then bill for both of these tests. We incur costs of collecting and shipping the FNAs and a portion of the costs of performing tests where we cannot ultimately issue a patient report. Because we cannot bill for all samples received, the number of FNAs received does not directly correlate to the total number of patient reports issued and the amount billed.

Continued Adoption of and Reimbursement for Afirma

To date, only a small number of payers have reimbursed us for Afirma at full list price. Revenue growth depends on both our ability to achieve broader reimbursement at increased levels from third-party payers and to expand our base of prescribing physicians and increase our penetration in existing accounts. Because some payers consider the GEC experimental and investigational, we may not receive payment on many tests and payments may not be at

acceptable levels compared to what we have billed. We expect our revenue growth will increase as more payers make a positive coverage decision and as payers enter into contracts with us, which should enhance our accrued revenue and collections. To drive increased adoption of Afirma, we increased our internal sales force in high-volume geographies domestically during 2014 and are continuing to do so, to a lesser extent, in 2015, along with increasing our marketing efforts. We have also hired institutional channel managers to focus on the institutional segment, which accounts generally send us only GECs. If we are unable to expand the base of prescribing physicians and penetration within these accounts at an acceptable rate, or if we are not able to execute our strategy for increasing reimbursement, we may not be able to effectively increase our revenue.

Table of Contents

How We Recognize Revenue

A large portion of our revenue is recognized upon the earlier of receipt of third-party notification of payment or when cash is received. For Medicare and certain other payers where we have an agreed upon reimbursement rate or we are able to make a reasonable estimate of reimbursement at the time delivery is complete, we recognize the related revenue on an accrual basis. In the first period in which revenue is accrued for a particular payer, there generally is a one-time increase in revenue. Until we have contracts with or can make a reasonable estimate of reimbursement from a larger number of payers, we will recognize a large portion of our revenue upon the earlier of notification of payment or when cash is received. Additionally, as we commercialize new products, we will need to contract with or be able to make a reasonable estimate of reimbursement for each payer for each new product offering prior to being able to recognize the related revenue on an accrual basis. Because the timing and amount of cash payments received from payers is difficult to predict, we expect that our revenue will fluctuate significantly in any given quarter. In addition, even if we begin to accrue larger amounts of revenue related to Afirma, when we introduce new products, we do not expect we will be able to recognize revenue from new products on an accrual basis for some period of time. This may result in continued fluctuations in our revenue.

Revenue recognized when cash is received and on an accrual basis for the three and six months ended June 30, 2015 and 2014 was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Revenue recognized when cash is received	$ 5,321	$ 6,046	$ 11,153	$ 11,163
Revenue recognized on an accrual basis	6,587	2,631	11,973	4,990
Total	$ 11,908	$ 8,677	$ 23,126	$ 16,153

As of June 30, 2015, amounts billed in the last six months at list price, for tests processed which were not recognized as revenue upon delivery of a patient report because our accrual revenue recognition criteria were not met and for which we have not received notification of payment, collected cash or written off as uncollectible, totaled $26.4 million.

As of December 31, 2014, amounts billed in the last 12 months at list price, for tests processed which were not recognized as revenue upon delivery of a patient report because our accrual revenue recognition criteria were not met and for which we have not received notification of payment, collected cash or written off as uncollectible, totaled $47.1 million. Of this amount, we recognized revenue of $2.7 million and $7.3 million in the three and six months ended June 30, 2015, respectively, when cash was received.

Although primarily all cash we receive is collected within 12 months of the date the test is billed, we cannot provide any assurance as to when, if ever, or to what extent any of these amounts will be collected. Notwithstanding our efforts to obtain payment for these tests, payers may deny our claims, in whole or in part, and we may never receive revenue from previously performed but unpaid tests. Revenue from these tests, if any, may not be equal to the billed amount due to a number of factors, including differences in reimbursement rates, the amounts of patient co-payments and co-insurance, the existence of secondary payers and claims denials.

We incur expense for tests in the period in which the test is conducted and recognize revenue for tests in the period in which our revenue recognition criteria are met. Accordingly, any revenue that we recognize as a result of cash collection in respect of previously performed but unpaid tests will favorably impact our liquidity and results of operations in future periods.

Impact of Genzyme Co-promotion Agreement

The $10.0 million up-front co-promotion fee we received from Genzyme under the Co-promotion Agreement dated as of January 18, 2012 is being amortized over the estimated useful life based on the provisions of the agreement, and is recorded as a reduction to selling and marketing expenses. We amortized $0.9 million and $1.3 million of the $10.0 million of this fee in the six months ended June 30, 2015 and 2014, respectively, which is reflected as a reduction to selling and marketing expenses in our condensed consolidated statements of operations and comprehensive loss. The 2012 agreement required that we pay a certain percentage of our cash receipts from the sale of the Afirma GEC test to Genzyme, which percentage decreased over time. The percentage was initially 50%, 40% from January 2013 through February 2014, 32% from February 2014 through December 2014, and decreased to 15% in January 2015. Our co-promotion fees were $1.7 million and $3.4 million in the three and six months ended June 30, 2015, respectively, compared to $2.7 million and $5.5 million in the same periods in 2014, and are included in selling and marketing expenses in our condensed consolidated statements of operations and comprehensive loss.

Table of Contents

In November 2014, we signed an Amended and Restated U.S. Co-promotion Agreement, or Amended Agreement, with Genzyme. Under the Amended Agreement, the co-promotion fees Genzyme receives as a percentage of U.S. cash receipts from the sale of the Afirma GEC test were reduced from 32% to 15% beginning January 1, 2015. Further, we have agreed to assume more responsibilities for sales and marketing activities. Either party may terminate the agreement with six months prior notice, however, neither party can terminate the agreement for convenience prior to June 30, 2016. Our agreement with Genzyme expires in January 2027.

In February 2015, we entered into an Ex-U.S. Co-promotion Agreement with Genzyme for the promotion of the Afirma GEC test with exclusivity in five countries outside the United States initially and in other countries agreed to from time to time. The term of the agreement is January 1, 2015 and continues until December 31, 2019, with extension of the agreement possible upon agreement of the parties. Country-specific terms have been established under this agreement for Brazil and Singapore and a right of first negotiation has been established for Canada, the Netherlands and Italy. We will pay Genzyme 25% of net revenue from the sale of the Afirma GEC test in Brazil and Singapore over a five-year period commencing January 1, 2015. Beginning in the fourth year of the agreement, if we terminate the agreement for convenience, we may be required to pay a termination fee contingent on the number of GEC billable results generated.

Development of Additional Products

We rely on sales of Afirma to generate all of our revenue. In May 2014, we commercially launched our Afirma Malignancy Classifiers, which we believe enhances our Afirma Thyroid FNA Analysis as a comprehensive way to manage thyroid nodule patients and serve our current base of prescribing physicians. We are also pursuing development or acquisition of products for additional diseases to increase and diversify our revenue. For example, in September 2014 we acquired Allegro and with it, a molecular diagnostic lung cancer test designed to help physicians determine which patients with lung nodules who have had a non-diagnostic bronchoscopy result are at low risk for cancer and can thus be safely monitored with CT scans, rather than undergoing invasive procedures. We launched the Percepta Bronchial Genomic Classifier, the test acquired from Allegro, in April 2015. Additionally, we are pursuing a solution for interstitial lung disease that will offer an alternative to surgery by developing a genomic signature to classify samples collected through less invasive bronchoscopy techniques. Accordingly, we expect to continue to invest heavily in research and development in order to expand the capabilities of our solutions and to develop additional products. Our success in developing or acquiring new products will be important in our efforts to grow our business by expanding the potential market for our products and diversifying our sources of revenue.

Timing of Our Research and Development Expenses

We deploy state-of-the-art and costly genomic technologies in our biomarker discovery experiments, and our spending on these technologies may vary substantially from quarter to quarter. We also spend a significant amount to secure clinical samples that can be used in discovery and product development as well as clinical validation studies. The timing of these research and development activities is difficult to predict, as is the timing of sample acquisitions. If a substantial number of clinical samples are acquired in a given quarter or if a high-cost experiment is conducted in one quarter versus the next, the timing of these expenses can affect our financial results. We conduct clinical studies to validate our new products as well as on-going clinical studies to further the published evidence to support our commercialized tests. As these studies are initiated, start-up costs for each site can be significant and concentrated in a specific quarter. Spending on research and development, for both experiments and studies, may vary significantly by quarter depending on the timing of these various expenses.

Historical Seasonal Fluctuations in FNAs Received, GEC Test Volume and Collections

Our business is subject to fluctuations in the number of FNA samples received for both cytopathology and GEC testing throughout the year as a result of physician practices being closed for holidays or endocrinology and thyroid-related industry meetings which are widely attended by our prescribing physicians. Like other companies in our field, vacations by physicians and patients tend to negatively affect our volumes more during the summer months and during the end of year holidays compared to other times of the year. Additionally, we may receive fewer FNAs in the winter months due to severe weather if patients are not able to visit their doctor’s office. Our reimbursed rates and cash collections are also subject to seasonality. Medicare normally makes adjustments in its fee schedules at the beginning of the year which may affect our reimbursement. Additionally, some plans reset their deductibles at the beginning of each year which means that patients early in the year are responsible for a greater portion of the cost of our tests, and we have lower collection rates from individuals than from third-party payers. Later in the year, particularly in the fourth quarter, we experience improved payment results as third-party payers tend to clear pending claims toward year end. This trend historically has increased our cash collections in the fourth quarter. The effects of these seasonal fluctuations in prior periods may have been obscured by the growth of our business.

Table of Contents

Financial Overview

Revenue

Through June 30, 2015, all of our revenues have been derived from the sale of Afirma. To date, Afirma has been delivered primarily to physicians in the United States. We generally invoice third-party payers upon delivery of a patient report to the prescribing physician. As such, we take the assignment of benefits and the risk of collection from the third-party payer and individual patients. Our third-party payers in excess of 10% of revenue and their related revenue as a percentage of revenue were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Medicare	28%	27%	26%	28%
Aetna	9%	12%	9%	11%
UnitedHealthcare	14%	16%	14%	16%
	51%	55%	49%	55%

As the number of payers reimbursing for Afirma increases, the percentage of revenue derived from Medicare and other significant third-party payers has changed and will continue to change as a percentage of revenue.

For tests performed where we have an agreed upon reimbursement rate or we are able to make a reasonable estimate of reimbursement at the time delivery is complete, such as in the case of Medicare and certain other payers, we recognize the related revenue upon delivery of a patient report to the prescribing physician based on the established billing rate less contractual and other adjustments to arrive at the amount that we expect to collect. We determine the amount we expect to collect based on a per payer, per contract or agreement basis. The expected amount is typically lower than, if applicable, the agreed upon reimbursement amount due to several factors, such as the amount of patient co-payments, the existence of secondary payers and claim denials. In other situations, where we are not able to make a reasonable estimate of reimbursement, we recognize revenue upon the earlier of receipt of third-party payer notification of payment or when cash is received. Incremental accrued revenue as a result of additional payer(s) meeting our revenue recognition

criteria in the three and six months ended June 30, 2015 was approximately $0.2 million and $0.5 million, respectively. Upon ultimate collection, the amount received from Medicare and commercial payers where reimbursement was estimated is compared to previous estimates and the contractual allowance is adjusted accordingly. Our ability to increase our revenue will depend on our ability to penetrate the market, obtain positive coverage policies from additional third-party payers, obtain reimbursement and/or enter into contracts with additional third-party payers, and increase reimbursement rates for tests performed. Finally, should we recognize revenue from payers on an accrual basis and later determine the judgments underlying estimated reimbursement change, our financial results could be negatively impacted in future quarters.

Cost of Revenue

The components of our cost of revenue are materials and service costs, including cytopathology testing services, stock-based compensation expense, direct labor costs, equipment and infrastructure expenses associated with testing samples, shipping charges to transport samples, and allocated overhead including rent, information technology, equipment depreciation and utilities. Costs associated with performing tests are recorded as the test is processed regardless of whether and when revenue is recognized with respect to that test. As a result, our cost of revenue as a percentage of revenue may vary significantly from period to period because we do not recognize all revenue in the period in which the associated costs are incurred. We expect cost of revenue in absolute dollars to increase as the number of tests we perform increases. However, we expect that the cost per test will decrease over time due to leveraging fixed costs, efficiencies we may gain as test volume increases and from automation, process efficiencies and other cost reductions. As we introduce new tests, initially our cost of revenue will be high and will increase disproportionately our aggregate cost of revenue until we achieve efficiencies in processing these new tests.

Research and Development

Research and development expenses include costs incurred to develop our technology, collect clinical samples and conduct clinical studies to develop and support our products. These costs consist of personnel costs, including stock-based compensation expense, prototype materials, laboratory supplies, consulting costs, costs associated with setting up and conducting clinical studies at domestic and international sites, and allocated overhead including rent, information technology, equipment depreciation and utilities. We expense all research and development costs in the periods in which they are incurred. We expect our research and development expenses will increase in future periods as we continue to invest in research and development activities related to developing additional products and evaluating various platforms. We expect that in 2015 the increase in research and development expenses will be for the continued development and support of the Afirma and Percepta tests and other new products and programs under development, including our ILD programs. Specifically, we plan to: increase the body of clinical evidence to support Afirma; incur research and development expenses associated with clinical utility studies to support the commercialization of Percepta; and incur expenses associated with clinical validation studies in our ILD program.

Table of Contents

Selling and Marketing

Selling and marketing expenses consist of personnel costs, including stock-based compensation expense, direct marketing expenses, consulting costs, and allocated overhead including rent, information technology, equipment depreciation and utilities. In addition, up-front co-promotion fees paid to Genzyme, net of amortization, are included in selling and marketing expenses. In November 2014, we amended the co-promotion agreement with Genzyme. As a result of this amendment, we expect our selling and marketing expenses for Afirma to remain relatively flat during 2015. Our personnel costs have increased as we have taken on more sales and marketing responsibilities related to Afirma, but these increases are offset by the lower rate we are required to pay Genzyme under the agreement beginning in January 2015. Additionally, in 2015, we have begun to incur selling and marketing expenses as a result of investments in our lung product portfolio. Therefore, we believe total selling and marketing expenses will continue to increase in 2015.

General and Administrative

General and administrative expenses include executive, finance and accounting, human resources, legal, billing and client services, and quality and regulatory functions. These expenses include personnel costs, including stock-based compensation expense, audit and legal expenses, consulting costs, costs associated with being a public company, and allocated overhead including rent, information technology, equipment depreciation and utilities. The year ended December 31, 2014 also included transaction costs related to the acquisition of Allegro in September 2014, including charges for merger related severance and bonuses. We expect our general and administration expenses will continue to increase during 2015 as we expand our billing group to support anticipated increased demand for our tests, hire more personnel in accounting and finance, incur increasing expenses related to the documentation of our internal controls in connection with compliance with Section 404 of the Sarbanes-Oxley Act of 2002, and incur greater legal costs for patent prosecution, for public company compliance and for general corporate purposes. Additionally, while we do not begin to make rent payments for our new headquarters space until April 2016, following expiration of our current lease and build out of our new facility, in accordance with generally accepted accounting principles, the rent is expensed on a straight-line basis over the lease period. Prior to beginning to utilize the space, this rent expense is being charged to general and administrative; the amount is approximately $0.5 million per quarter.

Intangible Asset Amortization

Intangible asset amortization began in April 2015 when we launched the Percepta test and as a result reclassified the indefinite-lived intangible asset to a finite-lived intangible asset. The finite-lived intangible asset with a cost of $16.0 million is being amortized over 15 years, using the straight-line method.

Interest Expense

Interest expense is attributable to our borrowings under our loan and security agreement.

Other Income, Net

Other income, net consists primarily of sublease rental income, interest income received from payers and from our cash equivalents, partially offset by amortization of debt issuance costs.

Critical Accounting Polices and Estimates

Our management's discussion and analysis of our financial condition and results of operations is based on our unaudited interim condensed financial statements, which have been prepared in accordance with United States generally accepted accounting principles, or U.S. GAAP. The preparation of the financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported revenue generated and expenses incurred during the reporting periods. Our estimates are based on our historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions and any such differences may be material. We believe that the accounting policies discussed below are critical to understanding our historical and future performance, as these policies relate to the more significant areas involving management's judgments and estimates.

Table of Contents

Revenue Recognition

Our revenue is generated from the provision of diagnostic services using the Afirma solution. Our service is completed upon the delivery of test results to the prescribing physician which triggers the billing for the service. We recognize revenue related to billings for Medicare and commercial payers on an accrual basis, net of contractual adjustments, when we can reasonably estimate reimbursement. These contractual adjustments represent the difference between the list price (the billing rate) and the reimbursement rate for each payer. Upon ultimate collection, the amount received from Medicare and commercial payers where reimbursement was estimated is compared to previous estimates and the contractual allowance is adjusted accordingly. Until a contract has been negotiated with a commercial payer or governmental program, the Afirma solution may or may not be covered by these entities' existing reimbursement policies. In addition, patients do not enter into direct agreements with us that commit them to pay any portion of the cost of the tests in the event that their insurance declines to reimburse us. In the absence of an agreement or other clearly enforceable legal right to demand payment from the patient, the related revenue is only recognized upon the earlier of payment notification, if applicable, or cash receipt.

For all services performed, we consider whether or not the following revenue recognition criteria are met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; and a reasonable estimate of reimbursement can be made.

Persuasive evidence of an arrangement exists and delivery is deemed to have occurred upon delivery of a patient report to the prescribing physician. The assessment of whether a reasonable estimate of reimbursement can be made requires significant judgment by management. Where our judgment indicates a reasonable estimate of reimbursement can be made, we recognize revenue upon delivery of the patient report. Some patients have out-of-pocket costs for amounts not covered by their insurance carrier, and we may bill the patient directly for these amounts in the form of co-payments and co-insurance in accordance with their insurance carrier and health plans. Some payers may not cover our tests as ordered by the prescribing physician under their reimbursement policies. We pursue reimbursement from such patients on a case-by-case basis.

In the absence of contracted reimbursement coverage or the ability to reasonably estimate reimbursement, we recognize revenue upon the earlier of receipt of third-party payer notification of payment or when cash is received.

We use judgment in determining if we are able to make a reasonable estimate of reimbursement. We also use judgment in estimating the amounts we expect to collect by payer. Our judgments will continue to evolve in the future as we continue to gain payment experience with third-party payers and patients.

Allowance for Doubtful Accounts

We estimate an allowance for doubtful accounts against our individual accounts receivable based on estimates of expected payment consistent with historical payment experience. Our allowance for doubtful accounts is evaluated on a regular basis and adjusted when trends or significant events indicate that a change in estimate is appropriate. Accounts receivable are written off against the allowance when the appeals process is exhausted or when there is other substantive evidence that the account will not be paid.

Business Combination

We account for acquisitions using the acquisition method of accounting which requires the recognition of tangible and identifiable intangible assets acquired and liabilities assumed at their estimated fair values as of the business combination date. We allocate any excess purchase price over the estimated fair value assigned to the net tangible and identifiable intangible assets acquired and liabilities assumed to goodwill. Transaction costs are expensed as incurred in general and administrative expenses. Results of operations and cash flows of acquired companies are included in our operating results from the date of acquisition.

Finite-lived Intangible Assets

Finite-lived intangible assets relates to intangible assets reclassified from indefinite-lived intangible assets, following the launch of Percepta in April 2015. We amortize finite-lived intangible assets using the straight-line method, over their estimated useful life. The estimated useful life of 15 years was used for the intangible asset related to Percepta based on management's estimate of product life, product life of other diagnostic tests and patent life. We review this finite-lived intangible asset for impairment when facts or circumstances indicate a reduction in the fair value below its carrying amount.

Table of Contents

Indefinite-lived Intangible Assets — In-process Research and Development

The Company's indefinite-lived intangible assets are comprised of acquired in-process research and development, or IPR&D. The fair value of IPR&D acquired through a business combination is capitalized as an indefinite-lived intangible asset until the completion or abandonment of the related research and development activities. When research and development is complete, the associated assets are amortized on a straight-line basis over their

estimated useful lives. IPR&D is tested for impairment annually or more frequently if events or circumstances indicate that the fair value may be below the carrying value of the asset. The Company recognizes an impairment loss when the total of estimated future undiscounted cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount. Impairment, if any, would be assessed using discounted cash flows or other appropriate measures of fair value. There was no impairment for the six months ended June 30, 2015.

Goodwill

We review goodwill for impairment annually or more frequently if events or circumstances indicate that it may be impaired. Our goodwill evaluation is based on both qualitative and quantitative assessments regarding the fair value of goodwill relative to its carrying value. We have determined that we operate in a single segment and have a single reporting unit associated with the development and commercialization of diagnostic products. In the event we determine that it is more likely than not the carrying value of the reporting unit is higher than its fair value, quantitative testing is performed comparing recorded values to estimated fair values. If impairment is present, the impairment loss is measured as the excess of the recorded goodwill over its implied fair value. We perform our annual evaluation of goodwill during the fourth quarter of each fiscal year.

Deferred Tax Assets

We file U.S. federal income tax returns and tax returns in California, Texas and other states.

As of December 31, 2014, our gross deferred tax assets were $43.4 million. The deferred tax assets were primarily comprised of federal and state tax net operating loss and tax credit carryforwards. Utilization of the net operating loss and tax credit carryforwards may be subject to annual limitation due to historical or future ownership percentage change rules provided by the Internal Revenue Code of 1986, and similar state provisions. The annual limitation may result in the expiration of certain net operating loss and tax credit carryforwards before their utilization.

We are required to reduce our deferred tax assets by a valuation allowance if it is more-likely-than-not that some or all of our deferred tax assets will not be realized. We must use judgment in assessing the potential need for a valuation allowance, which requires an evaluation of both negative and positive evidence. The weight given to the potential effect of negative and positive evidence should be commensurate with the extent to which it can be objectively verified. In determining the need for and amount of our valuation allowance, if any, we assess the likelihood that we will be able to recover our deferred tax assets using historical levels of income, estimates of future income and tax planning strategies. As a result of historical cumulative losses and, based on all available evidence, we believe it is more-likely-than-not that our recorded net deferred tax assets will not be realized. Accordingly, we recorded a valuation allowance against all of our net deferred tax assets at June 30, 2015 and December 31, 2014. We will continue to maintain a full valuation allowance on our net deferred tax assets until there is sufficient evidence to support the reversal of all or some portion of this allowance.

Stock-based Compensation

We recognize stock-based compensation cost for only those shares underlying stock options that we expect to vest on a straight-line basis over the requisite service period of the award. We estimate the fair value of stock options using a Black-Scholes option-pricing model, which requires the input of highly subjective assumptions, including the option's expected term and stock price volatility. In addition, judgment is also required in estimating the number of stock-based awards that are expected to be forfeited. Forfeitures are estimated based on historical experience at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The assumptions used in calculating the fair value of share-based payment awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management's judgment. As a result, if factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future.

Table of Contents

Results of Operations

Comparison of the Three Months Ended June 30, 2015 and 2014

	Three Months Ended June 30, 2015	2014	Dollar Change	% Change
	(In thousands except GECs processed)			
Statements of Operations Data:				
Revenue	$ 11,908	$ 8,677	$ 3,231	37%
Operating expense:				
Cost of revenue	5,139	3,966	1,173	30%
Research and development	3,103	2,243	860	38%
Selling and marketing	6,937	5,101	1,836	36%
General and administrative	5,536	3,928	1,608	41%
Intangible asset amortization	267	—	267	—
Total operating expenses	20,982	15,238	5,744	38%
Loss from operations	(9,074)	(6,561)	(2,513)	38%
Interest expense	(90)	(113)	23	-20%
Other income, net	28	19	9	47%
Net loss and comprehensive loss	$ (9,136)	$ (6,655)	$ (2,481)	37%
Other Operating Data:				
GECs processed	4,758	3,451	1,307	38%

Revenue

Revenue increased $3.2 million, or 37%, for the three months ended June 30, 2015 compared to the same period in 2014. The increase was primarily due to increased adoption of Afirma, and, to a lesser extent, additional payers meeting our revenue recognition criteria for accrual, offset by a decrease in revenue recorded as cash is received. For the three months ended June 30, 2015 compared to the same period in 2014, revenue recognized when

cash was received decreased by approximately $0.7 million, or 12%, to $5.3 million. Revenue recognized on an accrual basis increased by approximately $4.0 million, or 150%, to $6.6 million.

Cost of revenue

Cost of revenue increased $1.2 million, or 30%, for the three months ended June 30, 2015 compared to the same period in 2014. The increase was primarily due to an increase in variable costs that are directly related to the increase in the number of GEC and cytology samples processed, offset in part by continuing refinements in our testing process and economies of scale related to the increase in samples processed. GECs processed increased by 1,307, or 38%, to 4,758 in the three months ended June 30, 2015 compared to the same period in 2014. FNAs received increased by 3,528, or 21%, to 19,986 in the same periods.

Research and development

	Three Months Ended June 30, 2015	2014	Dollar Change	% Change
	(In thousands)			
Research and development expense:				
Personnel related expense	$ 1,492	$ 989	$ 503	51%
Stock-based compensation expense	342	155	187	121%
Direct R&D expense	714	687	27	4%
Other expense	555	412	143	35%
Total	$ 3,103	$ 2,243	$ 860	38%

Research and development expense increased $0.9 million, or 38%, for the three months ended June 30, 2015 compared to the same period in 2014. The increase in personnel related expense was primarily due to a 29% increase in headcount at June 30, 2015 as compared to June 30, 2014. The increase in stock-based compensation expense reflects option grants to new and existing employees. The increase in other expense was primarily due to consulting, facility and equipment charges.

Table of Contents

Selling and marketing

	Three Months Ended June 30, 2015	2014	Dollar Change	% Change
	(In thousands)			
Selling and marketing expense:				
Genzyme co-promotion expense, net	$ 1,212	$ 2,077	$ (865)	-42%
Personnel related expense	3,251	1,970	1,281	65%
Stock-based compensation expense	321	192	129	67%
Direct marketing expense	889	386	503	130%
Other expense	1,264	476	788	166%
Total	$ 6,937	$ 5,101	$ 1,836	36%

Selling and marketing expense increased $1.8 million, or 36%, for the three months ended June 30, 2015 compared to the same period in 2014. The decrease in Genzyme co-promotion expense, net, reflects a reduction in the co-promotion percentage rate payable to Genzyme in the second quarter of 2015 as compared to the second quarter of 2014 under the Co-promotion Agreement with Genzyme, which was amended in November 2014, partially offset by growth in cash collections. The increase in personnel related expense was primarily due to a 52% increase in headcount of our sales force at June 30, 2015 as compared to June 30, 2014. The increase in stock-based compensation expense reflects option grants to new and existing employees. The increase in direct marketing expense was due primarily to increased marketing and promotional materials, trade shows and market research for Afirma and, to a lesser extent, lung-related marketing expenses. The increase in other expense was primarily due to consulting expenses and an increase in information technology and facilities expenses that were related to sales and marketing activities.

General and administrative

	Three Months Ended June 30, 2015	2014	Dollar Change	% Change
	(In thousands)			
General and administrative expense:				
Personnel related expense	$ 2,664	$ 1,891	$ 773	41%
Stock-based compensation expense	811	513	298	58%
Professional fees expense	1,032	868	164	19%
Rent and other facilities expense	618	378	240	63%
Other expense	411	278	133	48%
Total	$ 5,536	$ 3,928	$ 1,608	41%

General and administrative expense increased $1.6 million, or 41%, for the three months ended June 30, 2015 compared to the same period in 2014. The increase in personnel related expense was primarily due to a 20% increase in headcount at June 30, 2015 as compared to June 30, 2014. The increase in stock-based compensation expense was primarily due to option grants to new and existing employees. The increase in professional fees includes higher accounting, audit, legal and other corporate expenses including insurance. The increase in rent and other facilities expense is largely due to our new headquarters building being expensed to general and administrative prior to the space being utilized. The increase in other expense was due primarily to an increase in consulting expense of approximately $0.3 million, partially offset by decreases in information technology and facilities allocations as a result of increased headcount in other functions.

Intangible asset amortization

Intangible asset amortization began in April 2015 when we launched Percepta and as a result reclassified the indefinite-lived intangible asset to a finite-lived intangible asset. The finite-lived intangible asset with a cost of $16.0 million is being amortized over 15 years, using the straight-line method. Intangible asset amortization of $267,000 was recorded in the three months ended June 30, 2015.

Table of Contents

Interest expense

Interest expense decreased $23,000 for the three months ended June 30, 2015 compared to the same period in 2014 reflecting the debt modification under the amended loan and security agreement entered into in December 2014.

Other income, net

Other income, net, increased $9,000 for the three months ended June 30, 2015 compared to the same period in 2014 primarily due to interest income received from payers and lower amortization of debt issuance costs.

Comparison of the Six Months Ended June 30, 2015 and 2014

	Six Months Ended June 30, 2015	2014	Dollar Change	% Change
	(In thousands except GECs processed)			
Statements of Operations Data:				
Revenue	$ 23,126	$ 16,153	$ 6,973	43%
Operating expense:				
Cost of revenue	9,705	7,573	2,132	28%
Research and development	5,890	4,369	1,521	35%
Selling and marketing	12,557	9,437	3,120	33%
General and administrative	11,334	7,910	3,424	43%
Intangible asset amortization	267	—	267	—
Total operating expenses	39,753	29,289	10,464	36%
Loss from operations	(16,627)	(13,136)	(3,491)	27%
Interest expense	(177)	(224)	47	-21%
Other income, net	58	31	27	87%
Net loss and comprehensive loss	$ (16,746)	$ (13,329)	$ (3,417)	26%
Other Operating Data:				
GECs processed	8,778	6,549	2,229	34%

Revenue

Revenue increased $7.0 million, or 43%, for the six months ended June 30, 2015 compared to the same period in 2014. The increase was primarily due to increased adoption of Afirma, additional payers meeting our revenue recognition criteria for accrual and, to a lesser extent, increased collections. For the six months ended June 30, 2015 compared to the same period in 2014, revenue recognized when cash was received was unchanged at approximately $11.1 million while revenue recognized on an accrual basis increased by approximately $7.0 million, or 140%, to $12.0 million.

Cost of revenue

Cost of revenue increased $2.1 million, or 28%, for the six months ended June 30, 2015 compared to the same period in 2014. The increase was primarily due to an increase in variable costs that are directly related to the increase in the number of GEC and cytology samples processed, offset in part by continuing refinements in our testing process and economies of scale related to the increase in samples processed. GECs processed increased by 2,229, or 34%, to 8,778 in the six months ended June 30, 2015 compared to the same period in 2014. FNAs received increased by 6,470, or 21%, to 37,301 in the same periods.

Table of Contents

Research and development

	Six Months Ended June 30, 2015	2014	Dollar Change	% Change
	(In thousands)			
Research and development expense:				
Personnel related expense	$ 2,917	$ 2,065	$ 852	41%
Stock-based compensation expense	595	262	333	127%
Direct R&D expense	1,328	1,214	114	9%
Other expense	1,050	828	222	27%
Total	$ 5,890	$ 4,369	$ 1,521	35%

Research and development expense increased $1.5 million, or 35%, for the six months ended June 30, 2015 compared to the same period in 2014. The increase in personnel related expense was primarily due to a 29% increase in headcount at June 30, 2015 as compared to June 30, 2014. The increase in stock-based compensation expense reflects option grants to new and existing employees. The increase in direct R&D expense was primarily due to increased clinical expenses. Other expense increased primarily as a result of increased information technology and facilities expenses that were related to research and development activities.

Selling and marketing

	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014	Dollar Change	% Change
	(In thousands)			
Selling and marketing expense:				
Genzyme co-promotion expense, net	$ 2,422	$ 4,229	$ (1,807)	-43%
Personnel related expense	5,916	3,455	2,461	71%
Stock-based compensation expense	590	285	305	107%
Direct marketing expense	1,582	598	984	165%
Other expense	2,047	870	1,177	135%
Total	$ 12,557	$ 9,437	$ 3,120	33%

Selling and marketing expense increased $3.1 million, or 33%, for the six months ended June 30, 2015 compared to the same period in 2014. The decrease in Genzyme co-promotion expense, net, reflects a reduction in the co-promotion percentage rate payable to Genzyme in the first six months of 2015 as compared to the first six months of 2014 under the Co-promotion Agreement with Genzyme, amended in November 2014, partially offset by growth in cash collections. The increase in personnel related expense was primarily due to a 52% increase in headcount of our sales and marketing team at June 30, 2015 as compared to June 30, 2014. The increase in stock-based compensation expense reflects option grants to new and existing employees. The increase in direct marketing expense was due primarily to increased marketing and promotional materials, trade shows and market research for Afirma and, to a lesser extent, lung-related marketing expenses. The increase in other expense was primarily due to an increase in consulting expenses and, to a lesser extent, an increase in information technology and facilities expenses that were related to sales and marketing activities.

Table of Contents

General and administrative

	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014	Dollar Change	% Change
	(In thousands)			
General and administrative expense:				
Personnel related expense	$ 5,214	$ 3,808	$ 1,406	37%
Stock-based compensation expense	1,495	797	698	88%
Professional fees expense	2,730	2,040	690	34%
Rent and other facilities expense	1,025	742	283	38%
Other expense	870	523	347	66%
Total	$ 11,334	$ 7,910	$ 3,424	43%

General and administrative expense increased $3.4 million, or 43%, for the six months ended June 30, 2015 compared to the same period in 2014. The increase in personnel related expense was primarily due to a 20% increase in headcount at June 30, 2015 as compared to June 30, 2014. The increase in stock-based compensation expense was primarily due to option grants to new and existing employees. The increase in professional fees includes higher accounting, audit, legal and other corporate expenses including insurance. The increase in rent and other facilities expense is largely due to our new headquarters building being expensed to general and administrative prior to the space being utilized. The increase in other expense was due primarily to an increase in consulting expense of approximately $0.6 million partially offset by decreases in information technology and facilities allocations as a result of increased headcount in other functions.

Intangible asset amortization

Intangible asset amortization began in April 2015 when we launched Percepta and as a result reclassified the indefinite-lived intangible asset to a finite-lived intangible asset. The finite-lived intangible asset with a cost of $16.0 million is being amortized over 15 years, using the straight-line method. Intangible asset amortization was $267,000 for the six months ended June 30, 2015.

Interest expense

Interest expense decreased $47,000 for the six months ended June 30, 2015 compared to the same period in 2014 reflecting the debt modification under the amended loan and security agreement entered into in December 2014.

Other income, net

Other income, net, increased $27,000 for the six months ended June 30, 2015 compared to the same period in 2014 primarily due to interest income received from payers and lower amortization of debt issuance costs.

Liquidity and Capital Resources

We have incurred net losses since our inception. For the six months ended June 30, 2015 and the year ended December 31, 2014, we had a net loss of $16.7 million and $29.4 million, respectively, and we expect to incur additional losses in 2015 and in future years. As of June 30, 2015, we had an accumulated deficit of $131.8 million. We may never achieve revenue sufficient to offset our expenses.

On April 28, 2015, we issued and sold 4,907,975 shares of our common stock in a private placement, at a price of $8.15 per share. We received $37.3 million in net proceeds, after deducting expenses payable by us of $2.7 million.

In June 2015, we filed a universal shelf registration statement with the Securities and Exchange Commission which provides us the ability to offer for sale up to $125.0 million of securities in a primary offering, including common stock, preferred stock, debt securities, depositary shares and rights. This shelf registration statement provides us the ability, within the $125.0 million, to offer for sale up to $25.0 million of our common stock at market prices

pursuant to the terms of a Controlled Equity Sales Agreement. Approximately $0.2 million of costs associated with this registration statement have been deferred in other current assets as of June 30, 2015.

We believe our existing cash and cash equivalents of $51.0 million as of June 30, 2015 and our revenue from the sale of Afirma during the next 12 months will be sufficient to meet our anticipated cash requirements for at least the next 12 months.

Table of Contents

From inception through June 30, 2015, we have received $191.8 million in net proceeds from various sources to finance our operations, including net proceeds of $78.6 million from sales of our preferred stock, net proceeds of $59.2 million from our initial public offering, or IPO, net proceeds of $37.3 million from our sale of common stock in a private placement, $10.0 million from the Genzyme co-promotion agreement, net borrowings of $4.9 million under our loan and security agreement, and $1.8 million from the exercise of stock options.

In June 2013, we entered into a loan and security agreement, or the Original Loan, with a financial institution. The Original Loan provided for term loans of up to $10.0 million in aggregate. We drew down $5.0 million in funds under the agreement in June 2013, and did not draw the remaining $5.0 million on or before the expiration date of March 31, 2014. We were required to repay the outstanding principal in 30 equal installments beginning 18 months after the date of the borrowing, and the loan was due in full in June 2017. The Original Loan had an interest rate of 6.06% per annum, carried prepayment penalties of 2.25% and 1.50% for prepayment within one and two years, respectively, and 0.75% thereafter.

In December 2014, we amended certain terms and conditions of the Original Loan, which we refer to as the Amended Loan. The Amended Loan provides for term loans of up to $15.0 million in aggregate, in three tranches of $5.0 million each. We borrowed $5.0 million under the first tranche in December 2014 and used the funds for repayment of the $5.0 million in principal outstanding under the Original Loan, in a cashless transaction. In addition, we paid the accrued but unpaid interest of $14,000 due on the Original Loan and the related end-of-term payment of $110,000. The Amended Loan waived the prepayment premium of $75,000 under the Original Loan and reduced the end-of-term payment of $225,000 under the Original Loan to $110,000. The second $5.0 million tranche under the Amended Loan is available through December 31, 2015, and we may borrow the third $5.0 million tranche any time through June 30, 2016 after achieving the third tranche revenue milestone as defined in the Amended Loan.

Under the Amended Loan, we are required to repay the outstanding principal in 24 equal installments beginning 24 months after the date of the borrowing, and the loan is due in full in December 2018. The first tranche of the Amended Loan bears interest at a rate of 5.00% per annum and the obligation includes an end-of-term payment of $237,500, representing 4.75% of the total outstanding principal balance, which accretes over the life of the loan as interest expense. The Amended Loan carries prepayment penalties of 2.00% and 1.00% for prepayment within one and two years, respectively, and no prepayment penalty thereafter. In connection with the Amended Loan, we paid approximately $45,000 in third-party fees. As a result of the debt discount and the end-of-term payment, the effective interest rate for the loan differs from the contractual rate.

Loans drawn under the Original Loan and the Amended Loan were used for working capital and general corporate purposes. Our obligations under the Amended Loan are secured by a security interest on substantially all of our assets, excluding our intellectual property and certain other assets. The Amended Loan contains customary conditions related to borrowing, events of default, and covenants, including covenants limiting our ability to dispose of assets, undergo a change in control, merge with or acquire other entities, incur debt, incur liens, pay dividends or other distributions to holders of our capital stock, repurchase stock and make investments, in each case subject to certain exceptions. The Amended Loan also allows the lender to call the debt in the event there is a material adverse change in our business or financial condition. We are required to be in compliance with a minimum liquidity or minimum revenue covenant. As of June 30, 2015, we were in compliance with all covenants.

In September 2014, we acquired Allegro Diagnostics Corp., or Allegro, to accelerate our entry into pulmonology, our second planned clinical area. Allegro was focused on the development of genomic tests to improve the preoperative diagnosis of lung cancer. In conjunction with the acquisition, we issued 964,377 shares of our common stock, paid $2.7 million in cash, settled in cash outstanding indebtedness of Allegro totaling $4.3 million, and paid severance and bonus to Allegro personnel of $1.2 million.

We expect that our near- and longer-term liquidity requirements will continue to consist of selling and marketing expenses, research and development expenses, working capital, and general corporate expenses associated with the growth of our business. However, we may also use cash to acquire or invest in complementary businesses, technologies, services or products that would change our cash requirements. If we are not able to generate revenue to finance our cash requirements, we will need to finance future cash needs primarily through public or private equity offerings, debt financings, borrowings or strategic collaborations or licensing arrangements. If we raise funds by issuing equity securities, dilution to stockholders may result. Any equity securities issued may also provide for rights, preferences or privileges senior to those of holders of our common stock. If we raise funds by issuing debt securities, these debt securities would have rights, preferences and privileges senior to those of holders of our common stock. The terms of debt securities or borrowings could impose significant restrictions on our operations. If we raise funds through collaborations and licensing arrangements, we might be required to relinquish significant rights to our technologies or products, or grant licenses on terms that are not favorable to us. The credit market and financial services industry have in the past, and may in the future, experience periods of upheaval that could impact the availability and cost of equity and debt financing. If we are not able to secure additional funding when needed, on acceptable terms, we may have to delay, reduce the scope of or eliminate one or more research and development programs or selling and marketing initiatives. In addition, we may have to work with a partner on one or more of our products or development programs, which could lower the economic value of those programs to us.

Table of Contents

The following table summarizes our cash flows for the six months ended June 30, 2015 and 2014:

	Six Months Ended June 30,	
	2015	2014
	(In thousands)	
Cash used in operating activities	$ (20,333)	$ (12,664)
Cash used in investing activities	(1,385)	(904)

Cash provided by financing activities	37,749	346

Cash Flows from Operating Activities

Cash used in operating activities for the six months ended June 30, 2015 was $20.3 million. The net loss of $16.7 million includes non-cash charges of $0.9 million in amortization of the deferred fee received from Genzyme, offset primarily by $2.7 million of stock-based compensation expense and $1.0 million of depreciation and amortization. Cash used as a result in changes in operating assets and liabilities of $6.5 million was primarily due to a $5.2 million decrease in accounts payable and accrued liabilities resulting from the timing of payments, and increases in accounts receivable, prepaid expenses and other current assets and supplies inventory of $1.3 million.

Cash used in operating activities for the six months ended June 30, 2014 was $12.7 million. The net loss of $13.3 million reflects non-cash charges of $1.3 million in amortization of the deferred fee received from Genzyme, offset primarily by $1.4 million of stock-based compensation expense, $0.5 million of depreciation and amortization, and $0.1 million in debt interest and deferred financing costs amortization and debt balloon interest expense. Cash used as a result of changes in operating assets and liabilities of $0.1 million was primarily due to a $1.0 million net increase in supplies inventory and accounts receivable due to increases in Afirma adoption, offset by a $0.9 million net increase in accounts payable and accrued liabilities resulting from the timing of payments.

Cash Flows from Investing Activities

Cash used in investing activities, primarily related to the acquisition of property and equipment, was $0.9 million and $0.9 million for the six months ended June 30, 2015 and 2014, respectively. Additionally, for the six months ended June 30, 2015, we restricted additional cash of $0.5 million, consisting of $0.6 million in conjunction with collateral for an irrevocable standby letter of credit as security for our new headquarters, offset by approximately $0.1 million of cash used to pay down liabilities associated with the acquisition of Allegro.

Cash Flows from Financing Activities

Cash provided by financing activities for the six months ended June 30, 2015 of $37.7 million consisted of $37.3 million net proceeds from our sale of common stock in a private placement and $0.5 million of cash we received from the exercise of options to purchase our common stock. Cash provided by financing activities for the six months ended June 30, 2014 of $0.3 million consisted of cash we received from the exercise of options to purchase our common stock, net of $0.1 million of IPO-related disbursements.

Contractual Obligations

Except for the lease signed in April 2015 described below, during the three months ended June 30, 2015, there were no material changes to our contractual obligations and commitments described under Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Form 10-K for the year ended December 31, 2014.

On April 29, 2015, we signed a non-cancelable lease agreement for approximately 59,000 square feet to serve as our new South San Francisco headquarters and laboratory facilities. The lease begins in June 2015 and ends in March 2026 and contains extension of lease term and expansion options. In conjunction with this lease, the landlord is providing funding of approximately $3.3 million for tenant improvements. We currently estimate we will invest an additional approximate $3.5 million in our new facility. As of June 30, 2015, we had recorded approximately $0.1 million as a receivable from the landlord. Upon signing the lease, we provided $0.6 million in the form of a letter of credit held as security for the lease. The lease for our current South San Francisco headquarters and laboratory facilities expires on March 31, 2016.

Table of Contents

The following table summarizes the rent payment obligations under our non-cancelable operating leases as of June 30, 2015: (in thousands):

July through December 31, 2015	$	500
2016 - 2017		3,964
2018 - 2019		4,128
Thereafter		14,038
Total	$	22,630

Off-balance Sheet Arrangements

We have not entered into any off-balance sheet arrangements.

JOBS Act Accounting Election

We are an emerging growth company, as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards apply to private companies. We have irrevocably elected not to avail ourselves of this exemption from new or revised accounting standards and, therefore, will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, No. 2014-09, *Revenue from Contracts with Customers*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either the retrospective or cumulative effect transition method. Adoption is permitted as early as the first quarter of fiscal 2017 and is required for us in the first quarter of fiscal 2018. We have not yet selected a transition method and are currently evaluating the effect that the updated standard may have on our consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, to require debt issuance costs to be presented as an offset against debt outstanding. The ASU is effective for interim and annual periods beginning after December 15, 2015. Adoption of the ASU is retrospective to each prior period presented. We do not anticipate that the adoption of the ASU will have a material impact on our condensed consolidated balance sheets.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks in the ordinary course of our business. These risks primarily relate to interest rates. We had cash and cash equivalents of $51.0 million as of June 30, 2015 which consisted of bank deposits and money market funds. Such interest-bearing instruments carry a degree of risk; however, a hypothetical 10% change in interest rates during any of the periods presented would not have had a material impact on our unaudited interim condensed consolidated financial statements.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

We maintain "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, or Exchange Act, that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Our disclosure controls and procedures have been designed to meet reasonable assurance standards. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Table of Contents

Based on their evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q, our Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

(b) Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) identified in connection with the evaluation identified above that occurred during the quarter ended June 30, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. — OTHER INFORMATION

Item 1A. Risk Factors

Risks Related to Our Business

We are an early-stage company with a history of losses, and we expect to incur net losses for the foreseeable future and may never achieve or sustain profitability.

We have incurred net losses since our inception. For the six months ended June 30, 2015 and the year ended December 31, 2014, we had a net loss of $16.7 million and $29.4 million, respectively, and we expect to incur additional losses in 2015 and in future years. As of June 30, 2015, we had an accumulated deficit of $131.8 million. We may never achieve revenue sufficient to offset our expenses. Over the next several years, we expect to continue to devote substantially all of our resources to increase adoption of, and reimbursement for, our Afirma test, as well as our lung cancer test, Percepta, which we launched in April 2015, as well as the development of additional tests we plan to commercialize, including our test for Idiopathic Pulmonary Fibrosis, or IPF. We may never achieve or sustain profitability, and our failure to achieve and sustain profitability in the future could cause the market price of our common stock to decline.

Our financial results depend solely on sales of Afirma, and we will need to generate sufficient revenue from this and other diagnostic solutions to grow our business.

All of our revenues have been derived from the sale of Afirma, which we commercially launched in January 2011. For the foreseeable future, we expect to derive substantially all of our revenue from sales of Afirma. We launched our first product in pulmonology for lung cancer, Percepta, in April 2015, and our efforts may not be successful. In addition, we are in various stages of research and development for other diagnostic solutions that we may offer, but there can be no assurance that we will be able to identify other diseases that can be effectively addressed with our molecular cytology platform or, if we are able to identify such diseases, whether or when we will be able to successfully commercialize these solutions. If we are unable to increase sales and expand reimbursement for Afirma, or successfully commercialize Percepta and develop and commercialize other solutions, our revenue and our ability to achieve and sustain profitability would be impaired, and the market price of our common stock could decline.

We depend on a few payers for a significant portion of our revenue and if one or more significant payers stops providing reimbursement or decreases the amount of reimbursement for our tests, our revenue could decline.

Revenue for tests performed on patients covered by Medicare, UnitedHealthcare and Aetna was 26%, 14% and 9%, respectively, of our revenue for the six months ended June 30, 2015, compared with 28%, 16% and 11%, respectively, in the six months ended June 30, 2014. The percentage of our revenue derived from significant payers is expected to fluctuate from period to period as our revenue increases, as additional payers provide reimbursement for our tests or if one or more payers were to stop reimbursing for our tests. Effective January 2012, Palmetto GBA, the regional Medicare administrative contractor, or MAC, that handled claims processing for Medicare services with jurisdiction at that time, issued coverage and payment determinations for the GEC. On a five-year rotational basis, Medicare requests bids for its regional MAC services. Any future changes, in the MAC processing or coding for Medicare claims for the Afirma GEC could result in a change in the coverage or reimbursement rates for such products, or the loss of coverage.

Although we have entered into contracts with certain third-party payers which establish in-network allowable rates of reimbursement for our Afirma tests, payers may suspend or discontinue reimbursement at any time, may require or increase co-payments from patients, or may reduce the reimbursement rates paid to us. Any such actions could have a negative effect on our revenue.

Table of Contents

If payers do not provide reimbursement, rescind or modify their reimbursement policies, delay payments for our tests, recoup past payments, or if we are unable to successfully negotiate additional reimbursement contracts, our commercial success could be compromised.

Physicians may not order our tests unless payers reimburse a substantial portion of the test price. There is significant uncertainty concerning third-party reimbursement of any test incorporating new technology, including the Afirma GEC and Malignancy Classifiers as well as Percepta, which we launched in April 2015. Reimbursement by a payer may depend on a number of factors, including a payer's determination that these tests are:

- not experimental or investigational;
- pre-authorized and appropriate for the specific patient;
- cost-effective;
- supported by peer-reviewed publications; and
- included in clinical practice guidelines.

Since each payer makes its own decision as to whether to establish a coverage policy or enter into a contract to reimburse our test, seeking these approvals is a time-consuming and costly process.

We do not have a contracted rate of reimbursement with many payers for Afirma, and we do not have any contracted reimbursement with respect to Percepta. Without a contracted rate for reimbursement, our claims are often denied upon submission, and we must appeal the claims. The appeals process is time consuming and expensive, and may not result in payment. In cases where there is not a contracted rate for reimbursement, there is typically a greater patient co-insurance or co-payment requirement which may result in further delay or decreased likelihood of collection. Payers may attempt to recoup prior payments after review, sometimes after significant time has passed, which would impact future revenue.

We expect to continue to focus substantial resources on increasing adoption of and coverage and reimbursement for the Afirma test. We believe it may take several years to achieve coverage and contracted reimbursement with a majority of third-party payers. However, we cannot predict whether, under what circumstances, or at what payment levels payers will reimburse for our test. In addition, the Afirma Malignancy Classifiers, launched in May 2014, and Percepta, launched in April 2015, and any other new tests we may develop in the future will require that we expend substantial time and resources in order to obtain reimbursement. Also, payer consolidation is underway and creates uncertainty as to whether coverage and contracts with existing payers will survive. Our failure to establish broad adoption of and reimbursement for our tests, or our inability to maintain existing reimbursement from payers, will negatively impact our ability to generate revenue and achieve profitability, as well as our future prospects and our business.

We may experience limits on our revenue if physicians decide not to order Afirma.

If we are unable to create or maintain demand for Afirma in sufficient volume, we may not become profitable. To generate demand, we will need to continue to educate physicians about the benefits and cost-effectiveness of Afirma through published papers, presentations at scientific conferences and one-on-one education by our sales force. In addition, our ability to obtain and maintain adequate reimbursement from third-party payers will be critical to generating revenue.

Several existing guidelines and historical practices in the United States regarding indeterminate thyroid nodule FNA results recommend a full or partial surgical thyroidectomy in most cases. Accordingly, physicians may be reluctant to order a diagnostic solution that may suggest surgery is unnecessary where some current guidelines and historical practice have typically led to such procedures. Moreover, our diagnostic services are performed at a specialized clinical reference laboratory rather than by a pathologist in a local laboratory, so pathologists may be reluctant to support our services. In addition, guidelines for the diagnosis and treatment of thyroid nodules may subsequently be revised to recommend another type of treatment protocol, and these changes may result in medical practitioners deciding not to use Afirma. These facts may make physicians reluctant to convert to using or continuing to use Afirma, which could limit our ability to generate revenue and our ability to achieve profitability. To the extent international markets have existing practices and standards of care that are different than those in the United States, we may face challenges with the adoption of Afirma outside the United States.

Table of Contents

The success of our relationship with Genzyme to co-promote Afirma may have a significant effect on our business.

We sell Afirma in the United States through our internal sales team and through our Amended and Restated U.S. Co-promotion Agreement with Genzyme Corporation, or Amended Agreement. Under the Amended Agreement, we are required to pay Genzyme a co-promotion fee that is equal to a percentage of our cash receipts from the sale of the Afirma GEC test. The percentage is currently set at 15% beginning on January 1, 2015. Our agreement with Genzyme expires in 2027. We have also granted Genzyme a right of first offer to co-promote any future thyroid cancer product that we commercialize. If Genzyme does not commit the necessary resources to market and sell the Afirma GEC test to the level of our expectations, or if they terminate the agreement, we may not realize the benefits of this relationship and our ability to generate revenue in the future may be harmed. If our agreement with Genzyme were terminated, we would have to hire additional sales personnel to support the growth of Afirma and any other thyroid product we had previously agreed to co-promote with Genzyme.

In February 2015, we entered into an Ex-U.S. Co-promotion Agreement with Genzyme for the promotion of the Afirma GEC test with exclusivity in five countries outside the United States initially and in other countries agreed to from time to time. The term of the agreement is January 1, 2015 and continues until December 31, 2019, with extension of the agreement possible upon agreement of the parties. Country-specific terms have been established under this agreement for Brazil and Singapore and a right of first negotiation has been established for Canada, the Netherlands and Italy. We will pay Genzyme 25% of net revenue from the sale of the Afirma GEC test in Brazil and Singapore over a five-year period commencing January 1, 2015. Beginning in the fourth year of the agreement, if we terminate the agreement for convenience, we may be required to pay a termination fee contingent on the number of GEC billable results generated. If Genzyme does not commit the necessary resources to market and sell the Afirma GEC test outside the United States to the level of our expectations, or if they terminate the agreement, we may not realize the benefits of this relationship and our ability to generate revenue in the future may be harmed.

Due to how we recognize revenue, our quarterly operating results are likely to fluctuate.

We recognize a large portion of our revenue upon the earlier of receipt of third-party payer notification of payment or when cash is received. We have little visibility as to when we will receive payment for our diagnostic test, and we must appeal negative payment decisions, which delays collections. For tests performed where we have an agreed upon reimbursement rate or we are able to make a reasonable estimate of reimbursement at the time delivery is complete, such as in the case of Medicare and certain other payers, we recognize the related revenue upon delivery of a patient report to the prescribing physician based on the established billing rate less contractual and other adjustments to arrive at the amount that we expect to collect. We determine the amount we expect to collect based on a per payer, per contract or agreement basis. In the first period in which revenue is accrued for a particular payer, there generally is a one-time increase in revenue. In situations where we are not able to make a reasonable estimate of reimbursement, we recognize revenue upon the earlier of receipt of third-party notification of payment or when cash is received. Upon ultimate collection, the amount received from Medicare and other payers where reimbursement was estimated is compared to previous estimates and the contractual allowance is adjusted accordingly. These factors will likely result in fluctuations in our quarterly revenue. Should we recognize revenue from payers on an accrual basis and later determine the judgments underlying estimated reimbursement change, or were incorrect at the time we accrued such revenue, our financial results could be negatively impacted in future quarters. As a result, comparing our operating results on a period-to-period basis may not be meaningful. You should not rely on our past results as an indication of our future performance. In addition, these fluctuations in revenue may make it difficult for us, research analysts and investors to accurately forecast our revenue and operating results. If our revenue or operating results fall below expectations, the price of our common stock would likely decline.

We rely on sole suppliers for some of the reagents, equipment, chips and other materials used to perform our tests, and we may not be able to find replacements or transition to alternative suppliers.

We rely on sole suppliers, such as NuGEN Technologies, Inc., Affymetrix, Inc. and Thermo Fischer Scientific, Inc., for critical supply of reagents, equipment, chips and other materials that we use to perform our tests. We also purchase components used in our collection kits from sole-source suppliers. Some of these items are unique to these suppliers and vendors. In addition, we utilize a sole source to assemble and distribute our sample collection kits. While we have developed alternate sourcing strategies for these materials and vendors, we cannot be certain whether these strategies will be effective or the alternative sources will be available when we need them. If these suppliers can no longer provide us with the materials we need to perform the tests and for our collection kits, if the materials do not meet our quality specifications, or if we cannot obtain acceptable substitute materials, an interruption in test processing could occur and we may not be able to deliver patient reports. Any such interruption may significantly affect our future revenue, cause us to incur higher costs, and harm our customer relationships and reputation. In addition, in order to mitigate these risks, we maintain inventories of these supplies at higher levels than would be the case if multiple sources of supply were available. If our test volume decreases, we may hold excess inventory with expiration dates that occur before use which would adversely affect our losses and cash flow position.

Table of Contents

We depend on a specialized cytopathology practice to perform the cytopathology component of Afirma, and our ability to perform our diagnostic solution would be harmed if we were required to secure a replacement.

We rely on Thyroid Cytopathology Partners, P.A., or TCP, to provide cytopathology professional diagnoses on thyroid FNA samples pursuant to a pathology services agreement. Pursuant to this agreement, TCP has the exclusive right to provide the cytopathology diagnoses on FNA samples at a fixed price per test. We have also agreed to allow TCP to co-locate in a portion of our facilities in Austin, Texas. Our agreement with TCP is effective through December 31, 2015 and thereafter automatically renews every year unless either party provides notice of intent not to renew at least 12 months prior to the end of the then-current term.

If TCP were not able to support our current test volume or future increases in test volume or to provide the quality of services we require, or if we are unable to agree on commercial terms and our relationship with TCP were to terminate, our business would be harmed until we are able to secure the services of another cytopathology provider. There can be no assurance that we would be successful in finding a replacement that would be able to conduct cytopathology diagnoses at the same volume or with the same high-quality results as TCP. Locating another suitable cytopathology provider could be time consuming and would result in delays in processing tests until a replacement was fully integrated with our test processing operations.

If we are unable to support demand for Afirma or any of our future products or solutions, our business could suffer.

As demand for Afirma grows, and as we commercialize new products such as the Percepta test, we will need to continue to scale our testing capacity and processing technology, expand customer service, billing and systems processes and enhance our internal quality assurance program. We will also need additional certified laboratory scientists and other scientific and technical personnel to process higher volumes of our tests. We cannot assure you that any

increases in scale, related improvements and quality assurance will be successfully implemented or that appropriate personnel will be available. Failure to implement necessary procedures, transition to new processes or hire the necessary personnel could result in higher costs of processing tests, quality control issues or inability to meet demand. There can be no assurance that we will be able to perform our testing on a timely basis at a level consistent with demand, or that our efforts to scale our operations will not negatively affect the quality of test results. If we encounter difficulty meeting market demand or quality standards, our reputation could be harmed and our future prospects and our business could suffer.

If the FDA were to begin regulating our tests, we could incur substantial costs and delays associated with trying to obtain premarket clearance or approval.

Clinical laboratory tests like our tests are regulated under the Clinical Laboratory Improvement Amendments of 1988, or CLIA, as well as by applicable state laws. Most laboratory developed tests, or LDTs, are not currently subject to FDA regulation, although reagents, instruments, software or components provided by third parties and used to perform LDTs may be subject to regulation. Although the FDA has never defined what qualifies as an LDT, we believe that the Afirma and Percepta tests are LDTs. FDA currently exercises its enforcement discretion for LDTs. In October 2014, the FDA published draft guidance documents describing the framework by which they might regulate LDTs. The framework is similar to the guidance they issued previously. There is no timeframe in which the FDA must issue final guidance documents.

If the FDA requires us to seek clearance or approval to offer our existing tests or any of our future products for clinical use, we may not be able to obtain such approvals on a timely basis, or at all. If premarket review is required, our business could be negatively impacted if we are required to stop selling our products pending their clearance or approval or the launch of any new products that we develop could be delayed by new requirements. The cost of conducting clinical trials and otherwise developing data and information to support premarket applications may be significant. In addition, future regulation by the FDA could subject our business to further regulatory risks and costs. Failure to comply with applicable regulatory requirements of the FDA could result in enforcement action, including receiving untitled or warning letters, fines, injunctions, or civil or criminal penalties. In addition, we could be subject to a recall or seizure of current or future products, operating restrictions, partial suspension or total shutdown of production. Any such enforcement action would have a material adverse effect on our business, financial condition and operations. In addition, our sample collection containers are classified as Class I medical devices and are listed with the FDA. If the FDA were to determine that they are a Class II medical devices, we would be required to file 510(k) applications and obtain FDA clearance to use the containers, which could be time consuming and expensive.

Some of the materials we use for the Afirma and Percepta tests and that we may use for future products are labeled for research use only. In November 2013, the FDA finalized guidance regarding the sale and use of products labeled for research or investigational use only. Among other things, the guidance advises that the FDA continues to be concerned about distribution of research- investigational-use only products intended for clinical diagnostic use and that the manufacturer's objective intent for the product's intended use will be determined by examining the totality of circumstances, including advertising, instructions for clinical interpretation, presentations that describe clinical use, and specialized technical support, surrounding the distribution of the product in question. The FDA has advised that if evidence demonstrates that a product is inappropriately labeled for research-investigational- use only, the device would be misbranded and adulterated within the meaning of the Federal Food, Drug and Cosmetic Act. Some of the reagents, instruments, software or components obtained by us from suppliers for use in our products are currently labeled as research-use only products. If the FDA were to undertake enforcement actions, some of our suppliers might cease selling research use only products to us, and any failure to obtain an acceptable substitute could significantly and adversely affect our business, financial condition and results of operations, including increasing the cost of testing or delaying, limiting or prohibiting the purchase of reagents, instruments, software or components necessary to perform testing.

Table of Contents

If we are unable to compete successfully, we may be unable to increase or sustain our revenue or achieve profitability.

Our principal competition for our tests comes from traditional methods used by physicians to diagnose and manage patient care decisions. For example, with our Afirma test, practice guidelines in the United States have historically recommended that patients with indeterminate diagnoses from cytopathology results be considered for surgery to remove all or part of the thyroid to rule out cancer. This practice has been the standard of care in the United States for many years, and we need to continue to educate physicians about the benefits of the Afirma test to change clinical practice. The same will be true for Percepta.

We also face competition from commercial laboratories, such as Laboratory Corporation of America Holdings, Quest Diagnostics Incorporated and Sonic Healthcare USA with strong infrastructure to support the commercialization of diagnostic services. We face potential competition from companies such as Illumina, Inc. and Thermo Fisher Scientific Inc., both of which have announced their intention to enter the clinical diagnostics market. Other potential competitors include companies that develop diagnostic products, such as Roche Diagnostics, a division of Roche Holding Ltd, Siemens AG and Qiagen N.V. We also face competition from companies and academic institutions that use next generation sequencing technology or other methods to measure mutational markers such as BRAF and KRAS along with numerous other mutations. In the future, we may also face competition from companies such as Rosetta Genomics Ltd., Integrated Diagnostics, Inc. and others who are developing new products or technologies that may compete with our tests.

In addition, competitors may develop their own versions of our solution in countries where we do not have patents or where our intellectual property rights are not recognized and compete with us in those countries, including encouraging the use of their solution by physicians in other countries.

To compete successfully we must be able to demonstrate, among other things, that our diagnostic test results are accurate and cost effective, and we must secure a meaningful level of reimbursement for our products.

Many of our potential competitors have widespread brand recognition and substantially greater financial, technical and research and development resources, and selling and marketing capabilities than we do. Others may develop products with prices lower than ours that could be viewed by physicians and payers as functionally equivalent to our solution, or offer solutions at prices designed to promote market penetration, which could force us to lower the list price of our solution and affect our ability to achieve profitability. If we are unable to change clinical practice in a meaningful way or compete successfully against current and future competitors, we may be unable to increase market acceptance and sales of our products, which could prevent us from increasing our revenue or achieving profitability and could cause the market price of our common stock to decline. As we add new tests and services, we will face many of these same competitive risks for these new tests.

The loss of members of our senior management team or our inability to attract and retain key personnel could adversely affect our business.

Our success depends largely on the skills, experience and performance of key members of our executive management team and others in key management positions. The efforts of each of these persons together will be critical to us as we continue to develop our technologies and test processes and focus on our growth. If we were to lose one or more of these key employees, we may experience difficulties in competing effectively, developing our technologies and implementing our business strategy.

In addition, our research and development programs and commercial laboratory operations depend on our ability to attract and retain highly skilled scientists. We may not be able to attract or retain qualified scientists and technicians in the future due to the intense competition for qualified personnel among life science businesses, particularly in the San Francisco Bay Area. Our success in the development and commercialization of advanced diagnostics requires a significant medical and clinical staff to conduct studies and educate physicians and payers on the merits of our tests in order to achieve adoption and reimbursement. We are in a highly competitive industry to attract and retain this talent. As a public company located in the San Francisco Bay Area, we face intense competition for highly skilled finance and accounting personnel. If we are unable to attract and retain finance and accounting personnel experienced in public company financial reporting, we risk being unable to close our books and file our public documents on a timely basis. Additionally, our success depends on our ability to attract and retain qualified sales people. During 2014, we significantly expanded our sales force for Afirma and will continue to do so, to a lesser extent, in 2015. There can be no assurance that they will be successful in maintaining and growing the business. As we plan to further increase our sales channels for new tests such as Percepta, we may have difficulties locating and recruiting additional sales personnel or retaining qualified salespeople, which could cause a delay or decline in the rate of adoption of our tests. Finally, our business requires specialized capabilities in reimbursement, billing, and other areas and there may be a shortage of qualified individuals. If we are not able to attract and retain the necessary personnel to accomplish our business objectives, we may experience constraints that could adversely affect our ability to support our research and development, clinical laboratory, sales and reimbursement, billing and finance efforts. All of our employees are at will, which means that either we or the employee may terminate their employment at any time. We do not carry key man insurance for any of our employees.

Table of Contents

We may be unable to manage our future growth effectively, which could make it difficult to execute our business strategy.

In addition to the need to scale our testing capacity, future growth, including our transition to a multi-product company with international operations, will impose significant added responsibilities on management, including the need to identify, recruit, train and integrate additional employees with the necessary skills to support the growing complexities of our business. In addition, rapid and significant growth may place strain on our administrative, financial and operational infrastructure. Our ability to manage our business and growth will require us to continue to improve our operational, financial and management controls, reporting systems and procedures. We have implemented an internally developed data warehouse, which is critical to our ability to track our diagnostic services and patient reports delivered to physicians, as well as to support our financial reporting systems. The time and resources required to optimize these systems is uncertain, and failure to complete optimization in a timely and efficient manner could adversely affect our operations. Additionally, growth requires us to expand and move our South San Francisco operations, and we have leased a new facility beginning in June 2015. The move to the new laboratory facility could require us to re-certify our laboratory in South San Francisco. This move of our offices and laboratory could disrupt our business and will require the investment of resources. If we are unable to manage our growth effectively, it may be difficult for us to execute our business strategy and our business could be harmed.

Billing for our diagnostic tests is complex, and we must dedicate substantial time and resources to the billing process to be paid.

Billing for clinical laboratory testing services is complex, time consuming and expensive. Depending on the billing arrangement and applicable law, we bill various payers, including Medicare, insurance companies and patients, all of which have different billing requirements. We generally bill third-party payers for our diagnostic tests and pursue reimbursement on a case-by-case basis where pricing contracts are not in place. To the extent laws or contracts require us to bill patient co-payments or co-insurance, we must also comply with these requirements. We may also face increased risk in our collection efforts, including potential write-offs of doubtful accounts and long collection cycles, which could adversely affect our business, results of operations and financial condition.

Several factors make the billing process complex, including:

- differences between the list price for our tests and the reimbursement rates of payers;
- compliance with complex federal and state regulations related to billing Medicare;
- disputes among payers as to which party is responsible for payment;
- differences in coverage and in information and billing requirements among payers, including the need for prior authorization and/or advanced notification;
- the effect of patient co-payments or co-insurance;
- changes to billing codes used for our tests;
- incorrect or missing billing information; and
- the resources required to manage the billing and claims appeals process.

Standard industry billing codes, known as CPT codes, that we use to bill for cytopathology do not exist for our proprietary molecular diagnostic tests. Therefore, until such time that we are awarded and are able to use a designated CPT code specific to our tests, we use “miscellaneous” codes for claim submissions. These codes can change over time. When codes change, there is a risk of an error being made in the claim adjudication process. These errors can occur with claims submission, third-party transmission or in the processing of the claim by the payer. Claim adjudication errors may result in a delay in payment processing or a reduction in the amount of the payment received. Coding changes, therefore, may have an adverse effect on our revenues. Even when we receive a designated CPT code specific to our tests, there can be no assurance that payers will recognize these codes in a timely manner or that the process to transitioning to such a code will not result in errors or delays in payments. A specific CPT code for the GEC was published by the American

Medical Association in early 2015. It is anticipated that the code will become effective by January 1, 2016. There can be no assurance that we or our customers who bill will not face issues as the new code is utilized, which could have an adverse effect on our collection rates, revenue, and cost of collecting.

Table of Contents

As we introduce new tests, such as Percepta, we will need to add new codes to our billing process as well as our financial reporting systems. Failure or delays in effecting these changes in external billing and internal systems and processes could negatively affect our revenue and cash flow.

In October 2015, the Centers for Medicare and Medicaid Services, or CMS, will replace the ICD-9 code set with the ICD-10 code set. The transition will require ordering physicians to submit ICD-10 codes along with their requisitions for our tests with FNA samples. If physicians do not send proper coding with requisitions, electronic billing systems are not prepared for the transition, or payers have not upgraded their systems to appropriately pay claims with the new codes, we may experience delays in collecting payments, which would impact our revenue recognized on a cash basis, and our cash position.

Additionally, our billing activities require us to implement compliance procedures and oversight, train and monitor our employees, challenge coverage and payment denials, assist patients in appealing claims, and undertake internal audits to evaluate compliance with applicable laws and regulations as well as internal compliance policies and procedures. Payers also conduct external audits to evaluate payments, which add further complexity to the billing process. If the payer makes an overpayment determination, there is a risk that we may be required to return some portion of prior payments we have received. These billing complexities, and the related uncertainty in obtaining payment for our diagnostic solution, could negatively affect our revenue and cash flow, our ability to achieve profitability, and the consistency and comparability of our results of operations.

We rely on a third-party to transmit claims to payers, and any delay in transmitting claims could have an adverse effect on our revenue.

While we manage the overall processing of claims, we rely on a third-party provider to transmit the actual claims to payers based on the specific payer billing format. We have previously experienced delays in claims processing when our third-party provider made changes to its invoicing system, and again when it did not submit claims to payers within the timeframe we require. Additionally, coding for diagnostic tests may change, and such changes may cause short-term billing errors that may take significant time to resolve. If claims are not submitted to payers on a timely basis or are erroneously submitted, or if we are required to switch to a different provider to handle claim submissions, we may experience delays in our ability to process these claims and receipt of payments from payers, which would have an adverse effect on our revenue and our business.

Developing new products involves a lengthy and complex process, and we may not be able to commercialize on a timely basis, or at all, other products we are developing.

We have enhancements to our current Afirma offering and other diagnostic solutions under development that will require us to devote considerable resources to research and development. There can be no assurance that we will be able to identify other diseases that can be effectively addressed with our molecular cytology platform. In addition, if we identify such diseases, we may not be able to develop products with the diagnostic accuracy necessary to be clinically useful and commercially successful. We may face challenges obtaining sufficient numbers of samples to validate a genomic signature for a molecular diagnostic product. We have recently launched the Percepta test and are in the process of developing a test for interstitial lung disease, specifically IPF. We still must complete clinical utility studies of Percepta in order to obtain reimbursement, which studies are currently underway. Our product for interstitial lung diseases may not be fully developed and introduced as planned in 2016.

In order to develop and commercialize diagnostic tests, we need to:

- expend significant funds to conduct substantial research and development;
- conduct successful analytical and clinical studies;
- scale our laboratory processes to accommodate new tests; and
- build the commercial infrastructure to market and sell new products.

Table of Contents

Our product development process involves a high degree of risk and may take several years. Our product development efforts may fail for many reasons, including:

- failure to identify a genomic signature in biomarker discovery;
- inability to secure sufficient numbers of samples at an acceptable cost and on an acceptable timeframe to conduct analytical and clinical studies; or
- failure of clinical validation studies to support the effectiveness of the test.

Typically, few research and development projects result in commercial products, and success in early clinical studies often is not replicated in later studies. At any point, we may abandon development of a product candidate or we may be required to expend considerable resources repeating clinical studies, which would adversely affect the timing for generating potential revenue from a new product and our ability to invest in other products in our pipeline. If a clinical validation study fails to demonstrate the prospectively defined endpoints of the study or if we fail to sufficiently demonstrate analytical validity, we might choose to abandon the development of the product, which could harm our business. In addition, competitors may develop and commercialize competing products or technologies faster than us or at a lower cost.

We may acquire businesses or assets, form joint ventures or make investments in other companies or technologies that could harm our operating results, dilute our stockholders' ownership, increase our debt or cause us to incur significant expense.

We acquired Allegro Diagnostics in September 2014, and we may pursue additional acquisitions of complementary businesses or assets, as well as technology licensing arrangements as part of our business strategy. We also may pursue strategic alliances that leverage our core technology and industry experience to expand our offerings or distribution, or make investments in other companies. To date, we have limited experience with respect to acquisitions and the formation of strategic alliances and joint ventures. We may not be able to integrate acquisitions successfully into our existing business, and we could assume unknown or contingent liabilities. In addition, we may not realize the expected benefits of our recent acquisition of Allegro or any businesses we may acquire in the future. Any acquisitions made by us also could result in significant write-offs or the incurrence of debt and contingent liabilities, any of which could harm our operating results. Integration of acquired companies or businesses we may acquire in the future also may require management resources that otherwise would be available for ongoing development of our existing business. We may not identify or complete these transactions in a timely manner, on a cost-effective basis, or at all, and we may not realize the anticipated benefits of any acquisition, technology license, strategic alliance, joint venture or investment.

To finance any acquisitions or investments, we may choose to issue shares of our stock as consideration, which would dilute the ownership of our stockholders. If the price of our common stock is low or volatile, we may not be able to acquire other companies for stock. Alternatively, it may be necessary for us to raise additional funds for these activities through public or private financings. Additional funds may not be available on terms that are favorable to us, or at all. If these funds are raised through the sale of equity or convertible debt securities, dilution to our stockholders could result. Our current loan and security agreement contains covenants that could limit our ability to sell debt securities or obtain additional debt financing arrangements.

If we are unable to develop products to keep pace with rapid technological, medical and scientific change, our operating results and competitive position could be harmed.

In recent years, there have been numerous advances in technologies relating to diagnostics, particularly diagnostics that are based on genomic information. These advances require us to continuously develop our technology and to work to develop new solutions to keep pace with evolving standards of care. Our solutions could become obsolete unless we continually innovate and expand our product offerings to include new clinical applications. If we are unable to develop new products or to demonstrate the applicability of our products for other diseases, our sales could decline and our competitive position could be harmed.

If we fail to comply with federal, state and foreign laboratory licensing requirements, we could lose the ability to perform our tests or experience disruptions to our business.

We are subject to CLIA, a federal law that regulates clinical laboratories that perform testing on specimens derived from humans for the purpose of providing information for the diagnosis, prevention or treatment of disease. CLIA regulations mandate specific standards in the areas of personnel qualifications, administration, and participation in proficiency testing, patient test management and quality assurance. CLIA certification is also required in order for us to be eligible to bill state and federal healthcare programs, as well as many private third-party payers. To renew these certifications, we are subject to survey and inspection every two years. Moreover, CLIA inspectors may make random inspections of our clinical reference laboratories. If we relocate either of our facilities, we could be required to undergo certification at our new facility in order to offer our tests.

Table of Contents

We are also required to maintain state licenses to conduct testing in our laboratories. California, New York, Texas, among other states' laws, require that we maintain a license and establish standards for the day-to-day operation of our clinical reference laboratories, including the training and skills required of personnel and quality control matters. In addition, both of our clinical reference laboratories are required to be licensed on a test-specific basis by New York State. We have received approval for the Afirma tests we currently offer, but will need to obtain approval for the Percepta test and any other tests we may offer in the future. New York law also mandates proficiency testing for laboratories licensed under New York state law, regardless of whether such laboratories are located in New York. Several other states require that we hold licenses to test samples from patients in those states. Other states may have similar requirements or may adopt similar requirements in the future. If we were to lose our CLIA certificate or California license for our South San Francisco laboratory, whether as a result of revocation, suspension or limitation, we would no longer be able to perform the GEC, which would eliminate our primary source of revenue and harm our business. If we were to lose our CLIA certificate for our Austin laboratory, we would need to move the receipt and storage of FNAs, as well as the slide preparation for cytopathology, to South San Francisco, which could result in a delay in processing tests during that transition and increased costs. If we were to lose our licenses issued by New York or by other states where we are required to hold licenses, we would not be able to test specimens from those states. New tests we may develop may be subject to new approvals by regulatory bodies such as New York State, and we may not be able to offer our new tests until such approvals are received.

Finally, we may be subject to regulation in foreign jurisdictions as we pursue offering our tests internationally. Other limitations, such as prohibitions on the import of tissue necessary for us to perform our tests or restrictions on the export of tissue imposed by countries outside of the United States may constrain our ability to offer tests internationally in the future.

Changes in healthcare policy, including legislation reforming the U.S. healthcare system, may have a material adverse effect on our financial condition and operations.

The Patient Protection and Affordable Care Act, as amended by the Health Care and Education Affordability Reconciliation Act, collectively the PPACA, enacted in March 2010, makes changes that are expected to significantly affect the pharmaceutical and medical device industries and clinical laboratories. Beginning in 2013, each medical device manufacturer must pay a sales tax in an amount equal to 2.3% of the price for which such manufacturer sells its medical devices that are listed with the FDA. The FDA has asserted that clinical laboratory tests such as Afirma are medical devices. However, consistent with the FDA's policy of exercising enforcement discretion for LDTs, Afirma is not currently listed as a medical device with the FDA. We cannot assure you that the tax will not be extended to services such as ours in the future if Afirma or our other tests were to be regulated as a device. The PPACA also mandates a reduction in payments for clinical laboratory services paid under the Medicare Clinical Laboratory Fee Schedule, or CLFS, of 1.75% for the years 2011 through 2015 and a productivity adjustment to the CLFS which affects our cytopathology billings.

Other significant measures contained in the PPACA include, for example, coordination and promotion of research on comparative clinical effectiveness of different technologies and procedures, initiatives to revise Medicare payment methodologies, such as bundling of payments across the

continuum of care by providers and physicians, and initiatives to promote quality indicators in payment methodologies. The PPACA also includes significant new fraud and abuse measures, including required disclosures of financial arrangements with physician customers, lower thresholds for violations and increasing potential penalties for such violations. In addition, the PPACA establishes an Independent Payment Advisory Board, or IPAB, to reduce the per capita rate of growth in Medicare spending. The IPAB has broad discretion to propose policies to reduce expenditures, which may have a negative effect on payment rates for services. The IPAB proposals may affect payments for clinical laboratory services beginning in 2016 and for hospital services beginning in 2020. We are monitoring the effect of the PPACA to determine the trends and changes that may be necessitated by the legislation, any of which may potentially affect our business.

In addition to the PPACA, the effect of which on our business cannot presently be fully quantified, various healthcare reform proposals have also emerged from federal and state governments. For example, in February 2012, Congress passed the Middle Class Tax Relief and Job Creation Act of 2012, which in part resets the clinical lab payment rates on the Medicare CLFS by 2% in 2013. In addition, a further reduction of 2% is anticipated from implementation of the automatic expense reductions (sequester) under the Budget Control Act of 2011, which is legislated to be in effect for dates of service on or after April 1, 2013 until fiscal year 2024. Reductions resulting from the Congressional sequester are applied to total claims payment made; however, they do not currently result in a rebasing of the negotiated or established Medicare or Medicaid reimbursement rates.

State legislation on reimbursement applies to Medicaid reimbursement and Managed Medicaid reimbursement rates within that state. Some states have passed or proposed legislation that would revise reimbursement methodology for clinical laboratory payment rates under those Medicaid programs. Recent changes to reimbursement methodologies have not changed the payment rate for Afirma; however, we cannot predict whether future healthcare initiatives will be implemented at the federal or state level or in countries outside of the United States in which we may do business, or the effect any future legislation or regulation will have on us. The taxes imposed by the new federal legislation, cost reduction measures and the expansion in the role of the U.S. government in the healthcare industry may result in decreased revenue, lower reimbursement by payers for our tests or reduced medical procedure volumes, all of which may adversely affect our business, financial condition and results of operations. In addition, sales of our tests outside the United States will subject our business to foreign regulatory requirements and cost-reduction measures, which may also change over time.

Ongoing calls for deficit reduction at the Federal government level and reforms to programs such as the Medicare program to pay for such reductions may affect the pharmaceutical, medical device and clinical laboratory industries. In particular, recommendations by the Simpson-Bowles Commission called for the combination of Medicare Part A (hospital insurance) and Part B (physician and ancillary service insurance) into a single co-insurance and co-payment structure. Currently, clinical laboratory services are excluded from the Medicare Part B co-insurance and co-payment as preventative services. Combining Parts A and B may require clinical laboratories to collect co-payments from patients which may increase our costs and reduce the amount ultimately collected.

In April 2014, the President signed the Protecting Access to Medicare Act of 2014, or PAMA, which included a substantial new payment system for clinical laboratory tests under the CLFS. Under PAMA, laboratories that receive the majority of their Medicare revenues from payments made under the CLFS would report, beginning January 1, 2016, and then on an every three year basis thereafter (or annually for “advanced diagnostic laboratory tests”), private payer payment rates and volumes for their tests. CMS will use the rates and volumes reported by laboratories to develop Medicare payment rates for the tests equal to the volume-weighted median of the private payer payment rates for the tests. The payment rates calculated under PAMA will be effective starting January 1, 2017. Any reductions to payment rates resulting from the new methodology are limited to 10% per test per year in each of the years 2017 through 2019 and to 15% per test per year in each of 2020 through 2022. Although CMS has not yet issued regulations to implement PAMA, we believe our Afirma GEC as well as our Percepta test would be considered an advanced diagnostic laboratory test. Further rule-making from CMS will define the time period and data elements evaluated on an annual basis to set reimbursement rates for tests like ours.

PAMA also requires CMS to issue unique Health Care Common Procedure Coding System, or HCPCS code, to advanced diagnostic laboratory tests by January 1, 2016 for tests that were paid under the Medicare program prior to passage of the Act. In March 2015, we were issued a unique Tier1 CPT code that could impact reimbursement of the Afirma GEC in the future. Under PAMA, new advanced diagnostic laboratory tests paid by Medicare after the date of passage of PAMA will also receive unique HCPCS codes impacting private payer reimbursement of future tests we may commercialize.

PAMA codified coverage rules for laboratory tests by requiring any local coverage determination to be made following the established procedures for development and appeals of local coverage determinations. PAMA also authorizes CMS to consolidate coverage policies for clinical laboratory tests among one to four laboratory-specific MACs. These same contractors may also be designated to process claims if CMS determines that such a model is appropriate.

In addition to changes adopted by PAMA, in 2013 CMS announced plans to bundle payments for clinical laboratory tests together with other services performed during hospital outpatient visits under the Hospital Outpatient Prospective Payment System. CMS exempted molecular diagnostic tests from this packaging provision at that time. It is possible that this exemption could be removed by CMS in future rule making, which might result in lower reimbursement for tests performed in this setting.

We may experience limits on our revenue if patients decide not to use our tests.

Some patients may decide not to use our tests because of price, all or part of which may be payable directly by the patient if the patient’s insurer denies reimbursement in full or in part. There is a growing trend among insurers to shift more of the cost of healthcare to patients in the form of higher co-payments or premiums, and this trend is accelerating which puts patients in the position of having to pay more for our tests. Implementation of provisions of the PPACA has also resulted in increases in premiums and reductions in coverage for some patients. These events may result in patients delaying or forgoing medical checkups or treatment due to their inability to pay for our tests, which could have an adverse effect on our revenue.

Complying with numerous statutes and regulations pertaining to our business is an expensive and time-consuming process, and any failure to comply could result in substantial penalties.

Our operations are subject to other extensive federal, state, local, and foreign laws and regulations, all of which are subject to change. These laws and regulations currently include, among others:

- the Federal Health Insurance Portability and Accountability Act of 1996, or HIPAA, which established comprehensive federal standards with respect to the privacy and security of protected health information and requirements for the use of certain standardized electronic transactions,

and amendments made in 2013 to HIPAA under the Health Information Technology for Economic and Clinical Health Act, or HITECH, which strengthen and expand HIPAA privacy and security compliance requirements, increase penalties for violators, extend enforcement authority to state attorneys general, and impose requirements for breach notification;

- Medicare billing and payment regulations applicable to clinical laboratories;

Table of Contents

- the Federal Anti-Kickback Statute, which prohibits knowingly and willfully offering, paying, soliciting, or receiving remuneration, directly or indirectly, in exchange for or to induce either the referral of an individual, or the furnishing, arranging for, or recommending of an item or service that is reimbursable, in whole or in part, by a federal health care program;

- the Federal Stark physician self-referral law (and state equivalents), which prohibits a physician from making a referral for certain designated health services covered by the Medicare program, including laboratory and pathology services, if the physician or an immediate family member has a financial relationship with the entity providing the designated health services, unless the financial relationship falls within an applicable exception to the prohibition;

- the Federal Civil Monetary Penalties Law, which prohibits, among other things, the offering or transfer of remuneration to a Medicare or state health care program beneficiary if the person knows or should know it is likely to influence the beneficiary's selection of a particular provider, practitioner, or supplier of services reimbursable by Medicare or a state health care program, unless an exception applies;

- the Federal False Claims Act, which imposes liability on any person or entity that, among other things, knowingly presents, or causes to be presented, a false or fraudulent claim for payment to the federal government;

- other federal and state fraud and abuse laws, such as anti-kickback laws, prohibitions on self-referral, fee-splitting restrictions, prohibitions on the provision of products at no or discounted cost to induce physician or patient adoption, and false claims acts, which may extend to services reimbursable by any third-party payer, including private insurers;

- the prohibition on reassignment of Medicare claims, which, subject to certain exceptions, precludes the reassignment of Medicare claims to any other party;

- the rules regarding billing for diagnostic tests reimbursable by the Medicare program, which prohibit a physician or other supplier from marking up the price of the technical component or professional component of a diagnostic test ordered by the physician or other supplier and supervised or performed by a physician who does not "share a practice" with the billing physician or supplier;

- state laws that prohibit other specified practices related to billing such as billing physicians for testing that they order, waiving co-insurance, co-payments, deductibles, and other amounts owed by patients, and billing a state Medicaid program at a price that is higher than what is charged to other payers; and

- the Foreign Corrupt Practices Act of 1977, and other similar laws, which apply to our international activities.

We have adopted policies and procedures designed to comply with these laws and regulations. In the ordinary course of our business, we conduct internal reviews of our compliance with these laws. Our compliance is also subject to governmental review. The growth of our business and sales organization and our expansion outside of the United States may increase the potential of violating these laws or our internal policies and procedures. We believe that we are in material compliance with all statutory and regulatory requirements, but there is a risk that one or more government agencies could take a contrary position. These laws and regulations are complex and are subject to interpretation by the courts and by government agencies. If one or more such agencies alleges that we may be in violation of any of these requirements, regardless of the outcome, it could damage our reputation and adversely affect important business relationships with third parties, including managed care organizations and other commercial third-party payers. Any action brought against us for violation of these or other laws or regulations, even if we successfully defend against it, could cause us to incur significant legal expenses and divert our management's attention from the operation of our business. If our operations are found to be in violation of any of these laws and regulations, we may be subject to any applicable penalty associated with the violation, including civil and criminal penalties, damages and fines, we could be required to refund payments received by us, and we could be required to curtail or cease our operations. Any of the foregoing consequences could seriously harm our business and our financial results.

Table of Contents

International expansion of our business exposes us to business, regulatory, political, operational, financial and economic risks associated with doing business outside of the United States.

Our business strategy includes international expansion in select countries, and may include developing and maintaining physician outreach and education capabilities outside of the United States, establishing agreements with laboratories, and expanding our relationships with international payers. Doing business internationally involves a number of risks, including:

- multiple, conflicting and changing laws and regulations such as tax laws, privacy laws, export and import restrictions, employment laws, regulatory requirements and other governmental approvals, permits and licenses;

- failure by us to obtain regulatory approvals where required for the use of our solution in various countries;

- complexities associated with managing multiple payer reimbursement regimes, government payers or patient self-pay systems;

- logistics and regulations associated with shipping tissue samples, including infrastructure conditions and transportation delays;
- challenges associated with establishing laboratory partners, including proper sample collection techniques, inventory management, sample logistics, billing and promotional activities;
- limits on our ability to penetrate international markets if we are not able to process tests locally;
- financial risks, such as longer payment cycles, difficulty in collecting from payers, the effect of local and regional financial crises, and exposure to foreign currency exchange rate fluctuations;
- natural disasters, political and economic instability, including wars, terrorism, and political unrest, outbreak of disease, boycotts, curtailment of trade and other business restrictions; and
- regulatory and compliance risks that relate to maintaining accurate information and control over activities that may fall within the purview of the Foreign Corrupt Practices Act of 1977, including both its books and records provisions and its anti-bribery provisions.

Any of these factors could significantly harm our future international expansion and operations and, consequently, our revenue and results of operations.

If we are sued for product liability or errors and omissions liability, we could face substantial liabilities that exceed our resources.

The marketing, sale and use of our current or future tests could lead to product liability claims if someone were to allege that the tests failed to perform as they were designed. We may also be subject to liability for errors in the results we provide to physicians or for a misunderstanding of, or inappropriate reliance upon, the information we provide. Our Afirma GEC is performed on FNA samples that are diagnosed as indeterminate by standard cytopathology review. We report results as benign or suspicious to the prescribing physician. Under certain circumstances, we might report a result as benign that later proves to have been malignant. This could be the result of the physician having poor nodule sampling in collecting the FNA, performing the FNA on a different nodule than the one that is malignant or failure of the GEC to perform as intended. We may also be subject to similar types of claims related to our Afirma Malignancy Classifiers and Percepta, as well as tests we may develop in the future. A product liability or errors and omissions liability claim could result in substantial damages and be costly and time consuming for us to defend. Although we maintain product liability and errors and omissions insurance, we cannot assure you that our insurance would fully protect us from the financial impact of defending against these types of claims or any judgments, fines or settlement costs arising out of any such claims. Any product liability or errors and omissions liability claim brought against us, with or without merit, could increase our insurance rates or prevent us from securing insurance coverage in the future. Additionally, any product liability lawsuit could cause injury to our reputation or cause us to suspend sales of our products and solutions. The occurrence of any of these events could have an adverse effect on our business and results of operations.

If our laboratory in South San Francisco becomes inoperable due to an earthquake or either of our laboratories becomes inoperable for any other reason, we will be unable to perform our testing services and our business will be harmed.

We perform all of the Afirma GEC testing at our laboratory in South San Francisco, California. Our laboratory in Austin, Texas accepts and stores substantially all FNA samples pending transfer to our California laboratory for Afirma GEC processing. We have commenced Percepta testing in our South San Francisco laboratory as well. The laboratories and equipment we use to perform our tests would be costly to replace and could require substantial lead time to replace and qualify for use if they became inoperable. Either of our facilities may be harmed or rendered inoperable by natural or man-made disasters, including earthquakes, flooding and power outages, which may render it difficult or impossible for us to perform our testing services for some period of time or to receive and store samples. The inability to perform our tests for even a short period of time may result in the loss of customers or harm our reputation, and we may be unable to regain those customers in the future. Although we maintain insurance for damage to our property and the disruption of our business, this insurance may not be sufficient to cover all of our potential losses and may not continue to be available to us on acceptable terms, if at all.

Table of Contents

If we cannot enter into new clinical study collaborations, our product development and subsequent commercialization could be delayed.

In the past, we have entered into clinical study collaborations, and our success in the future depends in part on our ability to enter into additional collaborations with highly regarded institutions. This can be difficult due to internal and external constraints placed on these organizations. Some organizations may limit the number of collaborations they have with any one company so as to not be perceived as biased or conflicted. Organizations may also have insufficient administrative and related infrastructure to enable collaborations with many companies at once, which can extend the time it takes to develop, negotiate and implement a collaboration. Additionally, organizations often insist on retaining the rights to publish the clinical data resulting from the collaboration. The publication of clinical data in peer-reviewed journals is a crucial step in commercializing and obtaining reimbursement for our diagnostic tests, and our inability to control when and if results are published may delay or limit our ability to derive sufficient revenue from them.

If we use hazardous materials in a manner that causes contamination or injury, we could be liable for resulting damages.

We are subject to federal, state and local laws, rules and regulations governing the use, discharge, storage, handling and disposal of biological material, chemicals and waste. We cannot eliminate the risk of accidental contamination or injury to employees or third parties from the use, storage, handling or disposal of these materials. In the event of contamination or injury, we could be held liable for any resulting damages, remediation costs and any related penalties or fines, and any liability could exceed our resources or any applicable insurance coverage we may have. The cost of compliance with these laws and regulations may become significant, and our failure to comply may result in substantial fines or other consequences, and either could negatively affect our operating results.

Our inability to raise additional capital on acceptable terms in the future may limit our ability to develop and commercialize new solutions and technologies and expand our operations.

We expect capital expenditures and operating expenses to increase over the next several years as we expand our infrastructure, commercial operations and research and development activities. We may seek to raise additional capital through equity offerings, debt financings, collaborations or

licensing arrangements. Additional funding may not be available to us on acceptable terms, or at all. If we raise funds by issuing equity securities, dilution to our stockholders could result. Any equity securities issued also may provide for rights, preferences or privileges senior to those of holders of our common stock. The terms of debt securities issued or borrowings could impose significant restrictions on our operations. The incurrence of additional indebtedness or the issuance of certain equity securities could result in increased fixed payment obligations and could also result in restrictive covenants, such as limitations on our ability to incur additional debt or issue additional equity, limitations on our ability to acquire or license intellectual property rights, and other operating restrictions that could adversely affect our ability to conduct our business. In addition, the issuance of additional equity securities by us, or the possibility of such issuance, may cause the market price of our common stock to decline. In the event that we enter into collaborations or licensing arrangements to raise capital, we may be required to accept unfavorable terms. These agreements may require that we relinquish or license to a third-party on unfavorable terms our rights to technologies or product candidates that we otherwise would seek to develop or commercialize ourselves, or reserve certain opportunities for future potential arrangements when we might be able to achieve more favorable terms. If we are not able to secure additional funding when needed, we may have to delay, reduce the scope of or eliminate one or more research and development programs or selling and marketing initiatives. In addition, we may have to work with a partner on one or more of our products or development programs, which could lower the economic value of those programs to our company.

Security breaches, loss of data and other disruptions to us or our third-party service providers could compromise sensitive information related to our business or prevent us from accessing critical information and expose us to liability, which could adversely affect our business and our reputation.

In the ordinary course of our business, we and our third-party service providers collect and store sensitive data, including legally protected health information, personally identifiable information about our patients, credit card information, intellectual property, and our proprietary business and financial information. We manage and maintain our applications and data utilizing a combination of on-site systems, managed data center systems and cloud-based data center systems. We face a number of risks relative to our protection of, and our service providers' protection of, this critical information, including loss of access, inappropriate disclosure and inappropriate access, as well as risks associated with our ability to identify and audit such events.

Table of Contents

The secure processing, storage, maintenance and transmission of this critical information is vital to our operations and business strategy, and we devote significant resources to protecting such information. Although we take measures to protect sensitive information from unauthorized access or disclosure, our information technology and infrastructure may be vulnerable to attacks by hackers or viruses or otherwise breached due to employee error, malfeasance or other activities. While we are not aware of any such attack or breach, if such event would occur and cause interruptions in our operations, our networks would be compromised and the information we store on those networks could be accessed by unauthorized parties, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, such as HIPAA, and regulatory penalties. Unauthorized access, loss or dissemination could also disrupt our operations, including our ability to process tests, provide test results, bill payers or patients, process claims and appeals, provide customer assistance services, conduct research and development activities, collect, process and prepare company financial information, provide information about our tests and other patient and physician education and outreach efforts through our website, manage the administrative aspects of our business and damage our reputation, any of which could adversely affect our business.

In addition, the interpretation and application of consumer, health-related and data protection laws in the United States, Europe and elsewhere are often uncertain, contradictory and in flux. It is possible that these laws may be interpreted and applied in a manner that is inconsistent with our practices. If so, this could result in government-imposed fines or orders requiring that we change our practices, which could adversely affect our business. Complying with these various laws could cause us to incur substantial costs or require us to change our business practices, systems and compliance procedures in a manner adverse to our business.

If we cannot license rights to use technologies on reasonable terms, we may not be able to commercialize new products in the future.

In the future, we may license third-party technology to develop or commercialize new products. In return for the use of a third-party's technology, we may agree to pay the licensor royalties based on sales of our solutions. Royalties are a component of cost of revenue and affect the margins on our solutions. We may also need to negotiate licenses to patents and patent applications after introducing a commercial product. Our business may suffer if we are unable to enter into the necessary licenses on acceptable terms, or at all, if any necessary licenses are subsequently terminated, if the licensors fail to abide by the terms of the license or fail to prevent infringement by third parties, or if the licensed patents or other rights are found to be invalid or unenforceable.

If we are unable to protect our intellectual property effectively, our business would be harmed.

We rely on patent protection as well as trademark, copyright, trade secret and other intellectual property rights protection and contractual restrictions to protect our proprietary technologies, all of which provide limited protection and may not adequately protect our rights or permit us to gain or keep any competitive advantage. If we fail to protect our intellectual property, third parties may be able to compete more effectively against us and we may incur substantial litigation costs in our attempts to recover or restrict use of our intellectual property.

We apply for and in-license patents covering our products and technologies and uses thereof, as we deem appropriate, however we may fail to apply for patents on important products and technologies in a timely fashion or at all, or we may fail to apply for patents in potentially relevant jurisdictions. We have seven issued patents that expire between 2029 and 2032 related to methods used in the Afirma diagnostic platform, in addition to seven pending U.S. utility patent applications, three U.S. provisional applications and one PCT application. Some of these U.S. utility patent applications have pending foreign counterparts. We also exclusively licensed intellectual property, including rights to one issued patent that will expire in 2031 and three pending U.S. utility patent applications in the thyroid space that would expire between 2030 and 2033 once issued, related to methods that are used in the Afirma diagnostic test, some of which have foreign counterparts. In the lung diagnostic space, we exclusively license intellectual property rights to seven pending patent applications and one issued patent in the United States and abroad. Patents issuing from the licensed portfolio will expire between 2024 and 2028. In addition, we own a PCT application related to our Percepta test. We also own two applications related to other lung diseases, and a pending U.S. application, two ex-U.S. applications, and two provisional U.S. applications related to our interstitial lung disease test under development. Any patents granted from the current lung cancer patent applications will expire from 2032 to 2034 and those from the interstitial lung disease patent applications will expire from 2034 to 2036. It is possible that none of our pending patent applications will result in issued patents in a timely fashion or at all, and even if patents are granted, they may not provide a basis for intellectual property protection of commercially viable products, may not provide us with any competitive advantages, or may be challenged and invalidated by third parties. It is possible that others will design around our current or future patented technologies. We may not be successful in defending any challenges made against our patents or patent applications. Any successful third-party challenge to our patents could result in the unenforceability or invalidity of such patents and increased competition to our business. The outcome of patent litigation can be uncertain and any attempt by us to enforce our patent rights against

others may not be successful, or, if successful, may take substantial time and result in substantial cost, and may divert our efforts and attention from other aspects of our business.

Table of Contents

The patent positions of life sciences companies can be highly uncertain and involve complex legal and factual questions for which important legal principles remain unresolved. No consistent policy regarding the breadth of claims allowed in such companies' patents has emerged to date in the United States or elsewhere. Courts frequently render opinions in the biotechnology field that may affect the patentability of certain inventions or discoveries, including opinions that may affect the patentability of methods for analyzing or comparing nucleic acids.

In particular, the patent positions of companies engaged in the development and commercialization of genomic diagnostic tests, like the Afirma GEC, Malignancy Classifiers and Percepta, are particularly uncertain. Various courts, including the U.S. Supreme Court, have rendered decisions that affect the scope of patentability of certain inventions or discoveries relating to certain diagnostic tests and related methods. These decisions state, among other things, that patent claims that recite laws of nature (for example, the relationship between blood levels of certain metabolites and the likelihood that a dosage of a specific drug will be ineffective or cause harm) are not themselves patentable. What constitutes a law of nature is uncertain, and it is possible that certain aspects of genomic diagnostics tests would be considered natural laws. Accordingly, the evolving case law in the United States may adversely affect our ability to obtain patents and may facilitate third-party challenges to any owned and licensed patents.

The laws of some foreign countries do not protect intellectual property rights to the same extent as the laws of the United States, and we may encounter difficulties protecting and defending such rights in foreign jurisdictions. The legal systems of many other countries do not favor the enforcement of patents and other intellectual property protection, particularly those relating to biotechnology, which could make it difficult for us to stop the infringement of our patents in such countries. Proceedings to enforce our patent rights in foreign jurisdictions could result in substantial cost and divert our efforts and attention from other aspects of our business.

Changes in either the patent laws or in interpretations of patent laws in the United States or other countries may diminish the value of our intellectual property. We cannot predict the breadth of claims that may be allowed or enforced in our patents or in third-party patents. We may not develop additional proprietary products, methods and technologies that are patentable.

In addition to pursuing patents on our technology, we take steps to protect our intellectual property and proprietary technology by entering into agreements, including confidentiality agreements, non-disclosure agreements and intellectual property assignment agreements, with our employees, consultants, academic institutions, corporate partners and, when needed, our advisors. Such agreements may not be enforceable or may not provide meaningful protection for our trade secrets or other proprietary information in the event of unauthorized use or disclosure or other breaches of the agreements, and we may not be able to prevent such unauthorized disclosure. If we are required to assert our rights against such party, it could result in significant cost and distraction.

Monitoring unauthorized disclosure is difficult, and we do not know whether the steps we have taken to prevent such disclosure are, or will be, adequate. If we were to enforce a claim that a third-party had illegally obtained and was using our trade secrets, it would be expensive and time consuming, and the outcome would be unpredictable. In addition, courts outside the United States may be less willing to protect trade secrets.

We may also be subject to claims that our employees have inadvertently or otherwise used or disclosed trade secrets or other proprietary information of their former employers, or to claims that we have improperly used or obtained such trade secrets. Litigation may be necessary to defend against these claims. If we fail in defending such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights and face increased competition to our business. A loss of key research personnel work product could hamper or prevent our ability to commercialize potential products, which could harm our business. Even if we are successful in defending against these claims, litigation could result in substantial costs and be a distraction to management.

Further, competitors could attempt to replicate some or all of the competitive advantages we derive from our development efforts, willfully infringe our intellectual property rights, design around our protected technology or develop their own competitive technologies that fall outside of our intellectual property rights. Others may independently develop similar or alternative products and technologies or replicate any of our products and technologies. If our intellectual property does not adequately protect us against competitors' products and methods, our competitive position could be adversely affected, as could our business.

We have not registered certain of our trademarks, including Afirma and Percepta, in all of our potential markets. If we apply to register these trademarks, our applications may not be allowed for registration in a timely fashion or at all, and our registered trademarks may not be maintained or enforced. In addition, opposition or cancellation proceedings may be filed against our trademark applications and registrations, and our trademarks may not survive such proceedings. If we do not secure registrations for our trademarks, we may encounter more difficulty in enforcing them against third parties than we otherwise would.

To the extent our intellectual property offers inadequate protection, or is found to be invalid or unenforceable, we would be exposed to a greater risk of direct competition. If our intellectual property does not provide adequate coverage of our competitors' products, our competitive position could be adversely affected, as could our business. Both the patent application process and the process of managing patent disputes can be time consuming and expensive.

Table of Contents

We may be involved in litigation related to intellectual property, which could be time-intensive and costly and may adversely affect our business, operating results or financial condition.

We may receive notices of claims of direct or indirect infringement or misappropriation or misuse of other parties' proprietary rights from time to time. Some of these claims may lead to litigation. We cannot assure you that we will prevail in such actions, or that other actions alleging misappropriation or

misuse by us of third-party trade secrets, infringement by us of third-party patents and trademarks or other rights, or the validity of our patents, trademarks or other rights, will not be asserted or prosecuted against us.

We might not have been the first to make the inventions covered by each of our pending patent applications and we might not have been the first to file patent applications for these inventions. To determine the priority of these inventions, we may have to participate in interference proceedings, derivation proceedings, or other post-grant proceedings declared by the U.S. Patent and Trademark Office that could result in substantial cost to us. No assurance can be given that other patent applications will not have priority over our patent applications. In addition, recent changes to the patent laws of the United States allow for various post-grant opposition proceedings that have not been extensively tested, and their outcome is therefore uncertain. Furthermore, if third parties bring these proceedings against our patents, we could experience significant costs and management distraction.

Litigation may be necessary for us to enforce our patent and proprietary rights or to determine the scope, coverage and validity of the proprietary rights of others. The outcome of any litigation or other proceeding is inherently uncertain and might not be favorable to us, and we might not be able to obtain licenses to technology that we require on acceptable terms or at all. Further, we could encounter delays in product introductions, or interruptions in product sales, as we develop alternative methods or products. In addition, if we resort to legal proceedings to enforce our intellectual property rights or to determine the validity, scope and coverage of the intellectual property or other proprietary rights of others, the proceedings could be burdensome and expensive, even if we were to prevail. Any litigation that may be necessary in the future could result in substantial costs and diversion of resources and could have a material adverse effect on our business, operating results or financial condition.

As we move into new markets and applications for our products, incumbent participants in such markets may assert their patents and other proprietary rights against us as a means of slowing our entry into such markets or as a means to extract substantial license and royalty payments from us. Our competitors and others may now and, in the future, have significantly larger and more mature patent portfolios than we currently have. In addition, future litigation may involve patent holding companies or other adverse patent owners who have no relevant product revenue and against whom our own patents may provide little or no deterrence or protection. Therefore, our commercial success may depend in part on our non-infringement of the patents or proprietary rights of third parties. Numerous significant intellectual property issues have been litigated, and will likely continue to be litigated, between existing and new participants in our existing and targeted markets and competitors may assert that our products infringe their intellectual property rights as part of a business strategy to impede our successful entry into or growth in those markets. Third parties may assert that we are employing their proprietary technology without authorization. In addition, our competitors and others may have patents or may in the future obtain patents and claim that making, having made, using, selling, offering to sell or importing our products infringes these patents. We could incur substantial costs and divert the attention of our management and technical personnel in defending against any of these claims. Parties making claims against us may be able to obtain injunctive or other relief, which could block our ability to develop, commercialize and sell products, and could result in the award of substantial damages against us. In the event of a successful claim of infringement against us, we may be required to pay damages and ongoing royalties, and obtain one or more licenses from third parties, or be prohibited from selling certain products. We may not be able to obtain these licenses on acceptable terms, if at all. We could incur substantial costs related to royalty payments for licenses obtained from third parties, which could negatively affect our financial results. In addition, we could encounter delays in product introductions while we attempt to develop alternative methods or products to avoid infringing third-party patents or proprietary rights. Defense of any lawsuit or failure to obtain any of these licenses could prevent us from commercializing products, and the prohibition of sale of any of our products could materially affect our business and our ability to gain market acceptance for our products.

Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation. In addition, during the course of this kind of litigation, there could be public announcements of the results of hearings, motions or other interim proceedings or developments. If securities analysts or investors perceive these results to be negative, it could have a substantial adverse effect on the price of our common stock.

In addition, our agreements with some of our customers, suppliers or other entities with whom we do business require us to defend or indemnify these parties to the extent they become involved in infringement claims, including the types of claims described above. We could also voluntarily agree to defend or indemnify third parties in instances where we are not obligated to do so if we determine it would be important to our business relationships. If we are required or agree to defend or indemnify third parties in connection with any infringement claims, we could incur significant costs and expenses that could adversely affect our business, operating results, or financial condition.

Table of Contents

Risks Related to Being a Public Company

We will continue to incur increased costs and demands on management as a result of compliance with laws and regulations applicable to public companies, which could harm our operating results.

As a public company, we will continue to incur significant legal, accounting, consulting and other expenses that we did not incur as a private company, including costs associated with public company reporting requirements. In addition, the Sarbanes-Oxley Act of 2002 and the Dodd-Frank Act of 2010, as well as rules implemented by the Securities and Exchange Commission, or the SEC, and The NASDAQ Stock Market, impose a number of requirements on public companies, including with respect to corporate governance practices. Our management and other personnel will need to devote a substantial amount of time to these compliance and disclosure obligations. Moreover, these rules and regulations have and will continue to increase our legal, accounting and financial compliance costs and make some activities more complex, time-consuming and costly. We also expect that it will continue to be expensive for us to maintain director and officer liability insurance.

If we are unable to implement and maintain effective internal control over financial reporting, investors may lose confidence in the accuracy and completeness of our reported financial information and the market price of our common stock may be negatively affected.

As a public company, we are required to maintain internal control over financial reporting and to report any material weaknesses in such internal control. Section 404 of the Sarbanes-Oxley Act of 2002 requires that we evaluate and determine the effectiveness of our internal control over financial reporting and, beginning with the annual report for the year ending December 31, 2014, provide a management report on our internal controls on an annual basis. If we have material weaknesses in our internal control over financial reporting, we may not detect errors on a timely basis and our financial statements may be materially misstated. We have only recently compiled the systems, processes and documentation necessary to comply with Section 404 of the Sarbanes-Oxley Act. We will need to maintain and enhance these processes and controls as we grow, and we will require additional management and staff resources to do so. Additionally, even if we conclude our internal controls are effective for a given period, we may in the future identify one or more material

weaknesses in our internal controls, in which case our management will be unable to conclude that our internal control over financial reporting is effective. Moreover, when we are no longer an emerging growth company, our independent registered public accounting firm will be required to issue an attestation report on the effectiveness of our internal control over financial reporting. Even if our management concludes that our internal control over financial reporting is effective, our independent registered public accounting firm may conclude that there are material weaknesses with respect to our internal controls or the level at which our internal controls are documented, designed, implemented or reviewed.

If we are unable to conclude that our internal control over financial reporting is effective, or when we are no longer an emerging growth company, if our auditors were to express an adverse opinion on the effectiveness of our internal control over financial reporting because we had one or more material weaknesses, investors could lose confidence in the accuracy and completeness of our financial disclosures, which could cause the price of our common stock to decline. Irrespective of compliance with Section 404, any failure of our internal control over financial reporting could have a material adverse effect on our reported operating results and harm our reputation. Internal control deficiencies could also result in a restatement of our financial results.

We are an emerging growth company and may elect to comply with reduced public company reporting requirements applicable to emerging growth companies, which could make our common stock less attractive to investors.

We are an emerging growth company, as defined under the Securities Act of 1933, or the Securities Act. We will remain an emerging growth company until December 31, 2018, although if our revenue exceeds $1 billion in any fiscal year before that time, we would cease to be an emerging growth company as of the end of that fiscal year. In addition, if the market value of our common stock that is held by non-affiliates exceeds $700 million as of the last business day of our second fiscal quarter of any fiscal year before the end of that five-year period, we would cease to be an emerging growth company as of December 31 of that year. As an emerging growth company, we may choose to take advantage of exemptions from various reporting requirements applicable to certain other public companies, including not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, reduced financial statement and financial-related disclosures, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirement of holding a nonbinding advisory vote on executive compensation and obtaining stockholder approval of any golden parachute payments not previously approved by our stockholders. We cannot predict whether investors will find our common stock less attractive if we choose to rely on any of these exemptions. If some investors find our common stock less attractive as a result of any choices to reduce future disclosure we may make, there may be a less active trading market for our common stock and our stock price may be more volatile.

Table of Contents

Risks Related to Our Common Stock

Our stock price may be volatile, and you may not be able to sell shares of our common stock at or above the price you paid.

Prior to our initial public offering in October 2013, there was no public market for our common stock, and an active and liquid public market for our stock may not develop or be sustained. In addition, the trading price of our common stock is likely to continue to be highly volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control. These factors include:

- actual or anticipated variations in our and our competitors' results of operations;
- announcements by us or our competitors of new products, commercial relationships or capital commitments;
- changes in reimbursement by current or potential payers;
- issuance of new securities analysts' reports or changed recommendations for our stock;
- fluctuations in our revenue, due in part to the way in which we recognize revenue;
- actual or anticipated changes in regulatory oversight of our products;
- developments or disputes concerning our intellectual property or other proprietary rights;
- commencement of, or our involvement in, litigation;
- announced or completed acquisitions of businesses or technologies by us or our competitors;
- any major change in our management; and
- general economic conditions and slow or negative growth of our markets.

In addition, the stock market in general, and the market for stock of life sciences companies and other emerging growth companies in particular, has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Broad market and industry factors may seriously affect the market price of our common stock, regardless of our actual operating performance. These fluctuations may be even more pronounced in the trading market for our stock for some period of time following our initial public offering, especially if substantial investors sell large blocks of stock, particularly if the trading volume in our stock remains low. In addition, in the past, following periods of volatility in the overall market and the market price of a particular company's securities, securities class action litigation has often been instituted against these companies. This litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources.

If securities or industry analysts issue an adverse opinion regarding our stock or do not publish research or reports about our company, our stock price and trading volume could decline.

The trading market for our common stock will depend in part on the research and reports that equity research analysts publish about us and our business. We do not control these analysts or the content and opinions or financial models included in their reports. Securities analysts may elect not to provide research coverage of our company, and such lack of research coverage may adversely affect the market price of our common stock. The price of our

common stock could also decline if one or more equity research analysts downgrade our common stock or if those analysts issue other unfavorable commentary or cease publishing reports about us or our business. If one or more equity research analysts cease coverage of our company, we could lose visibility in the market, which in turn could cause our stock price to decline.

Insiders have substantial control over us and will be able to influence corporate matters.

As of August 3, 2015, directors and executive officers and their affiliates beneficially owned, in the aggregate, 38% of our outstanding capital stock. As a result, these stockholders will be able to exercise significant influence over all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, such as a merger or other sale of our company or its assets. This concentration of ownership could limit stockholders' ability to influence corporate matters and may have the effect of delaying or preventing a third-party from acquiring control over us.

Table of Contents

Anti-takeover provisions in our charter documents and under Delaware law could discourage, delay or prevent a change in control and may affect the trading price of our common stock.

Provisions in our restated certificate of incorporation and our amended and restated bylaws may have the effect of delaying or preventing a change of control or changes in our management. Our restated certificate of incorporation and amended and restated bylaws include provisions that:

- authorize our board of directors to issue, without further action by the stockholders, up to 5.0 million shares of undesignated preferred stock;
- require that any action to be taken by our stockholders be effected at a duly called annual or special meeting and not by written consent;
- specify that special meetings of our stockholders can be called only by our board of directors, our chairman of the board, or our chief executive officer;
- 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;
- provide that vacancies on our board of directors may, except as otherwise required by law, be filled only by a majority of directors then in office, even if less than a quorum;
- specify that no stockholder is permitted to cumulate votes at any election of directors; and
- require a super-majority of votes to amend certain of the above-mentioned provisions.

In addition, we are subject to the provisions of Section 203 of the Delaware General Corporation Law regulating corporate takeovers. Section 203 generally prohibits us from engaging in a business combination with an interested stockholder subject to certain exceptions.

We have never paid dividends on our capital stock, and we do not anticipate paying dividends in the foreseeable future.

We have never paid dividends on any of our capital stock and currently intend to retain any future earnings to fund the growth of our business. In addition, our loan and security agreement restricts our ability to pay cash dividends on our common stock and we may also enter into credit agreements or other borrowing arrangements in the future that will restrict our ability to declare or pay cash dividends on our common stock. Any determination to pay dividends in the future will be at the discretion of our board of directors and will depend on our financial condition, operating results, capital requirements, general business conditions and other factors that our board of directors may deem relevant. As a result, capital appreciation, if any, of our common stock will be the sole source of gain for the foreseeable future.

Table of Contents

Item 6. Exhibits

Exhibit Number	Description
10.1#	Veracyte, Inc. Employee Stock Purchase Plan
10.2	Office Building Lease By and Between American Fund US Investments L.P. and the Registrant dated April 29, 2015.
31.1	Principal Executive Officer's Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Principal Financial Officer's Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification Pursuant to 18 U.S.C. § 1350 (Section 906 of Sarbanes-Oxley Act of 2002).
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101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

# Indicates management contract or compensating plan or arrangement

** In accordance with Item 601(b)(32)(ii) of Regulation S-K and SEC Release No. 34-47986, the certifications furnished in Exhibits 32.1 and 32.2 hereto are deemed to accompany this Form 10-Q and will not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 (the "Exchange Act") or deemed to be incorporated by reference into any filing under the Exchange Act or the Securities Act of 1933 except to the extent that the registrant specifically incorporates it by reference.

Table of Contents

SIGNATURES

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

Date: August 13, 2015

VERACYTE, INC.

By: /s/ Shelly D. Guyer
Shelly D. Guyer
Chief Financial Officer
(Principal Financial and Accounting Officer)

Table of Contents

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Exhibit 10.1

VERACYTE, INC.

EMPLOYEE STOCK PURCHASE PLAN

(as adopted March 10, 2015 by the Board and approved May 18, 2015 by the shareholders)

Table of Contents

VERACYTE, INC.

EMPLOYEE STOCK PURCHASE PLAN

SECTION 1 Purpose Of The Plan.

The Plan was adopted by the Board on March 10, 2015 and shall be effective on May 18, 2015 subject to stockholder approval (the "Effective Date"). The purpose of the Plan is to provide Eligible Employees with an opportunity to increase their proprietary interest in the success of the Company by purchasing Stock from the Company on favorable terms and to pay for such purchases through payroll deductions. The Plan is intended to qualify under section 423 of the Code.

SECTION 2 Definitions.

(a) "Board" means the Board of Directors of the Company, as constituted from time to time.

(b) "Code" means the Internal Revenue Code of 1986, as amended.

(c) "Committee" means a committee designated by the Board, as described in Section 3.

(d) "Company" means Veracyte, Inc., a Delaware corporation.

(e) "Compensation" means, unless provided otherwise by the Committee, base salary, wages and commissions paid in cash to a Participant by a Participating Company, without reduction for any pre-tax contributions made by the Participant under sections 401(k) or 125 of the Code. "Compensation" shall, unless provided otherwise by the Committee, exclude variable compensation other than commissions (including bonuses, incentive compensation, overtime pay and shift premiums), all non-cash items, moving or relocation allowances, cost-of-living equalization payments, car allowances, tuition reimbursements, imputed income attributable to cars or life insurance, severance pay, fringe benefits, contributions or benefits received under employee benefit plans, income attributable to the exercise of stock options, and similar items. The Committee shall determine whether a particular item is included in Compensation.

(f) "Corporate Reorganization" means:

(i) The consummation of a merger or consolidation of the Company with or into another entity, or any other corporate reorganization; or

(ii) The sale, transfer or other disposition of all or substantially all of the Company's assets or the complete liquidation or dissolution of the Company.

(g) "Eligible Employee" means any employee of a Participating Company whose customary employment is for more than five months per calendar year and for more than 20 hours per week.

The foregoing notwithstanding, an individual shall not be considered an Eligible Employee if his or her participation in the Plan is prohibited by the law of any country which has jurisdiction over him or her.

(h) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(i) "Fair Market Value" means the fair market value of a share of Stock, determined by the Committee as follows:

(i) If Stock was traded on any established national securities exchange including the New York Stock Exchange or The NASDAQ Stock Market on the date in question, then the Fair Market Value shall be equal to the closing price as quoted on such exchange (or the exchange with the greatest volume of trading in the Stock) on such date; or

(ii) If the foregoing provision is not applicable, then the Fair Market Value shall be determined by the Committee in good faith on such basis as it deems appropriate.

For any date that is not a Trading Day, the Fair Market Value of a share of Stock for such date shall be determined by using the closing sale price for the immediately preceding Trading Day. Whenever possible, the determination of Fair Market Value by the Committee shall be based on the prices reported in the Wall Street Journal or as reported directly to the Company by the stock exchange. Such determination shall be conclusive and binding on all persons.

(j) "Offering" means the grant of options to purchase shares of Stock under the Plan to Eligible Employees.

(k) "Offering Date" means the first day of an Offering.

(l) "Offering Period" means a period with respect to which the right to purchase Stock may be granted under the Plan, as determined pursuant to Section 4(a).

(m) "Participant" means an Eligible Employee who elects to participate in the Plan, as provided in Section 4(b).

(n) "Participating Company" means (i) the Company and (ii) each present or future Subsidiary designated by the Committee as a Participating Company.

(o) "Plan" means this Veracyte, Inc. Employee Stock Purchase Plan, as it may be amended from time to time.

(p) "Plan Account" means the account established for each Participant pursuant to Section 8(a).

(q) "Purchase Date" means one or more dates during an Offering on which shares of Stock may be purchased pursuant to the terms of the Offering.

(r) "Purchase Period" means one or more successive periods during an Offering, beginning on the Offering Date or on the day after a Purchase Date, and ending on the next succeeding Purchase Date.

(s) "Purchase Price" means the price at which Participants may purchase shares of Stock under the Plan, as determined pursuant to Section 8(b).

(t) "Stock" means the Common Stock of the Company.

(u) "Subsidiary" means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company, if each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

(r) "Trading Day" means a day on which the national stock exchange on which the Stock is traded is open for trading.

SECTION 3 Administration Of The Plan.

(a) Committee Composition. The Plan shall be administered by the Committee. The Committee shall consist exclusively of one or more directors of the Company, who shall be appointed by the Board.

(b) Committee Responsibilities. The Committee shall have full power and authority, subject to the provisions of the Plan, to promulgate such rules and regulations as it deems necessary for the proper administration of the Plan, to interpret the provisions and supervise the administration of the Plan, and to take all action in connection therewith or in relation thereto as it deems necessary or advisable. Any decision reduced to writing and signed by all of the members of the Committee shall be fully effective as if it had been made at a meeting duly held. The Committee's determinations under the Plan, unless otherwise determined by the Board, shall be final and binding on all persons. The Company shall pay all expenses incurred in the administration of the Plan. No member of the Committee shall be personally liable for any action, determination, or interpretation made in good faith with respect to the Plan, and all members of the Committee shall be fully indemnified by the Company with respect to any such action, determination or interpretation. The Committee may adopt such rules, guidelines and forms as it deems appropriate to implement the Plan, including sub plans which the Committee may establish (which need not qualify under Section 423 of the Code) for the purpose of (i) facilitating participation in the Plan by non-U.S. employees in compliance with foreign laws and regulations without affecting the qualification of the remainder of the Plan under Section 423 of the Code or (ii) qualifying the Plan for preferred tax treatment under foreign tax laws (which sub plans, at the Committee's discretion, may provide for allocations of the authorized Shares reserved for issue under the Plan as set forth in Section 14(a)). The rules of such sub plans may take precedence over other provisions of the Plan, with the exception of Section 14(a), but unless otherwise superseded by the terms of such sub plan, the provisions of the Plan shall govern the operation of such sub plan. Alternatively and in order to comply with the laws of a foreign jurisdiction, the Committee shall have the power, in its discretion, to grant options in an Offering to citizens or residents of a non-U.S. jurisdiction (without regard to whether they are also citizens

of the United States or resident aliens) that provide terms which are less favorable than the terms of options granted under the same Offering to employees resident in the United States, subject to compliance with Section 423 of the Code. Notwithstanding anything to the contrary in the Plan, the Board may, in its

sole discretion, at any time and from time to time, resolve to administer the Plan. In such event, the Board shall have all of the authority and responsibility granted to the Committee herein.

SECTION 4 Enrollment And Participation.

(a) Offering Periods. While the Plan is in effect, the Committee may from time to time grant options to purchase shares of Stock pursuant to the Plan to Eligible Employees during a specified Offering Period. Each such Offering shall be in such form and shall contain such terms and conditions as the Committee shall determine, subject to compliance with the terms and conditions of the Plan (which may be incorporated by reference) and the requirements of Section 423 of the Code, including the requirement that all Eligible Employees have the same rights and privileges. The Committee shall specify prior to the commencement of each Offering (i) the period during which the Offering shall be effective, which may not exceed 12 months from the Offering Date and may include one or more successive Purchase Periods within the Offering, (ii) the Purchase Dates and Purchase Price for shares of Stock which may be purchased pursuant to the Offering, and (iii) if applicable, any limits on the number of shares purchasable by a Participant, or by all Participants in the aggregate, during any Offering Period or, if applicable, Purchase Period, in each case consistent with the limitations of the Plan. Unless provided otherwise by the Committee prior to commencement of an Offering, the maximum number of shares of Stock which may be purchased by an individual Participant during such Offering is 2,500 shares, subject to the other limitations of the Plan. The Committee shall have the discretion to provide for the automatic termination of an Offering following any Purchase Date on which the Fair Market Value of a share of Stock is equal to or less than the Fair Market Value of a share of Stock on the Offering Date, and for the Participants in the terminated Offering to be automatically re-enrolled in a new Offering that commences immediately after such Purchase Date. The terms and conditions of each Offering need not be identical, and shall be deemed incorporated by reference and made a part of the Plan.

(b) Enrollment. Any individual who, on the day preceding the first day of an Offering Period, qualifies as an Eligible Employee may elect to become a Participant in the Plan for such Offering Period by executing the enrollment form prescribed for this purpose by the Company. The enrollment form shall be filed with the Company in accordance with such procedures as may be established by the Company.

(c) Duration of Participation. Once enrolled in the Plan, a Participant shall continue to participate in the Plan until he or she ceases to be an Eligible Employee or withdraws from the Plan under Section 6(a). A Participant who withdrew from the Plan under Section 6(a) may again become a Participant, if he or she then is an Eligible Employee, by following the procedure described in Subsection (b) above. A Participant whose employee contributions were discontinued automatically under Section 9(b) shall automatically resume participation at the beginning of the earliest Offering Period ending in the next calendar year, if he or she then is an Eligible Employee. When a Participant reaches the end of an Offering Period but his or her

participation is to continue, then such Participant shall automatically be re-enrolled for the Offering Period that commences immediately after the end of the prior Offering Period.

SECTION 5 Employee Contributions.

(a) Frequency of Payroll Deductions. A Participant may purchase shares of Stock under the Plan solely by means of payroll deductions; provided, however, that to the extent provided in the terms and conditions of an Offering, a Participant may also make contributions through payment by cash or check prior to one or more Purchase Dates during the Offering. Payroll deductions, subject to the provisions of Subsection (b) below or as otherwise provided by the Committee, shall occur on each payday during participation in the Plan.

(b) Amount of Payroll Deductions. An Eligible Employee shall designate on the enrollment form the portion of his or her Compensation that he or she elects to have withheld for the purchase of Stock. Such portion shall be a whole percentage of the Eligible Employee's Compensation, but not less than 1% nor more than 15%. However, no payroll deduction will be made unless a Participant timely files the proper form with the Company after a registration statement covering the Stock is filed and effective under the Securities Act of 1933, as amended.

(c) Changing Withholding Rate. A Participant may not increase the rate of payroll withholding during the Purchase Period, but unless otherwise provided under the terms and conditions of an Offering, may discontinue or decrease the rate of payroll withholding to a whole percentage of his or her Compensation in accordance with such procedures and subject to such limitations as the Company may establish for all Participants. A Participant may also increase or decrease the rate of payroll withholding effective for a new Purchase Period by filing a new enrollment form with the Company at the prescribed location and time. The new withholding rate shall be a whole percentage of the Eligible Employee's Compensation, but not less than 1% nor more than 15%.

(d) Discontinuing Payroll Deductions. If a Participant wishes to discontinue employee contributions entirely, he or she may do so by withdrawing from the Plan pursuant to Section 6(a). In addition, employee contributions may be discontinued automatically pursuant to Section 9(b).

SECTION 6 Withdrawal From The Plan.

(a) Withdrawal. A Participant may elect to withdraw from the Plan by filing the prescribed form with the Company at the prescribed location. Such withdrawal may be elected at any time before the last day of an Offering Period, except as otherwise provided in the Offering. In addition, if payment by cash or check is permitted under the terms and conditions of an Offering, Participants may be deemed to withdraw from the Plan by declining or failing to remit timely payment to the Company for the shares of Stock. As soon as reasonably practicable thereafter, payroll deductions shall cease and the entire amount credited to the Participant's Plan Account shall be refunded to him or her in cash, without interest. No partial withdrawals shall be permitted.

(b) Re-enrollment After Withdrawal. A former Participant who has withdrawn from the Plan shall not be a Participant until he or she re-enrolls in the Plan under Section 4(b). Re-enrollment may be effective only at the commencement of an Offering Period.

SECTION 7 Change In Employment Status.

(a) Termination of Employment. Termination of employment as an Eligible Employee for any reason, including death, shall be treated as an automatic withdrawal from the Plan under Section 6(a). A transfer from one Participating Company to another shall not be treated as a termination of employment.

(b) Leave of Absence. For purposes of the Plan, employment shall not be deemed to terminate when the Participant goes on a military leave, a sick leave or another bona fide leave of absence, if the leave was approved by the Company in writing. Employment, however, shall be deemed to terminate three months after the Participant goes on a leave, unless a contract or statute guarantees his or her right to return to work. Employment shall be deemed to terminate in any event when the approved leave ends, unless the Participant immediately returns to work.

(c) Death. In the event of the Participant's death, the amount credited to his or her Plan Account shall be paid to the Participant's estate.

SECTION 8 Plan Accounts and Purchase Of Shares.

(a) Plan Accounts. The Company shall maintain a Plan Account on its books in the name of each Participant. Whenever an amount is deducted from the Participant's Compensation under the Plan, such amount shall be credited to the Participant's Plan Account. Amounts credited to Plan Accounts shall not be trust funds and may be commingled with the Company's general assets and applied to general corporate purposes. No interest shall be credited to Plan Accounts.

(b) Purchase Price. The Purchase Price for each share of Stock purchased during an Offering Period shall not be less than the lesser of:

(i) 85% of the Fair Market Value of such share on the Purchase Date; or

(ii) 85% of the Fair Market Value of such share on the Offering Date.

(c) Number of Shares Purchased. As of each Purchase Date, each Participant shall be deemed to have elected to purchase the number of shares of Stock calculated in accordance with this Subsection (c), unless the Participant has previously elected to withdraw from the Plan in accordance with Section 6(a). The amount then in the Participant's Plan Account shall be divided by the Purchase Price, and the number of shares that results shall be purchased from the Company with the funds in the Participant's Plan Account. The foregoing notwithstanding, no Participant shall purchase more than such number of shares of Stock as may be determined by the Committee with respect to the Offering Period, or Purchase Period, if applicable, nor more than the amounts of Stock set forth in Sections 9(b) and 14(a). For each Offering Period and, if applicable, Purchase Period, the Committee shall have the authority to establish additional limits on the number of shares purchasable by all Participants in the aggregate.

(d) Available Shares Insufficient. In the event that the aggregate number of shares that all Participants elect to purchase during an Offering Period exceeds the maximum number of shares remaining available for issuance under Section 14(a), or which may be purchased pursuant to any additional aggregate limits imposed by the Committee, then the number of shares to which each Participant is entitled shall be determined by multiplying the number of shares available for issuance by a fraction, the numerator of which is the number of shares that such Participant has elected to purchase and the denominator of which is the number of shares that all Participants have elected to purchase.

(e) Issuance of Stock. Certificates representing the shares of Stock purchased by a Participant under the Plan shall be issued to him or her as soon as reasonably practicable after the applicable Purchase Date, except that the Committee may determine that such shares shall be held for each Participant's benefit by a broker designated by the Committee (unless the Participant has elected that certificates be issued to him or her). Shares may be registered in the name of the Participant or jointly in the name of the Participant and his or her spouse as joint tenants with right of survivorship or as community property.

(f) Unused Cash Balances. An amount remaining in the Participant's Plan Account that represents the Purchase Price for any fractional share shall be carried over in the Participant's Plan Account to the next Offering Period or refunded to the Participant in cash, without interest, if his or her participation is not continued. Any amount remaining in the Participant's Plan Account that represents the Purchase Price for whole shares that could not be purchased by reason of Subsection (c) or (d) above, Section 9(b) or Section 14(a) shall be refunded to the Participant in cash, without interest.

(g) Stockholder Approval. The Plan shall be submitted to the stockholders of the Company for their approval within twelve (12) months after the date the Plan is adopted by the Board. Any other provision of the Plan notwithstanding, no shares of Stock shall be purchased under the Plan unless and until the Company's stockholders have approved the adoption of the Plan.

SECTION 9 Limitations On Stock Ownership.

(a) Five Percent Limit. Any other provision of the Plan notwithstanding, no Participant shall be granted a right to purchase Stock under the Plan if such Participant, immediately after his or her election to purchase such Stock, would own stock possessing 5% or more of the total combined voting power or value of all classes of stock of the Company or any parent or Subsidiary of the Company. For purposes of this Subsection (a), the following rules shall apply:

(i) Ownership of stock shall be determined after applying the attribution rules of section 424(d) of the Code;

(ii) Each Participant shall be deemed to own any stock that he or she has a right or option to purchase under this or any other plan; and

(iii) Each Participant shall be deemed to have the right to purchase up to the maximum number of shares of Stock that may be purchased by a Participant under this

Plan under the individual limit specified pursuant to Section 8(c) with respect to each Offering Period.

(b) Dollar Limit. Any other provision of the Plan notwithstanding, no Participant shall accrue the right to purchase Stock at a rate which exceeds $25,000 of Fair Market Value of such Stock per calendar year (under this Plan and all other employee stock purchase plans of the Company or any parent or Subsidiary of the Company), determined in accordance with the provisions of section 423(b)(8) of the Code and applicable Treasury Regulations promulgated thereunder.

For purposes of this Subsection (b), the Fair Market Value of Stock shall be determined as of the beginning of the Offering Period in which such Stock is purchased. Employee stock purchase plans not described in section 423 of the Code shall be disregarded. If a Participant is precluded by this Subsection (b) from purchasing additional Stock under the Plan, then his or her employee contributions shall automatically be discontinued and shall resume at the beginning of the earliest Offering Period ending in the next calendar year (if he or she then is an Eligible Employee).

SECTION 10 Rights Not Transferable.

The rights of any Participant under the Plan, or any Participant's interest in any Stock or moneys to which he or she may be entitled under the Plan, shall not be transferable by voluntary or involuntary assignment or by operation of law, or in any other manner other than by the laws of descent and distribution. If a Participant in any manner attempts to transfer, assign or otherwise encumber his or her rights or interest under the Plan, other than by the laws of descent and distribution, then such act shall be treated as an election by the Participant to withdraw from the Plan under Section 6(a).

SECTION 11 No Rights As An Employee

Nothing in the Plan or in any right granted under the Plan shall confer upon the Participant any right to continue in the employ of a Participating Company for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Participating Companies or of the Participant, which rights are hereby expressly reserved by each, to terminate his or her employment at any time and for any reason, with or without cause.

SECTION 12 No Rights As A Stockholder.

A Participant shall have no rights as a stockholder with respect to any shares of Stock that he or she may have a right to purchase under the Plan until such shares have been purchased on the applicable Purchase Date.

SECTION 13 Securities Law Requirements.

Shares of Stock shall not be issued under the Plan unless the issuance and delivery of such shares comply with (or are exempt from) all applicable requirements of law, including (without limitation) the Securities Act of 1933, as amended, the rules and regulations

promulgated thereunder, state securities laws and regulations, and the regulations of any stock exchange or other securities market on which the Company's securities may then be traded.

SECTION 14 Stock Offered Under The Plan.

(a) Authorized Shares. The maximum aggregate number of shares of Stock available for purchase under the Plan is 750,000 shares. The aggregate number of shares available for purchase under the Plan shall at all times be subject to adjustment pursuant to Section 14.

(b) Antidilution Adjustments. The aggregate number of shares of Stock offered under the Plan, the individual and aggregate Participant share limitations described in Section 8(c) and the price of shares that any Participant has elected to purchase shall be adjusted proportionately by the Committee in the event of any change in the number of issued shares of Stock (or issuance of shares other than Common Stock) by reason of any forward or reverse share split, subdivision or consolidation, or share dividend or bonus issue, recapitalization, reclassification, merger, amalgamation, consolidation, split-up, spin-off, reorganization, combination, exchange of shares of Stock, the issuance of warrants or other rights to purchase shares of Stock or other securities, or any other change in corporate structure or in the event of any extraordinary distribution (whether in the form of cash, shares of Stock, other securities or other property).

(c) Reorganizations. Any other provision of the Plan notwithstanding, immediately prior to the effective time of a Corporate Reorganization, the Offering Period then in progress shall terminate and shares shall be purchased pursuant to Section 8, unless the Plan is assumed by the surviving corporation or its parent corporation pursuant to the plan of merger or consolidation. The Plan shall in no event be construed to restrict in any way the Company's right to undertake a dissolution, liquidation, merger, consolidation or other reorganization.

SECTION 15 Amendment Or Discontinuance.

The Board (or any committee thereof to which it delegates such authority) shall have the right to amend, suspend or terminate the Plan at any time and without notice. Upon any such amendment, suspension or termination of the Plan during an Offering Period, the Board (or any committee thereof to which it delegates such authority) may in its discretion determine that the applicable Offering shall immediately terminate and that all amounts in the Participant Accounts shall be carried forward into a payroll deduction account for each Participant under a successor plan, if any, or promptly refunded to each Participant. Except as provided in Section 14, any increase in the aggregate number of shares of Stock to be issued under the Plan shall be subject to approval by a vote of the stockholders of the Company. In addition, any other amendment of the Plan shall be subject to approval by a vote of the stockholders of the Company to the extent required by an applicable law or regulation. This Plan shall continue until the earlier to occur of (a) termination of this Plan pursuant to this Section 15 or (b) issuance of all of the shares of Stock reserved for issuance under this Plan.

SECTION 16 Execution.

To record the adoption of the Plan by the Board, the Company has caused its authorized officer to execute the same.

VERACYTE, INC.

By: /s/ Bonnie H. Anderson

Title: President and Chief Executive Officer

Date: May 19, 2015

Exhibit 10.2

OFFICE BUILDING LEASE

BY AND BETWEEN

AMERICAN FUND US INVESTMENTS LP,
a Delaware limited partnership

LANDLORD

AND

VERACYTE, INC.,

A Delaware corporation

TENANT

DATED

April 29, 2015

PREMISES:
Sierra Point
Suites 100, 200 and 300
6000 Shoreline Court
South San Francisco, California

TABLE OF CONTENTS

OFFICE BUILDING LEASE

This Office Building Lease (this "Lease") is made between AMERICAN FUND US INVESTMENTS LP, a Delaware limited partnership ("Landlord"), having an office at c/o Real Estate Capital Partners, 114 West 47th Street, 23rd Floor, New York, New York 10036, and VERACYTE, INC., a Delaware corporation ("Tenant"), having a principal place of business at 7000 Shoreline Court, Suite 250, South San Francisco, CA 94080. Landlord leases to Tenant and Tenant accepts from Landlord the Premises, subject to the following terms and conditions:

PARAGRAPH 1: TERMS AND DEFINITIONS:

The following terms and definitions shall be applied uniformly throughout this Lease:

(a) **Authorized Parking Spaces** shall mean Tenant's Share of parking spaces at a ratio of 3.3 parking spaces per 1,000 rentable square feet, for an initial total of 193 parking spaces, being on a non-exclusive basis with other tenants of the Building, at no cost to Tenant, and subject to increase pursuant to Paragraph 54 below.

(b) **Base Operating Year** shall mean calendar year 2015 except, with respect to Real Estate Taxes, the Base Operating Year shall mean the fiscal tax year beginning on July 1, 2015 and ending on June 31, 2016.

(c) **Base Rent** shall mean the following amounts, in each case plus applicable sales, rent or occupancy tax, if any:

Period	Monthly Amount	Annual Base Rent	Rent per RSF of Premises
06/01/2015 — 03/31/2016*	$ 0.00	$ 0.00	$ 0
04/01/2016 — 03/31/2017	$ 156,528.75	$ 1,878.345.00	$ 2.67
04/01/2017 — 03/31/2018	$ 161,218.75	$ 1,934.625.00	$ 2.75
04/01/2018 — 03/31/2019	$ 165,322.50	$ 1,983.870.00	$ 2.82
04/01/2019 — 03/31/2020	$ 170,012.50	$ 2,040,150.00	$ 2.90
04/01/2020 — 03/31/2021	$ 174,702.50	$ 2,096,430.00	$ 2.98
04/01/2021 — 03/31/2022	$ 179,978.75	$ 2,159,745.00	$ 3.07
04/01/2022 — 03/31/2023	$ 185,255.00	$ 2,223,060.00	$ 3.16
04/01/2023 — 03/31/2024	$ 190,531.25	$ 2,286,375.00	$ 3.25
04/01/2024 — 03/31/2025	$ 195,807.50	$ 2,349,690.00	$ 3.34
04/01/2025 — 03/31/2026	$ 201,083.75	$ 2.413.005.00	$ 3.43

* Subject to the terms hereof, Base Rent for this period (which period shall be extended on a day for day basis for each day of Landlord Delay) shall be abated by an amount equal to one hundred percent (100%) of the Base Rent otherwise due (the "Abated Rent").

(d) **Broker** shall mean Kidder Mathews, which represents both Landlord and Tenant.

(e) **Building** shall mean 6000 Shoreline Court, South San Francisco, California 94080.

(f) **Commencement Date** shall mean June 1, 2015; provided, however, that the Commencement Date shall be extended on a day for day basis for each day of Landlord Delay.

(g) **Expiration Date** shall mean March 31, 2026; provided, however, that the Expiration Date shall be extended on a day for day basis for every day of Landlord Delay.

(h) **Land** shall mean that certain real property on which the Building is situated, located in the City of South San Francisco, County of San Mateo and State of California.

(i) **Landlord Delay** shall mean (i) delays resulting from Landlord or its agents, employees or contractors in providing Tenant with access to the Premises; (ii) each day that Landlord fails to pay Tenant the Tenant Allowance or applicable portion thereof as and when required by Exhibit C; or (iii) each day that Landlord fails to approve any Final Space Plan, any Final Working Drawings, or any aspect or item of the Tenant Improvements as and when required by Exhibit C; or (iv) Landlord's failure to deliver possession of the Premises to Tenant in the Delivery Condition on the date of the full execution and delivery of this Lease by Landlord and Tenant. Notwithstanding anything above to the contrary, the Commencement Date shall only be extended due to a Landlord Delay if any such Landlord Delay actually delayed the design and/or construction of the Tenant Improvements.

(j) **Landlord's Notice Address**:

American Fund US Investments LP
c/o Real Estate Capital Partners
114 West 47th Street, 23rd Floor
New York, New York 10036
Attention: Karin E. Shewer
Facsimile No.: 212.843.6120

with a copy to:

Real Estate Capital Partners, LP
13241 Woodland Park Road, Suite 600
Herndon, VA 20171
Telephone: 703-481-7100
Fax: 703-481-7101

and to:

Allen Matkins Leck Gamble Mallory & Natsis
515 South Figueroa Street, 9th Floor
Los Angeles, CA 90071
Attention: Tim McDonald, Esq.
Facsimile No.: (213) 620-8816

(k) **Managing Agent** shall mean Kenmark Real Estate Group, whose address is 360 Post Street, 11th Floor, San Francisco, CA 94108, Attention: Caitlin Russell, Director of Development and Senior Property Manager; with a phone number of (415) 782-3746; a fax number of (650) 712-3342.

(l) **Operating Payment** shall mean Tenant's Share of the increase in Operating Expenses for a particular calendar year falling within the Term over the Operating Expenses for the Base Operating Year.

(m) **Permitted Use** shall mean the use of the Premises for general office purposes and/or for laboratory, testing and research and/or development purposes.

(n) **Premises** shall mean that portion of the Building known as Suites 100, 200 and 300 and as shown on Exhibit B.

(o) **Property** shall mean, collectively, the Land, the Building, any other building or improvements now or hereafter constructed on the Land, as more particularly described on Exhibit A.

(p) **Rent Commencement Date** shall mean April 1, 2016; provided, however, that the Rent Commencement Date shall be extended on a day for day basis for each day of Landlord Delay.

(q) **Rent Payment Address:**

AMERICAN FUND US INVESTMENTS LP - Sierra Point
c/o Commerzbank AG, New York Branch
2 World Financial Center
PO Box 1041
New York, NY 10268

(r) **Letter of Credit:** $603,251.25.

(s) **Tenant Allowance** shall be as defined in Exhibit C.

(t) **Tenant's Notice Address Until such time Tenant occupies the Premises:**

7000 Shoreline Court, Suite 250, South San Francisco, CA 94080 Attention: Julie Brooks Post occupancy: 6000 Shoreline Court, Suite 300, South San Francisco, CA 94080, Attention: Julie Brooks

(u) **Tenant's Rentable Square Footage** shall mean 58,625 rentable square feet in the Premises consisting of (i) 14,988 rentable square feet located on the first (1st) floor of the Building, (ii) 11,221 rentable square feet on the second (2nd) floor or the Building, and (iii) 32,416 rentable square feet located on the third (3rd) floor of the Building.

(v) **Tenant's Share** shall mean 42.06%, which is the percentage arrived at by dividing Tenant's Rentable Square Footage by Total Building Rentable Square Footage.

(w) **Term** or Lease Term shall mean the one hundred thirty (130) month period commencing on the Commencement Date and ending on the Expiration Date.

(x) **Total Building Rentable Square Footage** shall mean 139,372 rentable square feet. Landlord represents and warrants that said rentable square footage of the Building (including the Premises and the Expansion Space) has been calculated in accordance with Method A of the ANSI/BOMA Z65.1-2010 Building Standard as applied to a building leased by multiple tenants.

PARAGRAPH 2: EXHIBITS:

The exhibits listed below are attached and incorporated into this Lease by reference. The terms of schedules, exhibits, and typewritten addenda, if any, attached to this Lease shall control over any inconsistent provisions in this Lease.

Exhibits:

A. Intentionally Omitted
B. Floor Plan of Premises
B-1 Floor Plan of First Expansion Space
B-2 Floor Plan of Second Expansion Space
B-3 Floor Plan of Third Expansion Space
C. Work Letter
D. Acceptance Letter
E. Tenant Estoppel Certificate
F. Rules and Regulations
G. Tenant's Property
H. Form of Letter of Credit

PARAGRAPH 3: CONSENT: Notwithstanding any other provision of this Lease, all consents and approvals to be given by Landlord or Tenant, shall be in the sole discretion of Landlord or Tenant, as applicable, unless expressly stated otherwise herein.

PARAGRAPH 4: COMMENCEMENT AND POSSESSION:

(a) This Lease shall be effective upon the execution and delivery hereof by both parties hereto, but the Term shall commence as of the Commencement Date; provided, that commencing on the date of the full execution and delivery of this Lease by Landlord and Tenant, Tenant and its contractors and subcontractors shall be permitted reasonable access to the Premises at no cost to Tenant for the purpose of space planning, inspection, taking measurements, and pre-construction planning. Subject to the terms and conditions herein, the Term shall commence on the

Commencement Date, and the Rent (as hereinafter defined) shall commence on the Rent Commencement Date. Upon Landlord's written request, Tenant shall execute and deliver to Managing Agent, with a copy to Landlord, an acceptance letter in the form of Exhibit D annexed hereto (the "Acceptance Letter"), but Tenant's failure to execute the Acceptance Letter shall not affect the Commencement Date, the Rent Commencement Date or the Expiration Date. Except for the Allowances described in Exhibit C and as otherwise provided herein, Landlord shall not be required to spend any money or to do any work to improve, furnish, equip or otherwise prepare the Premises for Tenant's initial occupancy. Except as otherwise provided herein, and without limitation of Landlord's obligations under this Lease, Tenant shall take initial occupancy of the Premises in its "AS-IS" condition. Tenant's occupancy of the Premises prior to the Rent Commencement Date shall be subject to all provisions of this Lease, but for the obligation to pay Rent, which shall commence on the Rent Commencement Date. Additionally, even though the Rent Commencement Date may occur after the date Landlord and Tenant each fully executes this Lease, Landlord and Tenant each acknowledge and agree that this Lease is effective and is a binding obligation upon Landlord and Tenant on the date this Lease has been executed and delivered by both Landlord and Tenant. Subject to (i) all of the terms and conditions of this Lease, (ii) force majeure events, (iii) Landlord's commercially reasonable security requirements, and (iv) the requirements of applicable laws, Tenant shall have access to the Premises twenty-four (24) hours per day, seven (7) days per week throughout the Lease Term.

(b) Landlord hereby covenants that, on the Commencement Date, Landlord shall deliver the Premises to Tenant (i) vacant, broom-clean and free of all tenancies and other rights of possession except Tenant's hereunder; (ii) except for such furniture as Tenant may elect to use pursuant to Paragraph

47 below, free of all furniture, fixtures, cabling and other personal property of Landlord or any prior occupants of the Premises, (iii) free of all Hazardous Materials (as defined below) in violation of Environmental Laws (as defined below), and (iv) with all Base Building Systems (as defined below) fully functional and in good working order (the "Delivery Condition"). If the Landlord does not deliver the Premises to Tenant in the Delivery Condition, then Landlord shall, after written notice from Tenant, undertake steps to satisfy such Delivery Condition as soon as reasonably possible after Landlord's receipt of Tenant's written notice.

(c) Landlord hereby warrants that, on the Commencement Date and for a period of one (1) year thereafter (the "Warranty Period"), the HVAC and sewer system serving the Premises shall be in the Warranty Condition (as defined below). During the Warranty Period, Landlord, shall upon receipt of written notice from Tenant during the Warranty Period (a "Warranty Notice"), at Landlord's sole cost and expense and without reimbursement from Tenant (whether by including such costs in Operating Expenses or otherwise), perform any repairs, replacements or maintenance required to be made to the items covered by such warranty to render the HVAC in compliance with the Warranty Condition, other than in connection with repairs, replacements or maintenance required due to the negligence or willful misconduct of Tenant (the "Warranty Work"). All Warranty Work shall be completed within fifteen (15) days of Landlord's receipt of a Warranty Notice; provided, however, that if such Warranty Work cannot reasonably be completed within such fifteen (15) day period, then Landlord shall have such additional reasonable period of time to complete the Warranty Work so long as Landlord commences such work within the aforementioned fifteen (15) day period and thereafter diligently prosecutes such Warranty Work until completion. For purposes of this Lease, "Warranty Condition" means that the HVAC and the

sewer system (the "Warranty Items") serving the Premises shall be in good condition and working order.

(d) For purposes of this Lease, the "Base Building Systems" means the Building's heating, ventilation and air conditioning systems and equipment located in or serving the Premises as of the Commencement Date and the Building's electrical, mechanical, plumbing and fire/life-safety systems located in or serving the Premises as of the Commencement Date (but excluding those systems and the portions of such systems that may be installed or modified by Tenant); the "Base Building Structure" means the Building's foundation, floor/ceiling slabs, load bearing walls, roof structure and other structural portions of the Building; and the "Base Building" means the Base Building Structure and Base Building Systems.

(e) In the event that Landlord has not delivered possession of the Premises to Tenant in the Delivery Condition by that date which is one hundred fifty (150) days after the Commencement Date (i.e., December 1, 2015) (the "Outside Date"), as such Outside Date may be extended by the number of days of force majeure delays (as described in Paragraph 35), then the sole remedy of Tenant shall be the right to deliver a notice to Landlord (the "Outside Date Termination Notice") electing to terminate this Lease effective upon receipt of the Outside Date Termination Notice by Landlord (the "Effective Date"); provided, however, that no force majeure delays beyond ninety (90) days shall extend such Outside Date. Except as provided hereinbelow, the Outside Date Termination Notice must be delivered by Tenant to Landlord, if at all, not earlier than the Outside Date and not later than five (5) business days after the Outside Date.

PARAGRAPH 5: **RENT**: Subject to the abatement provided for in Paragraph 1(c), Tenant shall pay the first full monthly installment of Base Rent on the Rent Commencement Date. If the Rent Commencement Date occurs on a day other than the first day of a calendar month, the Base Rent for such calendar month shall be prorated and the balance of the first month's Base Rent therefore paid shall be credited against the next monthly installment of Base Rent. Subject to the abatement provided for in Paragraph 1(c), beginning with the first calendar month immediately following the Rent Commencement Date, Tenant shall pay each monthly installment of Base Rent in advance on or before the first calendar day of each month, together with each monthly installment of the Operating Payment, as defined below. Monthly installments for any fractional calendar month, at the beginning or end of the Term, shall be prorated based on the number of days in the month. Tenant shall pay any and all sales, excise and other taxes (excluding Landlord's income taxes) levied, imposed, or assessed by the United States of America, the State of California, or any political subdivision thereof or other taxing authority upon the Base Rent or any Additional Rent payable hereunder ("Rent Tax"). The Operating Payment, the Rent Tax, and all other payments due under this Lease from Tenant other than Base Rent due hereunder shall be deemed Additional Rent. Base Rent and Additional Rent, together with all other amounts payable by Tenant to Landlord under this Lease, shall be sometimes referred to collectively as "Rent". Tenant shall pay all Rent to Landlord or Managing Agent at the Rent Payment Address or at such other place designated by Landlord in writing in accordance with Paragraph 43 below. If Tenant fails to make any payment of Rent within five (5) days after such payment is past due, then Tenant shall pay a late charge of four percent (4%) of the amount of the payment, provided, however that no such late charge shall be imposed on the first (1st) past due payment in any twelve (12) month period. Such late charge shall constitute Rent, and shall be due immediately. Such late charge shall be in addition to, and not in lieu of, all other rights and remedies provided to Landlord in this

Lease. In addition, Tenant shall pay Landlord interest on any and all amounts past due from the date due at the lesser of (1) the prime rate (as listed in the Wall Street Journal) plus 4% or (2) the maximum rate of interest permitted by law.

PARAGRAPH 6: **OPERATING EXPENSES**: If Operating Expenses (hereinafter defined) for any calendar year during the Term subsequent to the Base Operating Year exceed the Operating Expenses for the Base Operating Year, Tenant shall pay Landlord, as Additional Rent, Tenant's Share of such excess Operating Expenses (the "Operating Payment") pursuant to this Paragraph.

(a) "Operating Expenses" shall mean the aggregate of those costs and expenses paid or incurred by or on behalf of Landlord during the Term, whether structural, non-structural, foreseen or unforeseen, but without duplication, relating to the ownership, maintenance, repair and operation of the Premises or the Property and related facilities, the sidewalks or areas adjacent thereto or any other areas related to the Property for which Landlord shall have a repair or maintenance obligation, excluding those costs and expenses for which individual tenants are directly responsible and those costs and expenses excluded by Paragraph 6(b) below. Without limiting the generality of the foregoing, Operating Expenses shall include, to the extent incurred with respect to the Property, all taxes (including, but not limited to, Real Estate Taxes (as defined in Paragraph 7), sales, use, local business license, personal property or other taxes (excluding Landlord's income taxes and the other taxes excluded in Paragraph 6(b) below), fees, assessments, and governmental charges levied, taxing the Property or its operation ("Taxes") for any whole or partial tax year or period occurring during the Term as well as all expenses incurred in obtaining a refund of or contesting any Taxes; utilities serving the Building and not separately paid by tenants or other occupants and not reimbursed to Landlord by tenants or other occupants; insurance premiums and deductibles paid under Landlord's Property Insurance (as defined below); maintenance, repairs and replacements; refurbishing and repainting; cleaning, janitorial, window washing and other services; equipment, tools, materials and supplies and the maintenance thereof; air conditioning, ventilation, heating, and elevator service; security; resealing and restriping of walks, drives, and parking areas;

signs, directories and markers; landscaping and maintenance; snow and rubbish removal; common area maintenance; maintenance of the roof and mechanical systems; the costs and accounting fees of property level audits; commercially reasonable fees for property management (not to exceed three percent (3%) of the annual gross revenues of the Building) (the "Management Fee"). If less than ninety-five percent (95%) of the Total Building Rentable Square Footage is leased or if building standard services are not provided to the entire Building for any period during the Term (including the Base Operating Year), variable components of Operating Expenses for such period shall be adjusted by Landlord to the reasonably approximate Operating Expenses which would have been incurred if the Building had been at least ninety-five percent (95%) leased and occupied (as such Operating Expenses are reasonably determined by Landlord using sound accounting and management principles). For purposes of this Paragraph, variable components include only those component expenses that are affected by variations in occupancy levels such as, without limitation, the cost and expense of electricity and other utilities. In adjusting the variable components of Operating Expenses to reflect ninety-five percent (95%) occupancy of the Building, Landlord shall fairly allocate variable Operating Expenses so that: (i) Landlord does not make a profit from that adjustment; and the Operating Expenses are no greater than the amount that would have been paid or incurred had the Building been ninety-five percent (95%) leased and occupied.

(b) Notwithstanding anything to the contrary, herein Operating Expenses shall not include:

1. Leasing commissions, attorneys' fees, costs and disbursements and other expenses which are incurred in connection with (a) negotiations, mediation, arbitration or litigation to enforce or interpret leases or other occupancy agreements or (b) disputes with prior, existing and prospective tenants or other occupants;

2. Real estate brokerage and leasing commissions, consulting and marketing fees, vacancy costs, rent concessions, allowances, tenant improvement costs and other tenant inducement costs or expenses;

3. Landlord's costs of electricity and other services sold or furnished separately to tenants or other occupants for which Landlord is entitled to be actually reimbursed by such tenants as an additional charge over and above any base rent and operating expense payable under the lease or agreement with such tenant or occupant;

4. Landlord's income, excise corporation, partnership, LLC, sales, transfer, gross receipts and franchise taxes;

5. Interest or income tax accounting; interest, depreciation, or amortization payments;

6. Landlord's general corporate, partnership or LLC overhead and general administrative expenses, including the salaries of management personnel who are not directly related to the Building and primarily engaged in the operation, maintenance, and repair of the Building, except to the extent that those costs and expenses are included in the management fees or otherwise equitably allocated by Landlord to the Property;

7. Wages, salaries, and other compensation paid to any employee of Landlord or Landlord's property manager above the grade of building manager (or person functioning as building manager) for the Building or paid to any off-site personnel (unless such costs of off-site personnel are equitably allocated by Landlord to the Property);

8. Costs of defending or bringing any lawsuits with any mortgagee or lender; and costs of selling, syndication, financing, mortgaging or hypothecating any of Landlord's interest in the Property;

9. The cost of replacements and capital improvements to the Building or Property, except for capital improvements installed after the Commencement Date for the purpose of reducing Building expenses or required by any governmental authority having or asserting jurisdiction over the Building which requirements are first effective after the Commencement Date, the cost of which shall be amortized over the useful life of such replacements or improvements as determined by generally accepted accounting principles, and Tenant shall be responsible only for the amortized costs falling within the Term;

10. Charitable and political contributions and advertising and promotional expenses;

11. Repair or other work occasioned by fire, windstorm, or other insurable casualties and repairs or rebuilding necessitated by condemnation for which Landlord receives compensation;

12. Any cost, fines, or penalties incurred due to violations by Landlord or any other tenant or occupant of the Building of any governmental rule or authority;

13. Any particular items and services for which Tenant otherwise reimburses Landlord by direct payment over and above base rent and operating expense adjustments;

14. Unless required by a lender with a deed of trust encumbering the Property, the cost of any terrorism or flood insurance policies and any deductibles payable or paid under such policies, and, unless required by a lender with a deed of trust encumbering the Property, the cost of any insurance other than the Landlord Required Insurance;

15. Rentals and other related expenses incurred in leasing air conditioning systems, elevators or other equipment ordinarily considered to be of a capital nature if purchased, except to the extent such amounts would not have been excluded from Operating Expenses pursuant to Subparagraph 9 above, excepting from this exclusion such equipment rented or leased to remedy or ameliorate an emergency condition in the Building or any part thereof;

16. Management fees other than the Management Fee;

17. Debt service, interest, amortization or other payments on any loans, mortgage, debts, notes or deeds of trust affecting or secured by the Property;

18. Any bad debt loss, rent loss, or reserves for bad debts or rent loss;

19. Deductibles for insurance other than commercially reasonable deductibles for "Special Form" property insurance or its equivalent (provided, however, that Tenant's Share of any earthquake deductible or occurrence of uninsured or underinsured earthquake damage shall not exceed $150,000 per year (with such deductible amounts to be amortized over the Lease Term);

20. Costs, including attorneys' fees and costs of settlement, judgments and payments in lieu thereof, arising from claims, disputes or potential disputes in connection with potential or actual claims, litigation or arbitrations pertaining to Landlord, the Premises, the Building or the Property;

21. Fines and penalties; and

22. Costs of sculpture, paintings, fountains or other objects of art;

23. Costs (including attorney's fees and settlement fees) incurred by Landlord due to Landlord's failure to observe or perform the terms and conditions of this Lease;

24. Costs incurred in connection with or as a result of the negligence or willful misconduct of Landlord or its agents, employees or contractors;

25. Costs relating to a failure of the Premises, Building or Property or any part thereto to comply, as of the date of this Lease, with any applicable codes, regulations or laws;

26. Costs incurred to comply with applicable laws with respect to the cleanup, removal, investigation and/or remediation of any Hazardous Materials in, on or under the Property, Premises and/or the Building to the extent such Hazardous Materials are: (1) in existence as of the Commencement Date; or (2) introduced onto the Property, the Premises and/or the Building after the Commencement Date by Landlord or any of Landlord's agents, employees, contractors or other tenants in violation of applicable laws in effect at the date of introduction, and were of such a nature that a federal, state or municipal governmental or quasi-governmental authority, if it had then had knowledge of the presence of such Hazardous Materials, in the state and under the conditions that the same existed in the Premises, the Building or on the Property, would have then required removal, remediation or other action with respect to such Hazardous Materials;

27. Costs incurred to repair and maintain the structural portions of the Building including, without limitation, the foundation, floor slabs, exterior walls, load bearing walls, and roof structure;

28. Profit increments paid to Landlord's subsidiaries or affiliates for management or other services on or to the Building or for supplies or other materials to the extent that the cost of the services, supplies, or materials exceeds the cost that would have been paid had the services, supplies, or materials been provided by unaffiliated parties on a competitive basis;

29. Any reserves for Operating Expenses;

30. Any cost or expense stated in this Lease to be at Landlord's sole expense or expressly stated not to be an Operating Expense;

31. Any items not otherwise excluded to the extent Landlord is reimbursed by insurance, warranty or otherwise compensated (other than as part of Operating Expenses), including direct reimbursement by any tenant other than pursuant to Operating Expense reimbursements or similar reimbursements less the out-of-pocket cost of collection; and

32. Costs to replace the Warranty Items or to replace major components of the Warranty Items, but only during the Warranty Period; provided, however, that routine maintenance and repairs shall of any such Warranty Items be included in Operating Expenses.

(c) Landlord hereby agrees that the cost of any new type or increased amount of insurance coverage (including, but not limited to, earthquake insurance) (or increased limits of insurance or decrease in the amount of deductibles) which is obtained or effected by Landlord during any calendar year after the Base Operating Year (but is not obtained or effected during the Base Operating Year) shall be added to and included in the Operating Expenses for the Base Operating Year (but at the rate which would have been in effect during the Base Year or the rate in effect during such subsequent calendar year, whichever is lower) prior to the calculation of Tenant's Share of Operating Expenses for each such calendar year in which such change in insurance is initially obtained or effected. Landlord further agrees that any costs incurred in any calendar year after the Base Operating Year because of any added new type of discretionary

services which were readily available during the Base Operating Year, and customarily provided by landlords of buildings comparable to the Building in the general vicinity of the Building ("Comparable Buildings") during the Base Operating Year (but not by Landlord), and not included in the Base Operating Year shall be added to and included in the Base Operating Year for purposes of determining the Operating Expenses payable for such calendar year in which such added new type of discretionary services are so provided, as if such services were provided in the Base Operating Year (but at the rate for such services which would have been in effect during the Base Year, or the rate in effect during such subsequent calendar year, whichever is lower); provided, however, the foregoing provision shall not apply to the costs of any capital additions, capital alterations, capital repairs or capital improvements which shall be governed by the provisions of this Paragraph 6 above. If any portion of the Building is covered by a warranty at any time during the Base Operating Year, Operating Expenses for the Base Operating Year shall be considered to be increased by the amount that Landlord would have incurred during the Base Operating Year with respect to the items or matters covered by the warranty had the warranty not been in effect during the Base Operating Year.

(d) Commencing on the first (1st) anniversary of the Rent Commencement Date, Tenant shall pay, in equal monthly installments, one-twelfth (1/12th) of Landlord's estimate of the Operating Payment for the then current calendar year (prorated for any partial calendar year or month at the beginning or end of the Term). Landlord shall give Tenant written notice of such estimated amounts, and Tenant shall pay such amounts monthly to Landlord at the same time as monthly Base Rent. Following the end of each calendar year subsequent to the Base Operating Year, Landlord will submit to Tenant a statement showing Operating Expenses for the preceding calendar year with a reasonable breakdown of the particular Operating Expenses in categories, along with a reconciliation of Tenant's estimated payments as compared to Tenant's actual Operating Payment for such calendar year (each, an "Operating Statement"). Within thirty (30) days after receipt of an Operating Statement, Tenant shall pay Landlord any additional amounts owed as shown on the Operating Statement. Tenant shall also pay to the taxing authority, before delinquency, any taxes levied or assessed upon all of Tenant's equipment, furniture, fixtures and other personal property within the Premises. Tenant's obligation to pay any amounts due under the Paragraph shall survive the Expiration Date or earlier termination of this Lease.

(e) In the event of overpayment by Tenant, Landlord shall apply the excess to the next payment of Rent when due, until such excess is exhausted or until no further payments of Rent are due, in which case, Landlord shall pay to Tenant the balance of such excess within thirty (30) days thereafter (and said obligation shall survive the Expiration Date or earlier termination of this Lease). Except as provided below, any failure or delay on the part of Landlord in furnishing any Operating Statement shall not constitute a waiver by Landlord of Tenant's obligation to pay Tenant's Operating Payment to the extent required of Tenant under this Lease. Landlord shall use reasonable efforts to deliver an Operating Statement for each calendar year or portion thereof occurring during the Term hereof occurring subsequent to the Base Operating Year to Tenant within ninety (90) days after the last day of the calendar year to which such statement is applicable. Notwithstanding the foregoing to the contrary, Tenant shall not be responsible for Tenant's Share of any Operating Expenses attributable to any calendar year for which Tenant received an Operating Statement more than two (2) calendar years after the date (the "Cutoff Date") which is the earlier of (i) the expiration of the applicable calendar year or (ii) the Lease Expiration Date, except that Tenant shall be responsible for Tenant's Share of Operating Expenses levied by any

governmental authority or by any public utility company at any time following the applicable Cutoff Date which are attributable to any Expense Year occurring prior to such Cutoff Date, so long as Landlord delivers to Tenant a bill and supplemental Statement for such amounts within two (2) years following Landlord's receipt of the applicable bill therefor.

(f) Audit Rights. Tenant shall have the right, at Tenant's cost, after reasonable notice to Landlord, to have Tenant's authorized employees or agents or auditors inspect, at Landlord's office during normal business hours, Landlord's books, records and supporting documents concerning the Operating Expenses, set forth in any Operating Statement delivered by Landlord to Tenant for a particular calendar year; provided, however, Tenant shall have no right to conduct such inspection, have an audit performed by the Accountant as described below, or object to or otherwise dispute the amount of the Operating Expenses, set forth in any such Operating Statement, unless Tenant notifies Landlord of its desire to conduct such inspection within nine (9) months immediately following Landlord's delivery to Tenant of the particular Operating Statement in question (the "Review Period"); provided, further, that notwithstanding any such timely notice and as a condition precedent to Tenant's exercise of its right of inspection, objection, dispute, and/or audit as set forth in this Paragraph 6(f), Tenant shall not be permitted to withhold payment of, and Tenant shall timely pay to Landlord, the full amounts as required by the provisions of this Paragraph 6 in accordance with such Operating Statement. However, such payment may be made under protest pending the outcome of any inspection and/or audit which may be performed by or on behalf of Tenant or by the Accountant as described below. In connection with any such inspection by Tenant, Landlord and Tenant shall reasonably cooperate with each other so that such inspection can be performed pursuant to a mutually acceptable schedule, in an expeditious manner and without undue interference with Landlord's operation and management of the Building. If after such inspection and/or request for documentation, Tenant disputes the amount of the Operating Expenses set forth in the Operating Statement, Tenant shall have the right, but not the obligation, to cause an independent certified public accountant which is not paid on a contingency basis and which is selected by Tenant and reasonably approved by Landlord (the "Accountant") to complete an audit of Landlord's books and records to determine the proper amount of the Operating Expenses incurred and amounts payable by Tenant for the calendar year or calendar years which is the subject of such Operating Statement. Such audit by the Accountant shall be final and binding upon Landlord and Tenant. If Landlord and Tenant cannot mutually agree as to the identity of the Accountant within thirty (30) days after Tenant notifies Landlord that Tenant desires an audit to be performed, then the Accountant shall be one of the "Big 4" accounting firms selected by Tenant, which is not paid on a contingency basis and who has not been engaged by Tenant in the twenty-four (24) month period preceding the Review Period. If such audit reveals that Landlord has over-charged Tenant, then within thirty (30) days after the results of such audit are made available to Landlord, Landlord shall reimburse to Tenant the amount of such over-charge. If the audit reveals that the Tenant was under-charged, then within thirty (30) days after the results of such audit are made available to Tenant, Tenant shall reimburse to Landlord the amount of such under-charge. Tenant agrees to pay the cost of such audit unless it is subsequently determined that Landlord's original Operating Statement which was the subject of such audit was in error to Tenant's disadvantage by five percent (5%) or more of the total Operating Expenses which was the subject of such audit, in which event Landlord shall pay the cost of such audit. The payment by Tenant of any amounts pursuant to this Paragraph 6(f) at any time during the applicable Review Period shall not preclude Tenant from questioning the correctness of any Operating Statement provided by Landlord at any time during the Review Period, but the failure of Tenant to dispute such

Operating Statement prior to the expiration of the applicable Review Period shall be conclusively deemed Tenant's approval of the Operating Statement in question and the amount of Operating Expenses shown thereon. In connection with any inspection and/or audit conducted by Tenant pursuant to this Paragraph 6(f), Tenant agrees to use reasonable efforts to keep, and to cause all of Tenant's employees and consultants and the Accountant to keep, all of Landlord's books and records and the audit, and all information pertaining thereto and the results thereof, strictly confidential, provided, however, that nothing herein shall prohibit the disclosure or dissemination of such books, records, audit and/or information to Tenant's or Tenant's accountant's attorneys, accountants, auditors, investors, lenders or partners or to any person or entity to the extent required by law or legal process or in connection with any dispute, suit or preceding between Landlord and Tenant. Within a reasonable period after Landlord's request, Tenant shall cause its employees and consultants performing the Audit and the Accountant to execute such reasonable confidentiality agreements as Landlord may reasonably require prior to conducting any such inspections and/or audits.

PARAGRAPH 7: **REAL ESTATE TAXES**: For the purpose of this Lease, the following terms have the following meanings:

(a) "Real Estate Taxes" (as used in Paragraph 6(a) and elsewhere in this Lease) shall mean the real estate taxes, assessments, sewer rentals, levies, impositions, charges and special assessments, or payments in lieu thereof, imposed -on the Building, including without limitation, town, village, county and school taxes and any traffic district or community district assessments, as well as increases from a change of ownership of the Building. For purposes of inclusion in Operating Expenses, all special assessments shall be allocated over the maximum term allowed by law and shall include the interest charged for such allocation. If, at any time during the Term, the methods of taxation prevailing on the Commencement Date shall be altered, modified, or changed, in whole or in part, so that in lieu of or as a substitute for the whole or any part of the taxes, assessments, levies, impositions, charges, special assessments, or payments in lieu thereof, now levied, assessed or imposed on the Building as of the Commencement Date (the "Existing Real Estate Taxes"), there shall be levied, assessed or imposed on the Property any taxes, assessments, levies, impositions, charges or special assessments not now levied, assessed or imposed on the Building as of the Commencement Date, including, without limitation: (i) a tax assessment, levy, imposition or charge wholly or partially as a capital levy or otherwise on the rents received therefrom, (ii) a tax assessment, levy, imposition of charge measured by or based in whole or in part upon the Building and imposed upon Landlord, (iii) a license fee measured by the rents payable by Tenant to Landlord, or (iv) any other governmental charges whether federal, state, city, county, or municipal, whether general or special, ordinary or extraordinary, foreseen or unforeseen, levied upon the Building, then all such in lieu or substitute taxes, assessments, levies, impositions, charges or special assessments, or the part thereof so measured or based, shall be deemed to be included within the term Real Estate Taxes for the purpose hereof. Real Estate Taxes shall also include any expenses incurred by Landlord in attempting to obtain a reduction of Real Estate Taxes from the Taxing Authority, to the extent the Real Estate Taxes are reduced during the Term, Tenant's Operating Payment shall be proportionately reduced.

(b) "Taxing Authority" shall mean any State of California, County of San Mateo, City of South San Francisco taxing authority which shall impose Real Estate Taxes on the Building.

PARAGRAPH 8: HOLDOVER TENANCY: If Tenant shall hold over without written permission from Landlord after the expiration of the Term or Tenant should fail to return the Premises in the condition specified in Paragraph 28 below, at Landlord's option: (a) Tenant shall be deemed to occupy the Premises as a tenant at sufferance, subject to immediate dispossession in accordance with law, at (i) for the first calendar month after the expiration of the Term, one hundred fifty percent (150%) of the Base Rent in effect during the last year of the Term, (ii) for the second calendar month after the expiration of the Term, one hundred seventy-five percent (175%) of the Base Rent in effect during the last year of the Term, and (iii) thereafter, two hundred percent (200%) of the Base Rent, and otherwise subject to all of the terms, covenants and conditions of this Lease; and (b) Landlord may exercise any other remedies it has under this Lease or at law or in equity including an action for wrongfully holding over. Landlord's acceptance of the increased rent in accordance with this Paragraph 8 shall in no way limit or affect Landlord's rights and remedies under this Lease, at law or equity. No extension or renewal of this Lease shall be deemed to have occurred by any holding over. Notwithstanding anything set forth in this Paragraph 8 to the contrary, in the event Tenant has not exercised its first extension option pursuant to Paragraph 49 hereof, Tenant shall have the one-time right to extend the initial Lease Term for a period of up to three (3) months thereafter ("Temporary Extension Term") by delivering written notice of the exercise of such right at least six (6) months prior to the expiration of the initial Lease Term which notice shall specify the period of the Temporary Extension Term Tenant shall select (which period shall be not less than one (1) month nor more than six (6) months), and provided that, at Landlord's option, in addition to all remedies available to Landlord under this Lease, at law or in equity, Tenant is not in default under this Lease (after expiration of any applicable notice and cure period) as of the date Tenant delivers such notice to Landlord or the commencement of the Temporary Extension Term. If Tenant timely exercises such renewal right, all of the terms and conditions of this Lease shall apply during the Temporary Extension Term, provided, however, that the monthly Base Rent payable by Tenant during the Temporary Extension Term shall be equal to one hundred twenty-five percent (125%) of monthly Base Rent applicable during the last rental period of the initial Lease Term. Tenant shall defend, indemnify and hold Landlord harmless from and against all claims, losses and liabilities for damages resulting from failure to surrender possession upon the Expiration Date or sooner termination of the Term by any tenant to whom Landlord may have leased all or any part of the Premises and for all other losses, costs and expenses of any kind or nature, including reasonable attorney's fees and costs, expert witness fees and costs and court costs incurred by Landlord as a result of such holdover, and such obligations shall survive the expiration or sooner termination of this Lease.

PARAGRAPH 9: TENANT ALTERATIONS:

(a) Tenant shall not make any alterations, additions or improvements (collectively referred to as "Tenant Alterations") in or to the Premises without the prior written consent of Landlord, which consent shall not be unreasonably withheld, delayed or conditioned, provided that such proposed Tenant Alterations (i) are nonstructural, (ii) do not affect the Building's HVAC, plumbing, electrical, life safety or mechanical systems or services, (iii) do not affect any part of the Building other than the Premises, (iv) do not adversely affect any service required to be furnished by Landlord to Tenant or to any other tenant or occupant of the Building and (v) do not reduce the value or utility of the Building. Tenant shall be permitted to make, without Landlord's consent, Tenant Alterations not exceeding $100,000.00 in any twelve (12) month period in value and for which Tenant is not required to obtain a permit from the applicable municipality and if

such Alterations are of the type described in clauses (i), (ii), (iii) and (iv) above ("Permitted Alterations"). Any other Tenant Alteration may be approved or disapproved by Landlord for any reason or for no reason. If Landlord consents to any Tenant Alterations to the Premises such Tenant Alterations shall be performed (a) at Tenant's expense pursuant to plans and specifications approved by Landlord (not to be unreasonably withheld, conditioned or delayed) and (b) by a reputable and qualified contractor licensed in the State of California and reasonably approved by Landlord, and subject to any commercially reasonable covenants and conditions required by Landlord, including, without limitation, any commercially reasonable construction rules and regulations promulgated by Landlord for the Building. Landlord's approval of any plans and specifications for alterations, improvements, modifications or additions to the Premises or the Property shall not constitute a representation or warranty of Landlord (x) as to the adequacy or sufficiency of such drawings, plans and specifications, or alterations, improvements, modifications or additions to which they relate, for any use, purpose or conditions, (y) that such drawings, plans and specifications or any action taken pursuant thereto or in reliance thereon complies with, or is not in violation of, any applicable laws, rules or regulations or any standard of due care regarding engineering or structural design or quality of material, and Landlord does not assume any liability or responsibility therefor nor for any defect in construction from said drawings, but such approval shall merely be the consent of Landlord as required hereunder. In no event shall Landlord be deemed to have consented to imposition of any lien against any interest of Landlord in the Building or the Premises and Landlord shall have the right, at all times, to post and to keep posted on the Premises all notices permitted and/or required by law, or which Landlord shall deem proper for the protection of Landlord and the Premises and any other parties having an interest therein, from all mechanic and materialmen's liens, and Tenant shall give Landlord fifteen (15) days prior notice before commencing any Tenant Alterations (other than Permitted Alterations) for such purposes and for scheduling purposes. All Tenant Alterations shall be done in a good and workmanlike manner with first-class quality materials in accordance with all laws, ordinances,

and rules and regulations of any federal, state, county, municipal, or other public authority having jurisdiction over the Premises. Tenant shall cause such work to be performed in a diligent manner and shall use commercially reasonable efforts as to minimize unreasonable interference with other tenants' and occupants' lawful use and enjoyment of their premises and business operations. Tenant and its contractors shall comply with all commercially reasonable requirements Landlord may reasonably impose on Tenant or its contractors with respect to such work (including but not limited to, insurance, indemnity and bonding requirements), and shall deliver to Landlord a complete copy of the "as-built" or final plans and specifications for all Alterations so made in or to the Premises within thirty (30) days of completing the work (provided the work was of such a nature that such plans were actually prepared). Tenant shall not place safes or vaults in the Premises without Landlord's prior written consent, which shall not be reasonably withheld or delayed.

(b) Any mechanic's lien filed against the Premises or the Building for work or materials furnished to Tenant at Tenant's request shall be discharged by Tenant, by payment or by bonding of such lien by a reputable casualty or insurance company reasonably satisfactory to Landlord within twenty (20) days from the date of receipt of notice of the lien (provided that any such bond must be sufficient under applicable law to release the Premises and the Property from the lien). Should any action, suit, or proceeding be brought upon any such lien for the enforcement or foreclosure of the same, Tenant shall pay for Landlord's reasonable attorneys' fees for the defense of Landlord therein, by counsel reasonably satisfactory to Landlord, and satisfy and discharge any judgment entered therein against Landlord.

(c) Tenant shall indemnify, defend and hold Landlord harmless from any (i) injury, damage, cost or loss sustained by persons or property as a result of any defect in the design, material or workmanship of Tenant Alterations, except to the extent caused by Landlord's breach of this Lease or by the gross negligence or willful misconduct of Landlord, its agent, contractors or employees, and (ii) loss, liability, cost and expense (including, without limitation, attorney's fees and court costs) incurred by Landlord, its agents, contractors, or employees, relating in any way to Tenant Alterations, including, without limitation, the imposition of any lien against the Premises or the Building by reason of any Tenant Alterations.

(d) Except for those items listed on Exhibit G, all Alterations, attached equipment, decorations, fixtures, trade fixtures, additions and improvements, attached to or built into the Premises, made by either of the parties, including, without limitation, all floor and wall coverings, built-in cabinet work and paneling, sinks and related plumbing fixtures, laboratory benches, exterior venting fume hoods and walk-in freezers and refrigerators, ductwork, conduits, electrical panels and circuits shall (unless, with respect to any Tenant Alterations proposed by Tenant Landlord expressly notified Tenant in writing as part of Landlord's approval of the plans and specifications for such Alterations or at the time Tenant provides written notice to Landlord of any Permitted Alterations that Tenant must remove such Alterations prior to the expiration of the Term; provided, that Tenant, in any event, has requested Landlord in writing to make such determination) become the property of Landlord upon the expiration or earlier termination of the Term, and shall remain upon and be surrendered with the Premises as a part thereof. The Premises shall at all times remain the property of Landlord and shall be surrendered to Landlord upon the expiration or earlier termination of this Lease. Notwithstanding anything to the contrary herein, Tenant's furniture, fixtures and furnishings which are not permanently attached to the Premises, Tenant's business machines and equipment which are not permanently attached to the Premises, and Tenant's communications equipment shall be and remain Tenant's personal property and may be removed by Tenant at any time, and must be removed by Tenant upon the expiration or earlier termination of this Lease. As used in this Paragraph, "permanently attached" shall mean attached in such a manner as would result in material damage to the Premises if detached from the Premises. Notwithstanding the foregoing, at any time during the Term, subject to Landlord's prior written approval, which approval shall not be unreasonably withheld, conditioned or delayed, Tenant shall have the right to update Exhibit G. Except as to those items listed on Exhibit G attached hereto, all business and trade fixtures, machinery and equipment, built-in furniture and cabinets, together with all additions and accessories thereto, permanently attached to or built into the Premises shall become the property of Landlord upon the expiration of the Term. If Tenant shall fail to remove any of its effects from the Premises (required by this Paragraph to be removed) within ten (10) days after the termination of this Lease, then Landlord may, at its option, remove the same in any manner that Landlord shall choose and store said effects without liability to Tenant for loss thereof or damage thereto, and Tenant shall pay Landlord, upon demand, any actual, documented and reasonable costs and expenses incurred due to such removal and storage or Landlord may, at its sole option and upon notice to Tenant, sell such property or any portion thereof at private sale and without legal process for such price as Landlord may obtain and apply the proceeds of such sale against any (a) amounts due by Tenant to Landlord under this Lease and (b) any actual and documented expenses incident to the removal, storage and sale of said personal property. Notwithstanding any other provision of this Article to the contrary, in no event shall Tenant remove any improvement from the Premises as to which Landlord contributed payment, including the Tenant Improvements, without Landlord's prior written consent, which consent Landlord may

withhold in its sole and absolute discretion. Notwithstanding anything to the contrary herein, Tenant shall have no obligation to remove the Emergency Generator upon or prior to the expiration or termination of the Term.

(e) Tenant shall be responsible for removal, as needed, from the Premises and the Building of all trash, rubbish, and surplus materials resulting from any work being performed in the Premises by Tenant or Tenant's contract parties. Tenant shall exercise due care and diligence in removing such trash, rubbish, or surplus materials from the Premises to avoid littering, marring, or damaging any portion of the Building. If any such trash, rubbish, or surplus materials are not promptly removed from the Building in accordance with the provisions hereof and Landlord notifies Tenant in writing that it intends to remove the same at Tenant's expense and Tenant fails to remove the same with three (3) business days thereafter, Landlord may cause same to be removed or repaired, as the case may be, at Tenant's cost and expense. If Landlord incurs any costs or expenses in performing the above, Tenant shall pay Landlord the amount of any such cost and expenses promptly upon demand therefor.

(f) Subject to Paragraphs 16(g) and 21, Tenant will be responsible for repairing any damage to the Building common areas caused by Tenant or its agents or contractors within fifteen (15) days after receipt of written notice by Landlord specifying the damage in reasonable detail; provided, however, that if such repairs cannot reasonably be completed within said 15-day period, Tenant shall have such time as is reasonably necessary under the circumstances to complete such repairs. If such repairs are not completed within such time frame and Landlord gives Tenant at least five (5) business days prior written notice of Landlord's intention to complete the same at Tenant's expense, Landlord may cause the damage to be repaired at Tenant's expense. Within ten (10) days of receipt of an invoice therefor, Tenant shall reimburse Landlord for its actual costs and expenses in completing any such repair.

PARAGRAPH 10: INTENTIONALLY OMITTED.

PARAGRAPH 11: PROJECT SERVICES: Subject to force majeure events and other causes beyond Landlord's reasonable control, Landlord shall furnish Project Services, as defined herein, as specifically provided herein and, at a minimum, as in the manner generally provided in comparable buildings in

the Brisbane/South San Francisco area including, but not limited to:

(a) **Utility Services:** Electricity to the Premises twenty-four (24) hours per day, seven (7) days per week, three-hundred sixty-five (365) days per year ("24/7"); hot and cold running water to the Premises 24/7 (however, as to the portion of the Premises located on the third floor only as provided in the Building standard restrooms); sewer to the Premises 24/7; refuse and rubbish removal (except for periodic removal during the day, which shall be Tenant's obligation); lighting, and bulb, tube, lamp and ballast replacement for the Building standard light fixtures; and heating, ventilation and air conditioning. Should Tenant, in Landlord's reasonable judgment, use additional, unusual or excessive electricity in the portion of the Premises located on the third floor, Landlord reserves the right to charge Tenant Landlord's actual costs for such services as determined either by a separate submeter installed at Tenant's expense, or by another commercially reasonable method selected by Landlord. Notwithstanding anything above or elsewhere in this Lease to the contrary, Tenant shall be separately metered for all electricity consumed in the ground floor portion of the Premises.

(b) **Common Area Maintenance Services:** Repair and maintenance of all interior and exterior common areas including parking areas and the roof so as to maintain the same in safe, "good" condition and working order. Services include, but are not limited to, lighting, landscaping, cleaning, painting, resurfacing of the parking facilities, litter removal, painting, rodent/insect control, and window washing. Window washing shall be performed not less frequently than twice per calendar year and lighting of the parking facilities shall be provided, at a minimum, between dusk and dawn, otherwise all of the foregoing services shall be performed at such times and with such frequency as substantially provided in comparable buildings in the City of South San Francisco.

(c) **Janitorial Services:** Cleaning service for the Premises (excluding the first (1st) floor portion of the Premises which shall be Tenant's responsibility) consistent with the standards applied to other tenants of the Building, at Landlord's expense (subject to reimbursement through Operating Payments), but at a minimum substantially consistent with janitorial services provided to tenants of comparable buildings in the City of South San Francisco provided that the Premises are kept in order by Tenant. The services set forth in this Subparagraph shall only be furnished to Tenant five (5) days per week, excluding legal holidays observed by the United States government ("Holidays"). Notwithstanding anything above or elsewhere to the contrary in this Lease, Tenant, at Tenant's sole cost and expense, shall provide janitorial services to the ground floor portion of the Premises pursuant to a janitorial contract (and with a janitorial contractor) reasonably approved by Landlord.

(d) **Elevator Service:** There shall also be at least one elevator serving the Building available for Tenant's use, 24/7. Freight elevator use is subject to scheduling with Landlord's property manager

(e) **Access Control:** Landlord shall not be liable for loss to Tenant, its agents, employees, and visitors arising out of theft, burglary, or damage or injury to persons or property caused by persons gaining access to the Building or the Premises, except if such loss, injury, or damage arises from the breach of this Lease by Landlord or the negligence or willful misconduct of Landlord so long as the change does not exceed the actual cost, without mark-up, of providing such service.

The services described in Subparagraphs (a) through (e) above shall be collectively referred to as "Project Services". The costs of Project Services shall be part of the Operating Expenses, subject to Paragraph 6(b). Unless otherwise indicated, Project Services shall be furnished during normal Building hours, which are 7:00 a.m. to 6:00 p.m., Monday through Friday, and 8:00 a.m. to 1:00 p.m. on Saturdays, excluding Sundays and Holidays observed by the United States government. If requested by Tenant with twenty-four (24) hours prior notice, Landlord will make available heating, ventilating and air conditioning service to the third floor portion of the Premises at other times at a fixed rate of $50.00 per hour throughout the Lease Term Tenant shall have access to the parking facilities, Building and Premises at all times during the Term.

PARAGRAPH 12: INTERRUPTION OF SERVICES: Landlord shall not be liable to Tenant for damages upon any loss, damage, failure, interruption, defect or change in the character or supply of electricity or water to the Premises, and Tenant agrees that such supply may be interrupted in cases of emergency (provided Landlord uses its commercially reasonable efforts to

restore such supply as soon as reasonably possible under the circumstances). Notwithstanding any other provisions of this Lease, (i) if Landlord fails to provide Tenant access to the Premises or (ii) if any of the Project Services to be provided by Landlord are suspended or interrupted for any reason other than the willful acts or negligence of Tenant or by reason of force majeure and as a result thereof Tenant is not reasonably able to conduct its business at the Premises and Tenant actually ceases to conduct its business in all or a portion of the Premises (each, together with the Entry Abatement Condition described in Paragraph 19(d), an "Abatement Condition"), then Tenant may elect, by notice to Landlord, to have Base Rent due hereunder abate until such time as the access or applicable Project Services are restored to the Premises, subject to the following additional provisions having occurred in each instance: (a) with respect to the Abatement Condition in question, Tenant shall have given notice to Landlord of the occurrence thereof, which notice shall designate the cause of the Abatement Condition and the portion of the Premises which is not reasonably usable by Tenant for the Permitted Use (the "Abatement Space") and the Abatement Condition in question shall have continued after Tenant has given notice, for a period of more than five (5) business day; and (b) Tenant has actually ceased using the Abatement Space for more than five (5) business day after the giving of notice of the Abatement Condition. If, with respect to the Abatement Condition in question, the conditions of the immediately preceding sentence are fulfilled, then Base Rent shall abate, in the proportion that the rentable square foot area of the portion of the Premises that is not reasonably usable by Tenant for the Permitted Use (and not actually used therefor by Tenant) to the rentable square foot area of the Premises, for a period equal to the period during which Tenant actually ceases using the Abatement Space for the Permitted Use, but commencing no sooner than the day after the giving of notice of the Abatement Condition and ending no later than the date that the access or applicable Project Services are fully restored to Tenant. Tenant agrees that any Abatement of Base Rent received by Tenant hereunder shall be Tenant's sole and exclusive remedy solely for the suspension or interruption of Project Services on which such abatement was based. Tenant shall not, however, be entitled to any abatement of Base Rent if the interruption or abatement in Project Services is solely the result of an interruption or abatement in the service of a public utility, provided such interruption or abatement is not the result of Landlord's failure to timely pay the public utility or otherwise comply with the terms of service of the public utility. By way of example only, there shall be no abatement of Base Rent if Landlord is unable to furnish water or electricity to the Premises if no water or electricity is then being made available to the Building by the supplying utility company or municipality, provided the reason for such unavailability is not Landlord's failure to timely pay the utility company or municipality or otherwise comply with the terms of service of the utility company or municipality.

PARAGRAPH 13: **USE OF PREMISES**: Tenant agrees to:

(a) Use the Premises for the Permitted Use and for no other purpose.

(b) Use the Premises in compliance with all laws, ordinances, regulations or rules applicable to the Premises. Tenant shall comply with all recorded covenants, conditions, and restrictions ("CC&Rs"), and the provisions of all ground or underlying leases now affecting the Property and those affecting the Property after the date hereof, so long as such new CC&Rs and/or ground or underlying lease do not materially increase Tenant's obligations or decrease or impair Tenant's rights under this Lease. However, so long as it uses the Premises for the Permitted Use, Tenant shall not be obligated to make any alterations, improvements, renovations, or other changes

to the Premises due to laws, ordinances, regulations or governmental orders now or hereafter in effect, unless such alterations, improvements, renovations, or other changes are required as a result of any Tenant Alterations In no event shall Tenant be responsible for legally required improvements to the common areas which may be triggered by the initial Tenant Improvements constructed by Tenant pursuant to Exhibit "C".

(c) Not do or permit any Tenant's Parties to do anything in or about the Premises, or bring or keep anything in the Premises, beyond the Permitted Use, that may increase Landlord's fire and extended coverage insurance premium, damage the Building or the Property, constitute waste, or be a nuisance, public or private.

(d) Observe, perform and abide by all reasonable, non-discriminatory and uniformly enforced rules and regulations promulgated by Landlord and delivered in writing to Tenant from time to time, provided such rules and regulations (including all amendments and supplements thereto) do not materially interfere with the Permitted Use or conflict with the terms of this Lease. The initial Rules and Regulations, which Tenant has agreed to, are attached hereto as Exhibit F. In the event of any conflict between the terms of this Lease and the terms of any rules and regulations promulgated by Landlord (including Exhibit F hereto), the terms of this Lease shall prevail and control.

PARAGRAPH 14: **SIGNS AND GRAPHICS**: Landlord will, at Landlord's expense, provide Tenant with a Building standard directory sign, floor lobby signage on all Tenant occupied floors and suite signs on all Tenant occupied floors. Except as provided in this Paragraph 14, Tenant shall not place any lettering, sign, advertisement, notice or object (collectively, "Signage") on the windows or doors or on the outside of the perimeter walls of the Premises unless Landlord has given prior written consent and Tenant has obtained all applicable governmental approvals or the placement or posting of such Signage is required by code or other laws or such Signage is located in the shipping and receiving area of the Premises or in the Emergency Generator area. Any sign or lettering not approved by Landlord (where Landlord's approval is required) may be removed by Landlord following five (5) business days prior written notice to Tenant of Landlord's intention to remove the same and the cost of such removal and any necessary repair shall be paid for by Tenant. Subject to the approval of all applicable governmental and quasi-governmental entities, and subject to all applicable governmental laws, rules, regulations and codes and any covenants, conditions and restrictions affecting the Building, Landlord hereby grants Tenant the non-exclusive right to have one (1) Building exterior identification sign containing the name "Veracyte" in a location on the west facing side of the Building (the "Exterior Sign"). The design, size, specifications, graphics, materials, manner of affixing, exact location, colors and lighting (if applicable) of Tenant's Exterior Sign shall be (i) consistent with the quality and appearance of the Building, (ii) subject to the approval of all applicable governmental and quasi-governmental authorities, and subject to all applicable governmental and quasi-governmental laws, rules, regulations and codes and any covenants, conditions and restrictions affecting the Building, and (iii) subject to Landlord's approval (which shall not be unreasonably withheld, conditioned or delayed). Tenant shall install Tenant's Exterior Sign at Tenant's sole cost and expense. In addition, Tenant shall be responsible for all other costs attributable to the fabrication, insurance, lighting (if applicable), maintenance, repair and removal of Tenant's Exterior Sign. The Exterior Sign right granted to Tenant under this Paragraph 14 is personal to the original Tenant executing this Lease ("Original Tenant") and any Permitted Transferee (as defined in Paragraph 18) that is an assignee of Original Tenant's entire

interest in this Lease (herein, a "Permitted Assignee") and may not be exercised or used by or assigned to any other person or entity. In addition, Original Tenant (or such Permitted Assignee) shall no longer have any right to Tenant's Exterior Sign if at any time during the Term the Original Tenant (or such Permitted Assignee) does not lease and occupy at least 50% the entire Premises then leased by Original Tenant (or such Permitted Assignee) hereunder. Upon the expiration or sooner termination of this Lease, or upon the earlier termination of Tenant's signage rights under this Paragraph 14, Landlord shall have the right to permanently remove Tenant's Exterior Sign from the Building and to repair all damage to the Building resulting from such removal and restore the affected area to its original condition existing immediately prior to the installation of such Exterior Sign, and Tenant shall reimburse Landlord for the reasonable costs thereof; provided, however, that Tenant shall have no obligation to reimburse Landlord for any costs arising out Landlord's or its contractor's improper or negligent removal of Tenant's Exterior Sign.

PARAGRAPH 15: **INDEMNIFICATION; COMPLIANCE WITH LAW**:

(a) Subject to Paragraphs 16(g) and 21, Tenant shall defend, indemnify and hold Landlord and its officers and directors (collectively, the "Landlord Indemnitees") harmless from and against any and all written demands, causes of action, judgments, costs, expenses, losses (excluding lost profits and lost revenues), damages (excluding special, indirect, punitive and consequential damages), claims, or liability for any damage to any property or injury, illness or death of any person (i) occurring in the Premises at any time during the Term from any cause other than the negligence or willful misconduct of Landlord or its agents, employees or contractors; (ii) occurring during the Term in or on the Property other than the Premises, to the extent such damage, injury, illness or death shall be caused in whole or in part by any act or omission or willful or criminal misconduct of Tenant or any agent, employee or contractor of Tenant; (iii) arising out of claims for labor performed or materials furnished to Tenant at its request or the performance of any work done by or at the request of Tenant, whether or not Tenant obtained Landlord's permission to have such work done, labor performed or materials furnished; or (iv) arising out of or in any way related to any breach of a covenant in this Lease to be performed by Tenant.

(b) Subject to Paragraphs 16(g) and 21, Landlord shall defend, indemnify and hold Tenant and its officers and directors, (collectively, the "Tenant Indemnitees") harmless from and against any and all written demands, causes of action, judgments, costs, expenses, losses (excluding lost profits and lost revenues), damages (excluding special, indirect, punitive and consequential damages), claims, or liability for any damage to any property or injury, illness or death of any person (i) occurring in the Premises, Building or Property at any time during the Term to the extent such damage, injury, illness or death shall be caused in whole or in part by negligence or willful or criminal misconduct of Landlord or its agents, employees or contractors; (ii) arising out of claims for

labor performed or materials furnished to Landlord at its request or the performance of any work done by or at the request of Landlord; or (iii) arising out of any breach of a covenant of this Lease to be performed by Landlord.

(c) In addition, subject to Paragraph 13(b) above and Paragraph 15(d) below, Tenant, at its expense, shall comply with all laws, regulations and governmental orders with respect to Tenant's use or occupancy of and Alterations to, the Premises including, without limitation, any Environmental Laws (as hereinafter defined) applicable to Tenant. Landlord shall be responsible for any repairs, maintenance, alterations, improvements and other changes of or to the common

areas of the Property which are required to comply with Title III of the Americans with Disabilities Act of 1990 and all regulations promulgated thereunder, and all similar laws and regulations of the State of California (collectively, the "ADA"), and the cost thereof may be an Operating Expense in accordance with Paragraph 6, except as provided in the following sentence. If alterations to the common areas of the Property are required in order to comply with the ADA as a result of Tenant Alterations within the Premises or Tenant's use of the Premises for other than the Permitted Use, the reasonable cost thereof shall be paid by Tenant within twenty (20) days after receipt of Landlord's written demand therefor accompanied by invoices substantiating the costs demanded by Landlord. Landlord shall be responsible for the cost and expense of upgrading the Building (including the common areas) to comply with the ADA as in effect and applicable to the Building as of the date hereof and to maintaining the Building (including the common areas) in compliance with the ADA. Tenant shall maintain the Premises in compliance with the ADA at its cost and expense provided that such compliance is not necessitated by Landlord's failure to comply with its obligations under this Paragraph.

(d) As used in this Lease, the following terms have the following meanings:

(i) "Environmental Law" means any past, present or future federal, state or local statutory or common law, or any regulation, ordinance, code, governmental order or permit, grant, franchise, concession, restriction or agreement issued, entered, promulgated or approved thereunder, relating to (a) the environment, human health or safety, including, without limitation, emissions, discharges, releases or threatened releases of Hazardous Materials (as defined below) into the environment (including, without limitation, air, surface water, groundwater or land), or (b) the manufacture, generation, refining, processing, distribution, use, sale, treatment, receipt, storage, disposal, transport, arranging for transport, or handling of Hazardous Materials.

(ii) "Environmental Permits" mean collectively, any and all permits, consents, licenses, approvals and registrations of any nature at any time required in order to comply with any Environmental Law including, but not limited to, any Spill Control Countermeasure Plan and any Hazardous Materials Management Plan, if applicable.

(iii) "Hazardous Materials" shall mean and include any hazardous or toxic materials, substances or wastes as now or hereafter designated or regulated under any Environmental Law, including, without limitation, methane, asbestos, petroleum, petroleum hydrocarbons and petroleum based products, urea formaldehyde foam insulation, polychlorinated biphenyls ("PCBs"), Freon and other chlorofluorocarbons, "biohazardous waste," "medical waste," "infectious agent", "mixed waste" or other waste under California Health and Safety Code §§ 117600 et, seq.

(iv) "Release" shall mean with respect to any Hazardous Materials, any release, deposit, discharge, emission, leaking, pumping, leaching, spilling, seeping, migrating, injecting, pumping, pouring, emptying, escaping, dumping, disposing or other movement of Hazardous Materials.

(e) Tenant will during the Term (i) obtain and maintain in full force and effect all Environmental Permits, if any, that may be required of Tenant from time to time under any Environmental Laws applicable to Tenant and its business operations in the Premises, and (ii) be

and remain in compliance with all terms and conditions of all such Environmental Permits, if any. On or before the date Tenant commences business operations in the Premises and thereafter from time to time within twenty (20) days after receipt of Landlord's written request (not to be requested more than twice per calendar year), Tenant shall provide to Landlord copies of all Environmental Permits, if any, applicable to Tenant and its business operations in the Premises.

(f) Tenant shall not during the Term cause or permit any Hazardous Materials to be brought upon, stored, used, handled, generated or disposed of on, in or under the Premises by Tenant, its agents, employees, subtenants or contractors (collectively, "Tenant's Parties") except in accordance with applicable Environmental Law. Landlord acknowledges that it is not the intent of this Paragraph 15(f) to prohibit Tenant from operating its business for the uses permitted hereunder. Tenant's use of the Premises may involve Hazardous Materials so long as such Hazardous Materials are used, stored, generated and disposed of in accordance with applicable Environmental Law. Tenant agrees to deliver to Landlord, prior to the Commencement Date, Tenant's Hazardous Materials Business Plan (EPCRA 312) for the Premises and a list identifying each approval or permit, if any, required in connection with Tenant's use, storage and disposal of Hazardous Materials at the Premises (collectively, the "Hazardous Materials List"). Tenant shall deliver to Landlord an updated Hazardous Materials List on or prior to each annual anniversary of the Commencement Date. Tenant shall deliver to Landlord true and correct copies of the following documents (hereinafter referred to as the "Documents") relating to the handling, storage, disposal and emission of Hazardous Materials prior to the Commencement Date or, if unavailable at that time, promptly after the receipt from or submission to any Governmental Authority: plans relating to the installation of any storage tanks to be installed in, on, under or about the Premises (provided that installation of storage tanks to contain Hazardous Materials shall only be permitted after Landlord has given Tenant its written consent to do so, which consent Landlord may withhold in its sole and absolute discretion except as to above ground storage tanks which are part of the Emergency Generator as to which Landlord shall not unreasonably withhold its consent); and all closure plans or any other documents required by any and all governmental authorities for any storage tanks installed in, on, under or about the Premises for the closure of any such storage tanks. Tenant shall not be required, however, to provide Landlord with any portion of the Documents containing information of a proprietary nature, which Documents, in and of themselves, do not contain a reference to any Hazardous Materials or activities related to Hazardous Materials. Upon the expiration or earlier termination of this Lease, Tenant agrees to promptly remove or remediate (as required by Environmental Law) from the Premises, the Building and the Property, at its sole cost and expense, any and all Hazardous Materials which were are installed, brought upon, stored, used, generated or disposed of (in violation of Environmental Law) in, under or about the Premises, the Building or any portion thereof by Tenant or any of Tenant's Parties during the Term of this Lease (such Hazardous Materials being referred to herein as "Tenant Hazardous Materials").

(g) At any time during the Lease Term, if Landlord reasonably believes that there has been a Release of Tenant Hazardous Materials in the Premises in violation of Environmental Law, Landlord shall have the right, at Landlord's sole cost and expense (unless such Release was caused by Tenant in which event the cost of such assessment (including any "Phase I" and "Phase 2" assessment) shall be at Tenant's sole cost and expense), to conduct an environmental assessment of the Premises (as well as any other areas in, on or about the Property that Landlord reasonably believes may have been affected adversely by the alleged Release (collectively, the "Affected Areas") in order to confirm that the Premises and the Affected Areas do not contain any Tenant

Hazardous Materials in violation of applicable Environmental Laws or under conditions constituting or likely to constitute a Release of Tenant Hazardous Materials. Such environmental assessment shall be a so-called "Phase I" assessment or such other level of investigation which shall be the standard of diligence in the purchase or lease of similar property at the time, together with any additional investigation and report which would customarily follow any discovery contained in such initial Phase I assessment (including, but not limited to, any so-called "Phase II" report). Such right to conduct such environmental assessment shall not be exercised more than once per calendar year unless Tenant is in default under this Paragraph 15(g) (beyond the expiration of all applicable notice and cure periods pertaining to Tenant Hazardous Materials). Landlord shall conduct such environmental assessments at times and in manner that does not unreasonably interfere with Tenant's operations in the Premises, including complying with Tenant's commercially reasonable safety requirements while on the Premises.

(h) If the data from any environmental assessment authorized and undertaken by Landlord pursuant to Section (iv) indicates there has been a Release of Tenant Hazardous Materials in violation of Environmental Law resulting in contamination and such Release requires investigation and/or active response action pursuant to Environmental Law, including without limitation active or passive remediation and monitoring or any combination of these activities ("Corrective Action"), Tenant shall immediately undertake Corrective Action with respect to such contamination if, and to the extent, required by the governmental authority exercising jurisdiction over the matter. Any Corrective Action performed by Tenant will be performed with Landlord's prior written approval (not to be unreasonably withheld, conditioned or delayed) and in accordance with applicable Environmental Laws, at no expense to Landlord and by an environmental consulting firm reasonably acceptable to Landlord. Tenant may perform the Corrective Action before or after the expiration or earlier termination of this Lease, to the extent permitted by governmental agencies with jurisdiction over the Premises, the Building and the Property (provided, however, that any Corrective Action performed after the expiration or earlier termination of this Lease shall be subject to the access fee provisions set forth below). If Tenant undertakes or continues Corrective Action after the expiration or earlier termination of the Term of this Lease, Landlord, upon being given forty-eight (48) hours' advance notice, may, in Landlord's sole discretion, elect (without limiting any of the Landlord's other rights and remedies under this Lease, at law and/or in equity), to provide, at an "access fee" equal to one hundred fifty percent (150%) of the monthly Base Rent in effect for the last month immediately preceding the expiration or earlier termination of the Term of this Lease, access to the Premises, the Building and the Property as may be requested by Tenant and its consultants and contractors to accomplish the Corrective Action. The access fee shall be payable monthly on the same basis monthly Base Rent was previously paid. Tenant, its consultants and/or its contractors may install, inspect, maintain, replace and operate remediation equipment and conduct the Corrective Action as it considers necessary, subject to Landlord's reasonable approval (not to be unreasonably withheld, conditioned or delayed). Tenant and Landlord shall, in good faith, cooperate with each other with respect to any Corrective Action after the expiration or earlier termination of the Term of this Lease so as not to interfere unreasonably with the conduct of Landlord's or any third party's business on the Premises, the Building and the Property. Landlord shall provide access until Tenant delivers evidence reasonably satisfactory to Landlord that Tenant's Corrective Action activities on the Premises and the Affected Areas satisfy applicable Environmental Laws. It shall be reasonable for Landlord to require Tenant to deliver a "no further action" letter or substantially similar document from the applicable governmental agency. Landlord shall continue to provide

access and Tenant shall continue to pay the access fee until such time as such corrective action is completed Tenant notifies Landlord in writing that it no longer requires access to the Premises, Building or Property. Tenant agrees, to the extent applicable and reasonably practicable, to install, at Tenant's sole cost and expense, screening around its remediation equipment so as to protect the aesthetic appeal of the Premises, the Building and the project. Tenant also agrees to use reasonable efforts to locate its remediation and/or monitoring equipment, if any (subject to the requirements of Tenant's consultants and governmental agencies asserting jurisdiction over the Corrective Action) in a location or locations which will allow Landlord, to the extent reasonably practicable, the ability to lease the Premises and the Building to a subsequent user or users. However, Landlord acknowledges that the location of such equipment will be subject to the approval of the governmental agencies asserting jurisdiction over the Corrective Action.

(i) Notwithstanding anything to the contrary herein, Landlord acknowledges and agrees that Tenant shall have no obligation to perform any Corrective Action or otherwise investigate, monitor, remediate, remove or respond to, or to indemnify, defend or hold harmless Landlord or Landlord Parties (as defined below) for or in connection with, any Hazardous Materials now or hereafter located on, in or under the Premises, Building or Property unless the Hazardous Materials consist of Tenant Hazardous Materials.

(j) Tenant agrees to promptly notify Landlord of any Release of Tenant Hazardous Materials in the Premises, the Building or Property of which Tenant becomes actually aware during the Term of this Lease provided such Release is in violation of applicable Environmental Laws.

(k) To the fullest extent permitted by law, Tenant agrees to promptly indemnify, protect, defend and hold harmless Landlord and its members, officers and directors (collectively, "Landlord Parties") from and against any and all claims (including personal injury claims), damages, (excluding special, indirect, punitive and consequential damages), judgments, suits, causes of action, losses (excluding lost profits and revenues), liabilities, penalties, liens, fines, expenses and costs (including, without limitation, investigation, clean-up, removal, remediation and restoration costs, sums paid in settlement of claims with Tenant's approval, reasonable attorneys', consultant and expert fees, and court costs) which result from the use, treatment, storage, transportation, handling or presence of Tenant Hazardous Materials on, in, under or about the Premises, the Building or any other portion of the Property, including arising from or caused in whole or in part, directly or indirectly, by (i) any violations by Tenant or any of Tenant's Parties of any Environmental Laws in connection with the use, treatment, storage, transportation, or handling of Tenant Hazardous Materials at the Premises and/or the Affected Areas, and (ii) the payment of any environmental liens, or the disposition, recording, or filing or threatened disposition, recording or filing of any environmental lien encumbering or otherwise affecting the Premises and/or the Affected Areas. Tenant's obligations hereunder shall include, without limitation, and whether foreseeable or unforeseeable, all costs of any required or necessary repair, cleanup or detoxification or decontamination of the Premises, the Building, or the preparation and implementation of any closure, remedial action or other required plans in connection therewith. Landlord represents to Tenant that, to Landlord's actual knowledge as of the date hereof, except as may be disclosed in the Environmental Report (as defined below), neither the Building nor the Property currently contains any Hazardous Materials in violation of any existing Environmental Laws. As used herein, the term "Environmental Report" shall mean that certain Phase I Environmental Site Assessment, prepared by Eckland Consultants Inc. dated September 6, 2006.

As used herein, the phrase "actual knowledge" shall mean the actual knowledge of Wayne Wiebe, Landlord's property manager for the Project, without investigation or inquiry or duty of investigation or inquiry. Landlord's property manager for the Project is making such representation and warranty on behalf of Landlord and not in such persons' individual capacity and, as a result, Landlord (and not such individual) shall be liable in the event of a breach of this representation.

(l) To the fullest extent permitted by law, Landlord agrees to promptly indemnify, protect, defend and hold harmless Tenant and Tenant's Parties from and against any and all claims (including personal injury claims), damages (excluding special, indirect, punitive and consequential damages), judgments, suits, causes of action, losses (excluding lost profits and revenues), liabilities, penalties, liens, fines, expenses and costs (including, without limitation, investigation, clean-up, removal, remediation and restoration costs, sums paid in settlement of claims with Landlord's approval, reasonable attorneys', consultant and expert fees, and court costs) which result from (a) the presence, in violation of applicable Environmental Laws, of Hazardous Materials on, in or under the Premises or Building as of the date of this Lease and/or (b) any Hazardous Materials installed, brought upon, stored, used, generated or disposed of (in violation of Environmental Law) on, in or under the Premises, Building or Property by Landlord or any of its agents, employees or contractors during the Term. Landlord's obligations hereunder shall include, without limitation, and whether foreseeable or unforeseeable, all costs of any repair, cleanup or detoxification or decontamination of the Premises or Building required by Environmental Laws, or the preparation and implementation of any closure, remedial action or other required plans in connection therewith. The provisions of this Paragraph 15(l) will survive the expiration or earlier termination of this Lease.

(m) Tenant acknowledges that Landlord would not enter into this Lease with Tenant unless Tenant assured Landlord that under no circumstances will the Premises be damaged by any exhaust from Tenant's operations. Landlord and Tenant therefore agree as follows:

(i) Tenant shall not cause or permit (or conduct any activities that would cause) any release of any odors or fumes of any kind emanating from the Premises except in compliance with, and subject to, the restrictions set forth in this Lease.

(ii) If the Building has a ventilation system that, in Landlord's judgment, is adequate, suitable, and appropriate to vent the office portion of the Premises in a manner that does not release odors affecting any indoor or outdoor part of the office portion of the Premises, Tenant shall vent the Premises through such system. If Landlord at any time determines that any existing ventilation system is inadequate, or if no ventilation system exists, Tenant shall in compliance with applicable laws vent all fumes and odors from the office portion of the Premises (and remove odors from Tenant's exhaust stream) as Landlord requires. The placement and configuration of all ventilation exhaust pipes, louvers and other equipment in any portion of the Premises shall be subject to Landlord's approval. Tenant acknowledges Landlord's legitimate desire to maintain the Premises (indoor and outdoor areas) in an odor-free manner, and if Tenant violates this subparagraph, Landlord may require Tenant to abate and remove all odors in a manner that goes beyond the requirements of Applicable Laws.

(iii) With respect to the lab portion of the Premises and without limiting the generality of the foregoing, Tenant shall, at Tenant's sole cost and expense, provide odor eliminators and other devices (such as filters, air cleaners, scrubbers and whatever other equipment may in Landlord's judgment be necessary or appropriate from time to time) to completely remove, eliminate and abate any odors, fumes or other substances in Tenant's exhaust stream that emanate from the Premises. Any work Tenant performs under this Section (l)(iii) shall constitute Alterations.

(iv) Tenant's responsibility to remove, eliminate and abate odors, fumes and exhaust shall continue throughout the Term.

(v) If Tenant fails to install satisfactory odor control equipment as required under subparagraph (ii) above within ten (10) business days after Landlord's demand made at any time, then Landlord may, without limiting Landlord's other rights and remedies, require Tenant to cease and suspend any operations in the Premises that, in Landlord's determination, cause odors, fumes or exhaust.

PARAGRAPH 16: INSURANCE AND WAIVER OF SUBROGATION:

(a) Landlord agrees that throughout the Term it will insure the Building (excluding any property which Tenant is obligated to insure) in amounts customarily carried by prudent owners of comparable buildings, against loss due to fire and other casualties included in "special form" extended coverage property insurance. In addition, throughout the term, Landlord will maintain commercial general liability and such other insurance customarily carried by prudent owners of comparable building, including any insurance which may be required by any lender with a deed of trust encumbering the Property.

(b) Commencing as of the date Tenant enters the Premises for the purpose of performing the Tenant Improvements and continuing throughout the Term, Tenant will, at its own expense, maintain commercial liability insurance (including personal injury liability, premises/operation, property damage, independent contractors and broad form contractual coverage in support of the indemnifications of Landlord by Tenant under this Lease) with respect to the Premises and Tenant's activities in and about the Premises, Building and Property, providing bodily injury and property damage coverage, in amounts no less than:

(i) $3,000,000 combined single limit with respect to bodily injury or death to any one person;

(ii) $3,000,000 with respect to bodily injury or death arising out of any one occurrence;

(iii) $1,000,000 with respect to property damage or other loss arising out of any one occurrence;

(iv) business income insurance;

(v) property insurance with respect to Tenant's personal property and Tenant Alterations in excess of Building standard, to be written on a "Special Form" basis for full replacement cost; and

(vi) workers compensation in statutory amounts and employer's liability insurance with minimum coverages of $1,000,000;

(vii) Such additional insurance (other than earthquake, terrorism, environmental or flood insurance) in such amounts as Landlord shall reasonably require provided that the type of additional insurance and the amount of additional insurance are in all instances being generally required of tenants (with uses similar to Tenant's hereunder) by landlords of comparable buildings located in South San Francisco, provided that Landlord shall not require any additional insurance during the first five (5) calendar years during the term.

(c) Said insurance is to be written by good and solvent insurance companies of recognized standing, admitted to do business in the State of California and which have an A.M. Best's rating of at least A-, VII. Tenant shall pay all premiums and charges therefor and upon failure to do so Landlord may, but shall not be obligated to, make such payments, and in such latter event Tenant agrees to pay the amount thereof to Landlord on demand and said sum shall be deemed to be Additional Rent and in each instance collectible on the first day of any month following the date of notice to Tenant in the same manner as though it were rent originally reserved hereunder. Certificates of Tenant's insurance required above shall be deposited with Landlord together with any renewals, replacements or endorsements to the end that said insurance shall be in full force and effect for the benefit of Landlord during the Term. In the event Tenant shall fail to procure and place such insurance, Landlord may, but shall not be obligated to, after not less than ten (10) days prior written notice to Tenant that Landlord intends to procure and place the same at Tenant's expense, procure and place same, in which event the amount of the premium paid shall be refunded by Tenant to Landlord upon demand and shall in each instance be collectible on the first day of the month or any subsequent month following the date of payment by Landlord, in the same manner as though said sums were Additional Rent reserved hereunder.

(d) Nothing in this Paragraph shall prevent Tenant from obtaining insurance of the kind and in the amount specified above under a blanket insurance policy covering other properties as well as the Premises provided that the per location coverage afforded to the Premises shall not be less than the required coverage specified herein. Tenant shall deliver certificates of all such policies prior to the Commencement Date and each anniversary date thereafter. Tenant agrees that Landlord will be an additional insured under Tenant's commercial general liability insurance policies with respect to the Premises.

(e) Landlord will not carry insurance of any kind on Tenant's fixtures, furnishings, equipment or other property or Tenant Alterations, and, except as provided by law or the terms of this Lease or by reason of its fault or its breach of any of its obligations hereunder, shall not be obligated to repair any damage thereto or replace the same. In addition, Landlord will not carry business interruption insurance for the benefit of Tenant.

(f) Tenant shall not do or keep or permit anything to be kept in the Premises not permitted by the Permitted Use which would increase the fire or other casualty insurance rate on

the Building or the property therein over the rate which would otherwise then be in effect or which would result in insurance companies of good standing refusing to insure the Building or any of such property in amounts and at normal rates reasonably satisfactory to Landlord. If Tenant violates the preceding sentence and such violation causes, the rate of fire insurance with extended coverage on the Building or equipment or other property of Landlord to be higher than it otherwise would be, Tenant shall reimburse Landlord, on demand, for that part of the premiums for fire insurance and extended coverage paid by Landlord because of such violation on the part of Tenant, which sum shall be deemed to be Additional Rent and collectible as such.

(g) Tenant and Landlord release each other and waive any right of recovery against each other for loss, damage or injury to the waiving party or its respective property (including, without limitation, the Premises, Building and Property, as the case may be) which occurs in or about the Premises, Building or Property, whether due to the negligence of either party, its agents, employees, officers, contractors, licensees, invitees or otherwise, to the extent that such loss or damage is insured against under the terms of a "special form" property insurance policy or would have been insured had the injured party carried the "special form" property insurance required of it hereunder. Tenant and Landlord agree that all policies of property insurance obtained by either of them in connection with the Premises and the Property, as the case may be, shall contain appropriate waiver of subrogation clauses by the insurer.

PARAGRAPH 17: **REPAIRS**: Except to the extent Landlord is expressly obligated under this Lease, and subject to Paragraphs 16(g) and 21, Tenant, shall, throughout the Term of this Lease, keep the interior, non-structural portions of the Premises, including all fixtures and furnishings therein, in good order, repair and condition at all times during the Lease Term, which repair obligations shall include, without limitation, the obligation to promptly and adequately repair all damage to the interior, non-structural portions of the Premises and replace or repair all damaged or broken fixtures, together with all portions of the HVAC, electrical, plumbing, and lab systems solely serving the Premises from the point that such systems solely serve the Premises and all portions of all fume hoods and other exhaust systems located within the Premises (all such systems collectively being referred to as the "Premises Systems"), in good condition and repair. Tenant's obligations shall include restorations, replacements or renewals, including capital expenditures for restorations, replacements or renewals which will have an expected life beyond the Term, when necessary to keep the Premises and all improvements thereon or a part thereof and the Premises Systems in good order, condition and repair and in compliance with all applicable laws. Tenant's maintenance of the Premises Systems shall comply with the manufacturers' recommended operating and maintenance procedures. Tenant shall enter into and pay for industry standard maintenance contracts for the HVAC system installed by Tenant that solely serves the ground floor portion of the Premises ("Tenant's Dedicated HVAC") in accordance with the manufacturers' recommended operating and maintenance procedures. Such maintenance contracts shall be with reputable contractors, reasonably satisfactory to Landlord. Tenant shall be solely responsible for the cost of all improvements or alterations to the Premises that are required by Tenant's specific use of the Premises and/or triggered by reason of alterations or improvements to the Premises made by Tenant or the Premises Systems. Notwithstanding the foregoing, if Tenant fails to make such repairs and the same constitutes a Tenant's Default under Paragraph 25(c), Landlord may, but need not, make such repairs, and Tenant shall pay Landlord the actual, documented out-of-pocket costs thereof. Subject to Paragraphs 16(g) and 21, including a percentage of the cost thereof (to be uniformly established for the Building) sufficient to reimburse Landlord for all overhead,

general conditions, fees and other costs or expenses arising from Landlord's involvement with such repairs and replacements forthwith upon being billed for same. Tenant shall also repair all damage to the Building and the Premises caused by the moving of Tenant's fixtures, furniture and equipment. Subject to Paragraphs 16(g) and 21, Landlord shall maintain in good working order, condition and repair the exterior and the structural portions of the Building (including all foundations, floor and ceiling slabs, load bearing walls, roof and roof membrane), including the structural portions of the Premises, and the public portions (i.e., common areas) of the Building interior and the Land, the parking facilities serving the Building, and the Building plumbing, sewer, electrical, heating, air conditioning and ventilating systems serving the Premises. If Tenant acquires actual knowledge of any condition in the Premises which Tenant believes this Paragraph obligates Landlord to repair, Tenant will promptly give Landlord notice thereof. Except as otherwise provided in Paragraph 12, there shall be no allowance to Tenant for diminution of rental value and no liability on the part of Landlord by reason of inconvenience, annoyance or injury to business arising from Landlord making repairs, alterations, additions or improvements (collectively, the "Work") in or to any portion of the Building or the Premises or in and to the fixtures, appurtenances or equipment thereof. It is specifically agreed that, except as specifically set forth in Paragraph 12 hereof, Tenant shall not be entitled to any setoff or reduction of Rent by reason of any failure of Landlord to comply with the covenants of this or any other article of this Lease.

PARAGRAPH 18: ASSIGNMENT AND SUBLETTING:

(a) Except as provided in subparagraph (g) below, Tenant shall not assign or sublet, in whole or in part, all or any part of the Premises, without the prior written consent of Landlord, not to be unreasonably withheld, conditioned or delayed. In addition, Tenant shall not mortgage or encumber this Lease without Landlord's prior written consent. The transfer or issuance of 50% or more of the stock or the equity or ownership interests in Tenant, whether in a single transaction or a series of transactions shall be deemed an assignment of this Lease, excluding, however, the transfer or issuance of the outstanding capital stock or other equity interest of any corporate, limited liability company or partnership through any "over-the-counter market" or through any recognized stock exchange.

(b) Tenant shall, at the time Tenant requests consent of Landlord, deliver to Landlord such information respecting the proposed assignee or subtenant, the name, address, nature of business, ownership structure, and most recent financial statement (if any), and Landlord shall after receipt of all required information elect one of the following notice of such election shall be provided to Tenant within fifteen (15) days after Landlord's receipt of such request: (i) consent to such proposed assignment or sublease, which consent shall not be unreasonably withheld or conditioned; (ii) reasonably refuse such consent; or (iii) in the case of an assignment that is not an assignment to a Permitted Transferee, elect to terminate this Lease, or, in the case of a partial sublease to a non-Permitted Transferee that is greater than fifty percent (50%) of the Premises (either in one (1) transaction or when aggregated with any existing sublease), terminate this Lease as to the portion of the Premises proposed to be sublet (such portion to be hereinafter referred to as the "Eliminated Space"). Upon a termination of this Lease as to the entire Premises pursuant to the provisions of clause (iii) above, Tenant's obligations hereunder shall cease as of the date of termination, provided that Tenant shall not be relieved of any obligations that have accrued prior to the date of termination. Upon a termination of this Lease as to less than the entire Premises

pursuant to the provisions of clause (iii) above, the Base Rent hereunder shall be reduced as of the effective date of such termination (i) Tenant's obligations with respect to the Eliminated Space shall cease as of the date of surrender of the Eliminated Space, provided that Tenant shall not be relieved of any obligations that have accrued prior to the date of surrender, (ii) Base Rent shall be reduced as of the Transfer Date by an amount equal to the product of (xx) the Base Rent, and (yy) a fraction, the numerator of which is the number of rentable square feet proposed to be sublet and the denominator of which is Tenant's Rentable Square Footage, and (iii) the Tenant's Share shall be proportionately reduced as of the effective date of such termination to reflect the deletion of the Eliminated Space from the Premises. If Landlord causes a surrender of the Eliminated Space, Landlord, at Landlord's expense, may make such alterations as Landlord deems necessary to physically separate the Eliminated Space from the balance of the Premises.

(c) No subletting or assignment by Tenant shall relieve Tenant of any obligation under this Lease, including Tenant's obligation to pay Base Rent, the Operating Payment or any other Additional Rent. Any purported assignment or subletting in violation of this Paragraph 18 shall be void at Landlord's sole option. The consent by Landlord to any assignment or subletting shall not constitute a waiver of the necessity for such consent to any subsequent assignment or subletting.

(d) If for any assignment or sublease, the rent received by Tenant, less Tenant's costs for (i) brokerage commissions then customary in the market; (ii) reasonable marketing expenses and attorneys' fees; (iii) any alterations or improvements made by Tenant for the benefit of the assignee or subtenant; (iv) any improvement or furniture allowances paid to the assignee or subtenant; and (v) any free rent given to the assignee or subtenant, is in excess of the Rent payable by Tenant hereunder (if a portion of the Premises is subleased, fairly allocable to such portion), Tenant shall pay to Landlord, as Additional Rent, fifty percent (50%) of such excess within twenty (20) business days after Tenant's receipt of each such payment.

(e) Tenant shall pay all out-of-pocket costs of Landlord in reviewing and/or approving any sublease or assignment, including without limitation, reasonable attorneys' fees, provided that such costs do not exceed $2,500 in any one sublease or assignment transaction.

(f) So long as Tenant is not entering into the Permitted Transfer (as defined below) for the purpose of avoiding or otherwise circumventing the remaining terms of this Paragraph 18, Tenant may assign its entire interest in this Lease or sublet all or any part of the Premises, without the consent of Landlord, to (a) an affiliate, subsidiary, or parent of Tenant, or a corporation, partnership or other legal entity wholly owned by Tenant (collectively, an "Affiliated Party"), or (b) a successor to Tenant by purchase, merger, consolidation or reorganization, provided that all of the following conditions are satisfied (each such transfer a "Permitted Transfer" and any such assignee or sublessee of a Permitted Transfer, a "Permitted Transferee"): (i) Tenant is not in Default beyond any applicable notice and cure periods under this Lease; (ii) the Permitted Use does not change; (iii) Tenant shall give Landlord written notice at least thirty (30) days prior to the effective date of the proposed Permitted Transfer (provided that, if prohibited by confidentiality in connection with a proposed purchase, merger, consolidation or reorganization, then Tenant shall give Landlord written notice within ten (10) days after the effective date of the proposed purchase, merger, consolidation or reorganization); (iv) with respect to a purchase, merger, consolidation or reorganization or any Permitted Transfer which results in Tenant ceasing to exist as a separate

legal entity, (A) Tenant's successor shall own all or substantially all of the assets of Tenant, and (B) Tenant's successor shall have a financial strength and wherewithal (evidenced by tangible net worth) which is at least equal to the greater of Tenant's financial strength and wherewithal (evidenced by tangible net

worth) at the date of this Lease or Tenant's financial strength and wherewithal (evidenced by tangible net worth) as of the day prior to the proposed purchase, merger, consolidation or reorganization. Tenant's notice to Landlord shall include information and documentation showing that each of the above conditions has been satisfied. As used herein, (1) "parent" shall mean a company which owns a majority of Tenant's voting equity; (2) "subsidiary" shall mean an entity wholly owned by Tenant or at least fifty-one percent (51%) of whose voting equity is owned by Tenant; and (3) "affiliate" shall mean an entity controlled, controlling or under common control with Tenant. An assignee of Original Tenant's entire interest in this Lease may be referred to herein as an "Affiliate Assignee." In no event shall a Permitted Transfer release Tenant from its obligations under this Lease.

PARAGRAPH 19: ADDITIONAL RIGHTS RESERVED TO LANDLORD: Without notice (unless otherwise indicated below) and without liability to Tenant or without effecting an eviction or disturbance of Tenant's use or possession, Landlord shall have the right to (a) grant utility easements or other easements in, or replat, subdivide or make other changes in the legal status of the land underlying the Building or the Property as Landlord shall deem appropriate in its sole discretion, provided such changes do not materially interfere with Tenant's use or occupancy of the Premises or with Tenant's use of the parking facilities or common areas of or serving the Building; (b) subject to the terms and conditions of the following paragraphs, enter the Premises to inspect, alter or repair the Premises or the Building or perform any acts related to the safety, protection, reletting, sale, mortgaging, or improvement of the Premises or the Building, or to enter the office portion of the Premises to perform janitorial services; (c) change the name or street address of the Building; (d) install and maintain in compliance with law signs on and in the Building, excluding the Premises; and (e) make such reasonable and non-discriminatory rules and regulations as, in the sole reasonable judgment of Landlord, may be needed from time to time for the safety of the tenants, the care and cleanliness of the Premises, the Building and the preservation of good order therein, subject to the terms of this Lease, and provided that such rules and regulations do not materially interfere with the Permitted Use or conflict with the terms of this Lease. Further, Tenant agrees that Landlord and its agents may inspect the Premises at any reasonable time for the purpose of serving, posting or keeping posted thereon notices provided for hereunder.

(a) The entry of Landlord and its agents, representatives, employees and contractors (collectively, "Landlord's Personnel") into the Premises pursuant to clause (b) of the preceding paragraph shall be governed by the following paragraphs:

(b) Subject to the last sentence of this paragraph, Landlord and Landlord's Personnel may enter the Premises to perform the activities described in clause (b) above at any reasonable time or time during the Term, but upon not less than two (2) business days advance written notice to Tenant (describing in reasonable detail the purpose of Landlord's proposed entry and those portions of the Premises that will be affected by such entry), except in cases of emergency, where less notice may be given or no notice if circumstances do not permit. Landlord acknowledges the confidential nature of Tenant's business and shall, notwithstanding anything to the contrary herein, comply with all commercially reasonable security requirements of Tenant (except in cases of

emergency) and keep and maintain any knowledge gained through inspection of or access to the Premises by Landlord or Landlord's Personnel confidential. Landlord's Personnel may not enter the Premises to show the Premises to prospective tenants until the last nine (9) months of the Term.

(c) As a condition to entry into the Premises (except in cases of emergency), Tenant shall have the right to require that any Landlord Party entering the Premises: (i) sign in and out, (ii) wear a visitor's badge, (iii) be accompanied by security or other personnel of Tenant at all times while on the Premises, so long as such escort is available at the time of Landlord's intended entry; (iv) sign a commercially reasonable confidentiality agreement; and (v) comply with Tenant's other reasonable safety, gowning and training requirements to protect the integrity of any Tenant's business operations at the Premises.

(d) Landlord shall use reasonable efforts to schedule the activities described in clause (b) above at times other than during normal office hours (except in cases of emergency), shall not undertake or authorize any activity that will cause Tenant to violate any laws, and shall otherwise use commercially reasonable efforts to ensure that any entry or work shall not interfere in any material respect with Tenant's use or occupancy of the Premises.

Notwithstanding any other provisions of this Lease, if because of the entry of Landlord or Landlord's Personnel into the Premises or any repairs, alterations, work or other activities performed by Landlord or Landlord's Personnel Tenant is not reasonably able to conduct its business in all or a portion of the Premises and Tenant actually ceases to conduct its business in all or a portion of the Premises (each, an "Entry Abatement Condition"), then Tenant shall have the same rights as provided in Paragraph 12 above.

PARAGRAPH 20: AS-IS: Except as otherwise provided herein, and without limitation of Landlord's obligations under this Lease, Tenant agrees to accept possession of the Premises in its then "AS-IS" physical condition on the Commencement Date, it being understood and agreed that Landlord shall not be obligated to make any improvements, alterations or repairs to the Premises, except as expressly provided in this Lease including Exhibit C.

PARAGRAPH 21: CASUALTY, CONDEMNATION AND UNTENANTABILITY:

(a) If the Building or the Premises shall be partially or totally damaged or destroyed by fire or other cause or taken in a condemnation proceeding, then, whether or not the damage or destruction shall have resulted from the fault or neglect of Tenant, or its employees, agents or visitors (and if this Lease shall not have been terminated as in this Paragraph as hereinafter provided), but subject to the provisions set forth in Paragraph 21(c) below, Landlord shall repair the damage and restore and rebuild the Building and/or the Premises, at its expense, after notice to it of the damage or destruction or condemnation; provided, however, that Landlord shall not be required to repair or replace any of Tenant's property nor to restore any of Tenant Alteration.

(b) If (i) the Building or the Premises shall be partially damaged or partially destroyed by fire or other cause or taken in a condemnation proceeding, the Rent payable hereunder shall be abated in proportion to the portion of the Premises that shall have been rendered untenantable (which shall include, without limitation, inability to access the Premises) and for the period from the date of such damage or destruction or condemnation to the date the damage shall be repaired

or restored; or (ii) the Premises or a major part thereof shall be totally (which shall be deemed to include substantially totally) partially damaged or partially destroyed by fire or other cause or taken in a condemnation proceeding, the Rent payable hereunder shall be abated by Landlord in an equitable manner to the extent that the Premises or such portion thereof is unfit for occupancy and is not occupied by Tenant and for the period from the date of such damage or destruction or condemnation to that date the damage shall be repaired or restored; in each case, only to the extent of the insurance proceeds actually paid to

Landlord, provided, however, that should Tenant reoccupy a portion of the Premises during the period the restoration work is taking place and prior to the date that the same are made completely tenantable, Rent allocable to such portion shall be payable by Tenant from the date of such occupancy.

(c) If (i) the Building shall be damaged or destroyed by fire or other cause (whether or not the Premises are damaged or destroyed) as to require (A) a reasonably estimated expenditure of more than 40% of the full replacement cost of the Building immediately prior to the casualty or (B) a period of more than nine (9) months will be required for Landlord to complete any repairs or replacements, as such period(s) is/are reasonably estimated by Landlord ("Landlord's Estimate") , then in either such case Landlord may terminate this Lease by giving Tenant notice to such effect within ninety (90) days after the date of the casualty. In case of any damage or destruction or condemnation mentioned in this Paragraph, if (a) Landlord's Estimate is more than nine (9) months or (b) Landlord has not theretofore terminated this Lease and if Landlord has not completed the required repairs and restored and rebuilt the Building and the Premises within twelve (12) months from the date of such damage or destruction, or within such period after such date (not exceeding two (2) months) as shall equal the aggregate period Landlord may have been delayed in doing so by adjustment of insurance, labor trouble, governmental controls, act of God, or any other cause beyond Landlord's reasonable control, Tenant may terminate this Lease, by notice given to Landlord thereafter but in the case of (b) only prior to the completion of such required repairs.

(d) No damages, compensation or claim shall be payable by Landlord for inconvenience, loss of business or annoyance arising from any repair or restoration of any portion of the Premises or of the Building pursuant to this Paragraph. Landlord shall use reasonable efforts to effect such repair or restoration promptly and in such manner as to not unreasonably interfere with Tenant's use and occupancy.

(e) Notwithstanding anything to the foregoing provisions of this Paragraph, if Landlord or the lessor of any superior lease or the holder of any superior mortgage shall be unable to collect all of the insurance proceeds (including rent insurance proceeds) applicable to damage or destruction of the Premises or the Building by fire or other cause, by reason of some action or inaction on the part of Tenant or any of its employees, agents or contractors, then, without prejudice to any other remedies which may be available against Tenant, there shall be no abatement of Rent hereunder, but the total amount of such Rent not abated (which would otherwise have been abated) shall not exceed the amount of the uncollected insurance proceeds.

(f) The provisions of this Paragraph are Tenant's sole and exclusive rights and remedies in the event of a Taking. To the extent permitted by applicable law, Tenant waives the benefits of any law including, including, but not limited to, Section 1265.130 of the California Civil Code or any successor statutes or laws, that provides Tenant any abatement or termination

rights or any right to receive any payment or award (by virtue of a Taking) not specifically described in this Paragraph.

PARAGRAPH 22: PARKING: In the event Tenant notifies Landlord by written notice sent no later than ten (10) days after the Commencement Date, Landlord shall, at Tenant's sole cost and expense, provide at least five (5) electric or hybrid vehicle charging stations within the parking facilities for the Property, which five (5) spaces taken up by the charging stations shall be deducted from Tenant's parking allotment. At all times during the Term (i.e., twenty-four (24) hours per day, seven (7) days per week), Tenant, its employees and invitees shall be entitled to utilize the Authorized Parking Spaces located within the parking facilities for the Property, on an unreserved, first-come, first-serve basis in common with other tenants and occupants, subject to Landlord's reasonable control. Landlord may change or reconfigure the parking facilities and designate the parking spaces therein, construct or repair any portion thereof, and do such other acts within such areas as Landlord deems reasonably necessary to maintain the parking facilities in good working order so long as the foregoing are permitted by applicable codes, regulations and laws including, without limitation, the ADA, and Tenant, its employees and invitees continue to have the right to utilize all of the Authorized Parking Spaces twenty-four (24) hours per day, seven (7) days per week during the Term. Landlord shall not be liable for any damage to, or any theft of, vehicles, or contents thereof, within the parking facility. Landlord, in compliance with all applicable laws, reserves the right in its absolute discretion to reconfigure the parking area and modify the existing ingress to and egress from the parking area as Landlord shall deem appropriate so long as Tenant is provided with use of its parking allocation in this Lease.

PARAGRAPH 23: INTENTIONALLY OMITTED:

PARAGRAPH 24: LIMITATION OF LANDLORD'S LIABILITY:

(a) The term "Landlord" as used herein shall mean only the owner of the Property or the tenant of the entire Property under an underlying lease. Upon Landlord's transfer and conveyance of fee title to the Property or assignment of its entire interest in an underlying lease of the entire Property (if applicable), the transferor/assignor Landlord shall be relieved of all covenants and obligations of Landlord hereunder accruing after the effective date of the transfer or assignment if the transferee or assignee Landlord assumes in writing all such covenants and obligations of Landlord hereunder accruing after the effective date of the transfer or assignment, and as to such covenants and obligations Tenant shall look solely to the successor in interest of the transferor/assignor as Landlord hereunder. Tenant agrees to attorn to the transferee or assignee if such transferee or assignee recognizes this Lease and Tenant's rights hereunder, such attornment to be self-operative.

(b) IN NO EVENT SHALL LANDLORD BE LIABLE TO TENANT FOR ANY FAILURE OF OTHER TENANTS IN THE PROPERTY TO OPERATE THEIR BUSINESSES, OR FOR ANY LOSS OR DAMAGE CAUSED BY THE ACTS OR OMISSIONS OF OTHER TENANTS; PROVIDED, HOWEVER, THAT WITH RESPECT TO OTHER TENANTS, LANDLORD AGREES TO USE COMMERCIALLY REASONABLE EFFORTS TO ENFORCE THE TERMS AND PROVISIONS OF SUCH OTHER TENANTS' LEASES. NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED HEREIN, NEITHER LANDLORD, NOR ANY LIMITED PARTNER OR MEMBER IN OR OF

LANDLORD, WHETHER DIRECT OR INDIRECT, NOR ANY DIRECT OR INDIRECT PARTNERS IN SUCH LIMITED PARTNERS, NOR ANY DISCLOSED OR UNDISCLOSED OFFICERS, SHAREHOLDERS, PRINCIPALS, DIRECTORS, MANAGERS, MEMBERS, EMPLOYEES OR PARTNERS OF LANDLORD, NOR ANY OF THE FOREGOING NOR ANY INVESTMENT ADVISER OR OTHER HOLDER OF ANY EQUITY INTEREST IN LANDLORD, THEIR SUCCESSORS, ASSIGNS, AGENTS, OR ANY MORTGAGEE IN POSSESSION SHALL HAVE ANY PERSONAL LIABILITY WITH RESPECT TO ANY PROVISIONS OF THIS LEASE AND, IF LANDLORD IS IN BREACH WITH RESPECT TO ITS OBLIGATIONS, TENANT SHALL LOOK SOLELY TO LANDLORD'S INTEREST IN THE PROPERTY AND THE RENTS, ISSUES, PROFITS AND PROCEEDS THEREOF FOR SATISFACTION OF TENANT'S REMEDIES.

PARAGRAPH 25: **TENANT'S DEFAULT**: It shall be a "Tenant's Default" if (a) Tenant shall fail to pay any monthly installment of Base Rent or the Operating Payment within five (5) business days after written notice form Landlord that such Rent or Payment is past due; (b) Tenant shall fail to pay any Additional Rent or any other sum due hereunder within five (5) business days after written notice has been given to Tenant by Landlord that such Rent or other sum is past due; (c) violate or fail to perform any of the other covenants or agreements herein made by Tenant, and such violation or failure shall continue for thirty (30) days after written notice thereof to Tenant by Landlord, except that if such default cannot be cured with such thirty (30) day period despite Tenant's diligent efforts and within such thirty (30) day period Tenant commences and thereafter proceeds diligently to remedy the violation or failure in full, such event shall not be a Tenant's Default hereunder; (d) Tenant or any guarantor of Tenant's obligations hereunder ("Guarantor") files a voluntary petition in bankruptcy or is adjudicated a bankrupt or becomes insolvent within the meaning of the United States Bankruptcy Code, as amended, or files any petition or answer seeking reorganization or similar relief under any bankruptcy or other applicable law, or seeks or consents to the appointment of a receiver or other custodian for any substantial part of Tenant's properties or any part of the Premises; (4) any Guarantor of this Lease shall default beyond any applicable notice and/or grace period under such guaranty; or (5) the Premises shall be abandoned by Tenant for a period of ten (10) days; or (6) a mechanic's or any other lien is filed against the Premises or the Property arising out of any work performed by or on behalf of Tenant and Tenant fails to discharge such lien within thirty (30) days after the filing and notice thereof.

PARAGRAPH 26: **REMEDIES OF LANDLORD**: If a "Tenant's Default" occurs and continues beyond applicable cure periods, if any, Landlord may, at its option:

(a) Cure for the account of Tenant any such Tenant's Default and immediately recover as expenses any reasonable expenditures made to effect such cure plus interest (at the Interest Rate) on such expenditures from the date thereof until such expenditures are reimbursed to Landlord. The payment of interest on such amount shall not excuse or cure any Tenant's Default under this Lease;

(b) Terminate this Lease, in which event Tenant shall immediately surrender the Premises to Landlord, and if Tenant fails to do so, Landlord may, without prejudice to any other remedy which it may have for possession or arrearages in Rent, after due process of law, enter upon and take possession of the Premises and expel or remove Tenant and any other person who

may be occupying the Premises or any part thereof, without being liable for prosecution or any claim for damages therefor; and Landlord may recover from Tenant the following:

(i) The worth at the time of award of any unpaid rent which has been earned at the time of such termination; plus

(ii) The worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus

(iii) The worth at the time of award of the amount by which the unpaid rent for the balance of the Term after the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus

(iv) 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 of things would be likely to result therefrom, specifically including but not limited to, brokerage commissions and advertising expenses incurred, expenses of remodeling the Premises or any portion thereof for a new tenant, whether for the same or a different use, and any special concessions made to obtain a new tenant but in no event including consequential damages.

As used in Paragraphs 26(c)(i) and (ii), above, the "worth at the time of award" shall be computed by allowing interest at the Interest Rate. As used in Paragraph 26(c)(iii) above, the "worth at the time of award" shall be 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%);

(c) In addition, Landlord shall also have the remedy described in California Civil Code Section 1951.4 (Landlord may continue Lease in effect after Tenant's breach and abandonment and recover Rent as it becomes due, if Tenant has right to sublet or assign, subject only to reasonable limitations);

(d) Seek an injunction, in the event of a breach or threatened breach by Tenant of any of the agreements, conditions, covenants or terms hereof, to restrain the same and the right to invoke any remedy allowed by law or in equity, whether or not other remedies, indemnity of reimbursements are herein provided. The rights and remedies given to Landlord in this Lease are distinct, separate and cumulative remedies; and no one of them, whether or not exercised by Landlord, shall be deemed to be in exclusion of any of the others; and

(e) Tenant, on its own behalf and on behalf of all persons claiming through Tenant, including all creditors, further waives any rights which Tenant and all such persons might otherwise have under any law to redeem the Premises, or to re-enter or repossess the Premises, or to restore the operation of this Lease, after (i) Tenant shall have been dispossessed by a judgment or by warrant of any court or judge, or (ii) any re-entry by Landlord, or (iii) any expiration or termination of this Lease and the Term, whether such dispossess, re-entry, expiration or termination shall be by operation of law or pursuant to the provisions of this Lease. The words "re-enter," "re-entry" and "re-entered" as used herein shall not be restricted to their technical legal meanings.

Landlord and Tenant agree that the City of South San Francisco, San Mateo County, California shall be the venue of any action arising in any way out of this Lease.

The rights and remedies of Landlord and Tenant under this Lease shall be nonexclusive and each right or remedy shall be in addition to and cumulative of all other rights and remedies available to such party under this Lease, at law or in equity. Pursuit of any right or remedy shall not preclude pursuit of any other rights or remedies provided in this Lease or at law or in equity, nor shall Landlord's pursuit of any right or remedy constitute a forfeiture or waiver of any Rent due to Landlord or of any damages accruing to Landlord by reason of the violation of any of the terms of this Lease.

PARAGRAPH 27: **LANDLORD'S DEFAULT**: It shall be a "Landlord's Default" if Landlord violates or fails to perform any of the covenants, conditions or agreements herein made by Landlord, and such violation or failure shall continue for thirty (30) days after written notice thereof to Landlord by Tenant (or three (3) business days in case of an emergency where death, bodily injury or property damage is imminent and Landlord fails to commence such emergency cure within such period of time and to thereafter diligently prosecute such emergency cure to completion), except that if such non-emergency default cannot be cured within such thirty (30) day period despite Landlord's diligent efforts and within such thirty (30) day period Landlord commences and thereafter proceeds diligently to remedy the violation or failure within a reasonable period, then such event shall not be a Landlord's Default hereunder. In no event shall Landlord be liable to Tenant for any consequential, incidental or special damages. Tenant hereby waives any and releases its right to make any repairs at the Landlord's expense under California Civil Code Section 1941-1942.

PARAGRAPH 28: **SURRENDER OF PREMISES**: Upon the expiration or sooner termination of this Lease, Tenant shall surrender the Premises to Landlord in as good condition, normal wear and tear, damage by fire or other casualty, damage by condemnation, and damage resulting from Landlord's failure to perform its obligations under this Lease excepted. Tenant shall arrange to meet Landlord for two (2) joint inspections of the Premises, the first to occur at least thirty (30) days (but no more than sixty (60) days) before the last day of the Term, and the second to occur not later than forty-eight (48) hours after Tenant has vacated the Premises. After such inspections, Landlord shall provide Tenant with an inspection report (the "Inspection Report") which shall describe in reasonable detail, any failure(s) (if any), in Landlord's opinion of Tenant to surrender the Premises in the condition required by this Paragraph 28 ("Surrender Defaults"), which Inspection Report shall not limit Tenant's obligations to perform Corrective Action under this Lease nor constitute a waiver of Landlord's right to require the repair of items unknown to Landlord at the time of such inspection(s) if such items could not have reasonably been discovered pursuant to a visual inspection of the premises ("Latent Repair Items"). In the event Tenant does not attempt to arrange such joint inspections and/or attempt to participate in either such inspection, provided Landlord has given Tenant not less than two (2) business days prior written notice of Landlord's inspection, Landlord's inspection at or after Tenant's vacating the Premises shall be conclusively deemed correct for purposes of determining Tenant's responsibility for repairs and restoration necessitated by Tenant's failure to surrender the Premises in the condition required by this Paragraph 28. If the Inspection Report does not indicate any Surrender Defaults or Tenant cures any Surrender Defaults indicated in the Inspection Report, except as to any Corrective Action that Tenant may be required to perform under this Lease and excluding the repair of Latent Repair

Items discovered with in twelve (12) months after the expiration or sooner termination of this Lease, Tenant shall be deemed to have surrendered the Premises in the condition specified in this Paragraph 28. Tenant shall have no obligation to remove any Tenant Alterations or personal property or fixtures of Tenant except as expressly set forth in Paragraph 9 above. If upon the expiration or sooner termination of this Lease Paragraph 9 above requires Tenant to remove any Tenant Alterations or its personal property or fixtures, Tenant shall remove the same and repair all damage to the Premises or Building caused by such removal. The provisions of this Paragraph shall survive the expiration or sooner termination of this Lease. Subject to the limitations in California Civil Code Section 1980-1991 and California Code of Civil Procedure Section 1174, title to any Tenant property remaining on the Premises following the vacating thereof upon the expiration or sooner termination of this Lease shall, at Landlord's option, exercisable upon written notice at any time thereafter to Tenant, transfer to and vest title thereto in Landlord or its designee.

PARAGRAPH 29: **SEVERABILITY**: The parties intend this Lease to be legally valid and enforceable in accordance with all of its terms to the fullest extent permitted by law. If any term hereof shall be invalid or unenforceable, the parties agree that such term shall be stricken from this Lease to the extent unenforceable, the same as if it never had been contained herein. Such invalidity or unenforceability shall not extend to any other term of this Lease, and the remaining terms hereof shall continue in effect to the fullest extent permitted by law.

PARAGRAPH 30: **WAIVER**: The waiver of either party hereto of any breach of any term, covenant or condition herein contained shall not be deemed to be a waiver of any subsequent breach of the same or any other term, covenant or condition herein contained. The subsequent acceptance of Rent hereunder by Landlord shall not be deemed to be a waiver of any preceding breach by Tenant of any term, covenant or condition of this Lease, other than the failure of Tenant to pay the particular rental so accepted, regardless of Landlord's knowledge of such preceding breach at the time of acceptance of such rent. The subsequent payment of Rent hereunder by Tenant shall not be deemed to be a waiver of any preceding breach by Landlord of any term, covenant or condition of this Lease, regardless of Tenant's knowledge of such preceding breach at the time of payment of such Rent. No covenant, term or condition of this Lease shall be deemed to have been waived by either party, unless such waiver is acknowledged in writing by such party.

PARAGRAPH 31: **ESTOPPEL CERTIFICATE:** Tenant shall deliver within, fifteen (15) days after Landlord's written request therefor, an estoppel certificate to an existing or prospective mortgagee or purchaser of the Property in the form attached hereto as Exhibit E or such other commercially reasonable form as may be requested by Landlord or its mortgagee and that is reasonably acceptable to Tenant, certifying that this Lease is unmodified and in full force and effect (or stating any modifications then in effect), that there are no defenses or offsets thereto actually known to Tenant (or stating those claimed by Tenant), the dates to which Base Rent and Additional Rent have been paid, to Tenant's actual knowledge, whether or not Landlord is in default hereunder and, if so, specifying the nature of the default, and such other factual matters concerning this Lease as may be requested reasonably requested by Landlord.

PARAGRAPH 32: **SUBORDINATION AND ATTORNMENT**: Subject to the next sentence, this Lease is subject and subordinate to all ground or underlying leases, any mortgage, deed of trust or deed to secure debt (each, a "Mortgage"); and to any renewals, modifications, extensions, replacements, and substitutions of any of the foregoing, now or hereafter affecting the

Premises, Building and/or the Property; provided, however, as to any future Mortgage, Tenant's subordination is conditioned upon receipt from Landlord and the holder of the Mortgage ("Mortgagee") of a commercially reasonable subordination, non-disturbance and attornment agreement. Landlord represents and warrants to Tenant that there is no Mortgage encumbering the Premises, Building and/or Property as of the date of this Lease. Furthermore, Landlord may assign the rents and its interest in this Lease to the holder of any Mortgage. In such event, provided Landlord has given Tenant written notice of such holder's name and street address, Tenant shall give such holder a copy of any default notice delivered to Landlord, and, if Landlord fails to cure such default, Tenant shall give such holder a reasonable period to cure such default, commencing on the last day on which Landlord could cure such default.

PARAGRAPH 33: **QUIET ENJOYMENT**: Landlord covenants and agrees that, while no Tenant's Default exists hereunder, Tenant shall peaceably and quietly have, hold and enjoy the Premises without hindrance or interference from Landlord or anyone claiming by, through or under Landlord, subject and subordinate to the terms, covenants and conditions of this Lease and all matters of record.

PARAGRAPH 34: **ATTORNEYS' FEES / VENUE**: In the event a court action relating to this Lease is brought by either party against the other, the prevailing party shall be entitled to recover from the non-prevailing party reasonable attorneys' fees and costs incurred in such action, the amount thereof to be fixed by the court.

PARAGRAPH 35: **FORCE MAJEURE**: Any obligation of Landlord or Tenant (other than the payment of money) which is delayed or not performed due to acts of God, strike, riot, shortages of labor or materials, war, acts of terrorism, governmental laws or action, or lack thereof, adverse weather beyond climatic norms for the region, inaction by any governmental authority with respect to the issuance of any licenses or permits necessary to perform an act of Landlord or Tenant (as applicable) hereunder or any other causes of any kind whatsoever which are beyond Landlord's or Tenant's reasonable control, shall not constitute a default hereunder and shall be performed within a reasonable time after the end of such cause for delay or nonperformance.

PARAGRAPH 36: **APPLICABLE LAW**: This Lease shall be construed according to the laws of the State of California.

PARAGRAPH 37: **BINDING EFFECT; GENDER**: This Lease shall be binding upon and inure to the benefit of the parties and their successors and assigns. It is understood and agreed that the terms "Landlord" and "Tenant" and verbs and pronouns in the singular number are uniformly used throughout this Lease regardless of gender, number or fact of incorporation of the parties hereto.

PARAGRAPH 38: **TIME**: Time is of the essence of this Lease.

PARAGRAPH 39: **WAIVER OF JURY TRIAL**: LANDLORD AND TENANT HEREBY WAIVE TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM BROUGHT BY EITHER OF THE PARTIES HERETO AGAINST THE OTHER OR THEIR SUCCESSORS IN RESPECT OF ANY MATTER ARISING IN CONNECTION WITH THIS LEASE, THE RELATIONSHIP OF LANDLORD AND TENANT, TENANT'S USE OR

OCCUPANCY OF THE PREMISES, AND/OR ANY CLAIM FOR INJURY OR DAMAGE, OR ANY EMERGENCY OR STATUTORY REMEDY. IF LANDLORD COMMENCES ANY SUMMARY PROCEEDINGS OR ACTION FOR NON-PAYMENT OF BASE RENT OR ADDITIONAL RENT, TENANT SHALL NOT INTERPOSE ANY COUNTERCLAIM OF ANY NATURE OR DESCRIPTION (UNLESS SUCH COUNTERCLAIM SHALL BE MANDATORY) IN ANY SUCH PROCEEDING OR ACTION, BUT SHALL BE RELEGATED TO AN INDEPENDENT ACTION AT LAW.

PARAGRAPH 40: **HEADINGS; INTERPRETATION**: The headings in this Lease are included for convenience only and shall not be taken into consideration in any construction or interpretation of this Lease or any of its provisions. Whenever the phrase "at all times during the Term" or words of similar import are used in this Lease, it/they shall mean at all times during the Term, 24/7.

PARAGRAPH 41: **BROKER**: Landlord and Tenant each represent to the other that each has not had any dealing with any broker, agent or finder in connection with this Lease other than Broker. The compensation for Broker shall be paid by Landlord pursuant to a separate agreement between Landlord and Broker, and Landlord agrees to hold Tenant harmless from and indemnify Tenant against any cost, expense, or liability for any compensation, commission, fee charge or damages, including reasonable attorneys' fees, as a result of any claim of Broker. Landlord and Tenant each agrees to hold the other harmless from and indemnify the other against any cost, expense, or liability for any compensation, commission, fee charge or damages, including reasonable attorneys' fees, as a result of any claim of any other broker, agent or finder claiming under or through the indemnifying party with respect to this Lease or the negotiation of this Lease. The provisions of this Paragraph shall survive the Expiration Date or sooner termination of this Lease.

PARAGRAPH 42: **ENTIRE AGREEMENT**: Each Party acknowledges that it has not relied on any representations or agreements except those expressly set forth herein, and that this Lease contains the entire agreement of the parties concerning the subject matter hereof. This Lease and the exhibits and addenda attached set forth all the covenants, promises, agreements, representations, conditions, statements and understandings between Landlord and Tenant concerning the Premises and the Building and the Property. This Lease shall not be amended or modified except in writing signed by both parties. Failure by a party to exercise any right in one or more instances shall not be construed as a waiver of the right to strict performance or as an amendment to this Lease. Except as otherwise specifically provided herein, the terms, covenants and conditions contained in this Lease shall bind and inure to the benefit of the respective heirs, successors, executors, administrators and assigns of each of the parties hereto.

PARAGRAPH 43: **NOTICES**: Any notice or demand provided for or given pursuant to this Lease shall be in writing and served on the parties at Landlord's Notice Address or Tenant's Notice Address, as applicable. Any notice shall be either (a) personally delivered to the addressed set forth above, in which case it shall be deemed delivered on the date of actual delivery to the addressee (as evidenced by a receipt or other proof of delivery) or the date of the addressee's refusal to accept delivery; or (b) sent by prepaid, registered or certified U.S. Mail, return receipt requested, in which case it shall be deemed delivered three (3) business days after deposited in the U.S. Mail; (c) sent by a nationally recognized overnight courier, in which case it shall be deemed delivered

one (1) business day after deposit with such courier; or (d) sent by telecommunication ("Facsimile") in which case it shall be deemed one (1) business day after the day on which same is successfully transmitted by Facsimile to the addressee's Facsimile number listed in Paragraph 1, provided an original is received by the addressee by a nationally recognized overnight courier within two (2) business days after the Facsimile. The addresses and Facsimile numbers listed in Paragraph 1 may be changed by written notice to the other parties, provided, however, that no notice of a change of address or Facsimile number shall be effective until date of delivery of such notice.

PARAGRAPH 44: **RECORDATION**: Tenant shall not record this Lease or memorandum thereof without the written consent of Landlord.

PARAGRAPH 45: **LETTER OF CREDIT**: Concurrently upon Tenant's execution of this Lease, Tenant shall deliver to Landlord, as additional protection for Landlord to assure the full and faithful performance by Tenant of all of its obligations under this Lease and for all losses and damages Landlord may suffer as a result of any default by Tenant under this Lease, an irrevocable and unconditional negotiable letter or letters of credit (collectively, the "Letter of Credit"), in the form attached hereto as Exhibit H and containing the terms required herein, running in favor of Landlord issued by Silicon Valley Bank

("Bank") or such other bank reasonably approved by Landlord with a long term rating of BBB or higher (as rated by Moody's Investors Service or Standard & Poor's), and under the supervision of the Superintendent of Banks of the State of California, in the initial amount, in the aggregate, of Six Hundred Three Thousand Two Hundred Fifty-One and 25/100 Dollars ($603,251.25) ("Stated Amount"); provided, however, that, except as hereinafter provided, upon the date specified below ("Adjustment Date"), the Stated Amount may be reduced to the following amount:

Date	Stated Amount
June 1, 2018	$ 301,625.62

However, if (i) a default by Tenant occurs under this Lease, or (ii) circumstances exist that would, with notice or lapse of time, or both, constitute a default by Tenant, and Tenant has failed to cure such default within the time period permitted by Paragraph 25 or such lesser time as may remain before the Adjustment Date as provided above, the Stated Amount shall not thereafter be reduced unless and until such default shall have been fully cured pursuant to the terms of this Lease, at which time the Stated Amount may be reduced as hereinabove described. The Letter of Credit shall be (i) "callable" at sight, irrevocable and unconditional, (ii) subject to the terms of this Paragraph 45, maintained in effect, whether through renewal or extension, for the entire period from the date of execution of this Lease and continuing until the date (the "LC Expiration Date") which is one hundred twenty (120) days after the expiration of the initial Lease Term, and Tenant shall deliver a new Letter of Credit or certificate of renewal or extension to Landlord at least thirty (30) days prior to the expiration of the Letter of Credit then held by Landlord, without any action whatsoever on the part of Landlord, (iii) subject to the International Standby Practices 1998, International Chamber of Commerce Publication No. 590, (iv) fully assignable by Landlord, and (v) permit partial draws. In addition to the foregoing, the form and terms of the Letter of Credit shall be acceptable to Landlord, in Landlord's sole discretion, and shall provide, among other things, in effect that: (A) Landlord, or its then managing agent, shall have the right to draw down

an amount up to the face amount of the Letter of Credit upon the presentation to the Bank of Landlord's (or Landlord's then managing agent's) written statements that (1) such amount is due to Landlord under the terms and conditions of this Lease, (2) Tenant has filed a voluntary petition under the Federal Bankruptcy Code or (3) an involuntary petition has been filed against Tenant under the Federal Bankruptcy Code, it being understood that if Landlord or its managing agent is a limited liability company, corporation, partnership or other entity, then such statement shall be signed by an officer (if a corporation), a general partner (if a partnership), or any authorized party (if another entity); and (B) the Letter of Credit will be honored by the Bank without inquiry as to the accuracy thereof and regardless of whether the Tenant disputes the content of such statement.

(a) Transfer of Letter of Credit. The Letter of Credit shall also provide that Landlord may, at any time and without notice to Tenant and without first obtaining Tenant's consent thereto, transfer all or any portion of its interest in and to the Letter of Credit to another party, person or entity, regardless of whether or not such transfer is separate from or as a part of the assignment by Landlord of its rights and interests in and to this Lease. In the event of a transfer of Landlord's interest in the Building, Landlord shall transfer the Letter of Credit, in whole or in part to the transferee and thereupon Landlord shall, without any further agreement between the parties, be released by Tenant from all liability therefor, and it is agreed that the provisions hereof shall apply to every transfer or assignment of the whole or any portion of said Letter of Credit to a new landlord. In connection with any such transfer of the Letter of Credit by Landlord, Tenant shall, at Tenant's sole cost and expense, execute and submit to the Bank such applications, documents and instruments as may be necessary to effectuate such transfer and Tenant shall be responsible for paying the Bank's transfer and processing fees in connection therewith.

(b) Application of Letter of Credit. If, as result of any application or use by Landlord of all or any part of the Letter of Credit, the amount of the Letter of Credit shall be less than the Stated Amount, Tenant shall, within five (5) days thereafter, provide Landlord with additional letter(s) of credit in an amount equal to the deficiency and any such additional letter of credit shall comply with all of the provisions of this Paragraph 45, and if Tenant fails to comply with the foregoing, the same shall constitute an uncurable default by Tenant. Tenant further covenants and warrants that it will neither assign nor encumber the Letter of Credit or any part thereof, and that neither Landlord nor its successors or assigns will be bound by any such assignment, encumbrance, attempted assignment or attempted encumbrance. Without limiting the generality of the foregoing, if any such Letter of Credit expires earlier than the LC Expiration Date, Landlord will accept a renewal thereof (such renewal letter of credit to be in effect and delivered to Landlord, as applicable, not later than thirty (30) days prior to the expiration of the Letter of Credit), which shall be irrevocable and automatically renewable as above provided through the LC Expiration Date upon the same terms as the expiring Letter of Credit or such other terms as may be acceptable to Landlord in its sole discretion. However, if any such Letter of Credit is not timely renewed, or if Tenant fails to maintain any such Letter of Credit in the amount and in accordance with the terms set forth in this Paragraph 45, Landlord shall have the right to present the Letter of Credit to the Bank in accordance with the terms of this Paragraph 45 and the proceeds of the Letter of Credit may be applied by Landlord against any Rent payable by Tenant under this Lease that is not paid when due and/or to pay for all losses and damages that Landlord has suffered or that Landlord reasonably estimates that it will suffer as a result of any default by Tenant under this Lease. Any unused proceeds shall constitute the property of Landlord and need not be segregated from Landlord's other assets. Landlord agrees to pay to Tenant within thirty (30) days after the LC

Expiration Date the amount of any proceeds of the Letter of Credit received by Landlord and not applied against any Rent payable by Tenant under this Lease that was not paid when due or used to pay for any losses and/or damages suffered by Landlord (or reasonably estimated by Landlord that it will suffer) as a result of any default by Tenant under this Lease; provided, however, that if prior to the LC Expiration Date a voluntary petition is filed by Tenant, or an involuntary petition is filed against Tenant by any of Tenant's creditors, under the Federal Bankruptcy Code, then Landlord shall not be obligated to make such payment in the amount of the unused Letter of Credit proceeds until either all preference issues relating to payments under this Lease have been resolved in such bankruptcy or reorganization case or such bankruptcy or reorganization case has been dismissed. Tenant hereby acknowledges and agrees that Landlord is entering into this Lease in material reliance upon the ability of Landlord to draw upon the Letter of Credit upon the occurrence of any default on the part of Tenant under this Lease. If there shall occur a default under this Lease as set forth in Paragraph 25 of this Lease, Landlord may, but without obligation to do so, draw upon the Letter of Credit in part or in whole, to cure any default of Tenant and/or to compensate Landlord for any and all damages of any kind or nature sustained or which Landlord reasonably estimates that it will sustain resulting from Tenant's default. Tenant agrees not to interfere in any way with payment to Landlord of the proceeds of the Letter of Credit, either prior to or following a "draw" by Landlord of any portion of the Letter of Credit, regardless of whether any dispute exists between Tenant and Landlord as to Landlord's right to draw from the Letter of Credit. No condition or term of this Lease shall be deemed to render the Letter of Credit conditional to justify the issuer of the Letter of Credit in failing to honor a drawing upon such Letter of Credit in a timely manner. Tenant agrees and acknowledges that Tenant has no property interest whatsoever in the Letter of Credit or the proceeds thereof and that, in the event Tenant becomes a debtor under any chapter of the Federal Bankruptcy Code, neither Tenant, any trustee, nor Tenant's bankruptcy estate shall have any right to restrict or limit Landlord's claim and/or rights to the Letter of Credit and/or the proceeds thereof by application of

Section 502(b)(6) of the Federal Bankruptcy Code. Landlord and Tenant acknowledge and agree that in no event or circumstance shall the Letter of Credit or any renewal thereof or any proceeds thereof be (i) deemed to be or treated as a "security deposit" within the meaning of California Civil Code Section 1950.7, (ii) subject to the terms of such Section 1950.7, or (iii) intended to serve as a "security deposit" within the meaning of such Section 1950.7. The parties hereto (A) recite that the Letter of Credit is not intended to serve as a security deposit and such Section 1950.7 and any and all other laws, rules and regulations applicable to security deposits in the commercial context ("Security Deposit Laws") shall have no applicability or relevancy thereto and (B) waive any and all rights, duties and obligations either party may now or, in the future, will have relating to or arising from the Security Deposit Laws.

PARAGRAPH 46: FITNESS CENTER: Tenant acknowledges that, as of the date hereof, the Building contains a fitness center that, subject to Landlord's rules and regulations, may be utilized only by Tenant's employees and sublessees who have card-key access to the Premises (the "Fitness Center Users"), but not by any invitees, guests or family members of the Fitness Center Users. Landlord will activate access cards for the Fitness Center Users that will allow access to the fitness center only after each applicable Fitness Center User signs a waiver utilized by Landlord for all users of the Fitness Center from time to time. The fitness center shall be made available for use by Fitness Center Users 24/7. Additionally, Landlord shall be entitled to implement rules and regulations at the time, and from time to time, governing the use of the fitness center, and if any employee fails to abide by such rules and regulations, and if such failure continues after Landlord's

first warning to such employee of such violation, then Landlord may terminate such Fitness Center User's access to the fitness center. Subject to Paragraphs 16(g) and 21, Tenant shall indemnify, defend and hold Landlord harmless from and against any cost, loss, expense, claim or liability that is incurred by Landlord due to a Fitness Center User's negligent actions or willful misconduct while using the Fitness Center. Prior to the completion of the Tenant Improvements, Landlord agrees to upgrade the finishes and equipment in the fitness center (with mutually acceptable upgrades), provided that Landlord and Tenant shall equally share the cost of such upgrades, provided, further, however, that Landlord's share shall not exceed Forty Thousand Dollars ($40,000) and all costs in excess of such Forty Thousand Dollar ($40,000) cap shall be Tenant's responsibility at Tenant's sole cost and expense and payable by Tenant within thirty (30) days of Landlord's written request.

PARAGRAPH 47: TENANT'S EARLY TERMINATION RIGHT. Tenant shall have the one (1) time right to terminate and cancel this Lease effective as of March 31, 2023, subject, however, to extension by one (1) day for each day of Landlord Delay (if any) which extended the Commencement Date ("Termination Date"), which right is contingent upon Tenant paying to Landlord the Termination Consideration (as defined below) in a timely manner in accordance with the following provisions of this Paragraph 47. To exercise such termination right, Tenant must deliver to Landlord, on or before August 31, 2022, written notice of Tenant's exercise of such termination right (the "Termination Notice"), along with the Termination Consideration. As used herein, the "Termination Consideration" shall mean an amount equal to the sum of: (A) Nine Hundred Ninety-Five Thousand Eight Hundred Ninety-Eight and 14/100 Dollars ($995,898.14) plus (B) the unamortized portion of the brokerage commissions paid or incurred by Landlord in connection with any Expansion Space and First Offer Space leased to Tenant pursuant to Paragraphs 53 and 54 below; plus (C) the unamortized portion of the costs of the tenant improvements and tenant improvement allowance, if any, paid or provided by Landlord for any Expansion Space and First Offer Space leased by Tenant pursuant to Paragraphs 53 and 54 below and (D) the unamortized portion of any free rent provided by Landlord to Tenant in connection with any Expansion Space and First Offer Space leased by Tenant pursuant to Paragraphs 53 and 54 below. The unamortized portion of the costs of any brokerage commissions, free rent and tenant improvement costs/allowance, if any, paid for or provided by Landlord to Tenant for any Expansion Space and First Offer Space leased by Tenant pursuant to Paragraphs 53 and 54 shall be amortized on a straight-line basis over the scheduled initial term of the lease of the Expansion Space and First Offer Space, together with interest at the rate of eight percent (8%) per annum, and the unamortized portion thereof shall be determined based upon the unexpired portion of such initial lease term for such Expansion Space and First Offer Space as of the Termination Date. If Tenant properly and timely exercises its termination option in this Paragraph 47 in strict accordance with the terms hereof, the Lease shall expire at midnight on the Termination Date, and Tenant shall be required to surrender the Premises to Landlord on or prior to the Termination Date in accordance with Paragraph 28 above. The termination right set forth in this Paragraph 47 is personal to the Original Tenant and any Permitted Assignee and may only be executed by the Original Tenant and any Permitted Assignee (and not any other assignee, sublessee or other transferee of Original Tenant's interest (or Permitted Assignee's interest).

PARAGRAPH 48: NO SETOFF; CONSEQUENTIAL DAMAGES: Except as expressly set forth in this Lease, Tenant shall not be entitled to any setoff, offset or abatement of any Rent due Landlord hereunder if Landlord fails to perform its obligations hereunder. In no event shall

Landlord or any holder of a Mortgage be responsible for any indirect, special, punitive or consequential damages incurred by Tenant resulting from a default by Landlord. Except as provided in Paragraph 8, in no event shall Tenant be responsible for any indirect, special, punitive or consequential damages incurred by Landlord resulting from a default by Tenant.

PARAGRAPH 49: OPTIONS TO EXTEND:

(a) Landlord hereby grants the Original Tenant and any Permitted Assignee two (2) options to extend the Term, for additional consecutive periods of three (3) years each (each, an "Option Term"), which would commence on the Expiration Date or expiration of the prior Option Term, if applicable. The Option Terms shall be upon the same terms and conditions as are provided in the Lease, except that the Base Rent during the applicable Option Term would be as specified below in Paragraph 49(c). The Option Term shall be exercised by Tenant giving notice to Landlord ("Extension Notice"), not earlier than twelve (12) months and not later than nine (9) months prior to the Expiration Date of the then current Term, as such may be extended as provided herein (the "Option Exercise Date"). If Tenant fails to provide such notice to Landlord on or before such date, Tenant's rights under this Paragraph 49 shall be null and void (and such option and any succeeding option, shall be null and void). Additionally, Tenant's rights to extend the Term for the Option Term shall be automatically null and void immediately if any of the following conditions occurs prior to the commencement of the applicable Option Term or the exercise by Tenant of the applicable Option Term: (a) there shall be a Tenant's Default under this Lease, or the occurrence of any matter which with notice and the passage of time would become a Tenant's Default, and such Tenant's Default has not been cured within the cure period provided in this Lease or otherwise waived by Landlord, (b) Tenant shall have assigned the Lease or sublet all or any portion of the Premises to anyone other than a Permitted Transferee, or (c) Tenant shall be in occupancy of less than fifty percent (50%) of the Premises.

(b) The leasing of the Premises by Landlord to Tenant for the applicable Option Term shall be upon and subject to all of the terms, provisions and conditions of the Lease, except that (i) once the applicable Option Term is exercised by Tenant, the renewal rights granted by this Paragraph 49 shall not be reapplied to such Option Term, so that in no event shall Tenant have the right to renew and extend this Lease beyond each applicable Option Term; (ii) the

Base Rent payable during the applicable Option Term shall be as determined in accordance with Paragraph 49(c) below; (iii) Tenant shall accept the Premises in their then "AS IS" condition, and Landlord shall not be required to perform any tenant finish or other work to the Premises or to provide Tenant any tenant finish allowance or other allowance or inducement with respect to the Premises, except as otherwise mutually agreed to in writing by the parties; and (iv) the defined term "Term" shall be deemed to include the applicable Option Term when and if it becomes effective. Once Tenant shall exercise the applicable Option Term in accordance with the terms and conditions of this Paragraph 49, provided that Landlord and Tenant mutually agree to the new Base Rent to be payable during the applicable Option Term as provided in Paragraph 49(c), then Landlord and Tenant shall promptly execute an amendment to this Lease in form and substance reasonably acceptable to both of them, reflecting the leasing of the Premises for the applicable Option Term (the "Lease Renewal Amendment"). There shall be no renewal rights except as set forth in this Paragraph 49.

(c) Base Rent payable during the applicable Option Term shall be at ninety-five percent (95%) of the prevailing market rate for rent, inclusive of all concessions, for the leasing of comparable space in comparable office buildings of similar quality, age and condition in the Brisbane/South San Francisco, California market area for space comparable to the Premises or the expansion space, as applicable, taking into account factors offered by third party tenants for comparable space and comparable terms, including, without limitation, the size of the leased premises, the value of the tenant improvements paid for by Landlord already in place at the Premises at the commencement of the renewal or expansion period, as applicable, rent concessions, tenant improvement allowances, lease commissions saved or incurred, moving allowances, credit history and financial condition of the Tenant (collectively the "Prevailing Market Rate"). Within thirty (30) days following Tenant's delivery of the notice exercising the applicable Option Term, Landlord shall advise Tenant of Landlord's determination of the Prevailing Market Rate on a rentable square foot basis as of the beginning of the applicable Option Term and any escalations during the applicable Option Term. Within thirty (30) days of receipt of Landlord's notice and determination, Tenant shall advise Landlord, in writing, whether or not Tenant accepts or rejects the Landlord's determination of the Prevailing Market Rate and concessions proposed by Landlord. Tenant's failure to accept or reject in writing Landlord's determination of the Prevailing Market Rate and concessions proposed by Landlord within such thirty (30) day period shall be deemed rejection by Tenant, and the Prevailing Market Rate shall be determined in the manner provided below. If Tenant accepts such rate and concessions in writing, then the monthly Base Rent during the applicable Option Term shall be ninety-five percent (95%) of said Prevailing Market Rate as reflected in the Lease Renewal Amendment. If Tenant rejects the Landlord's determination of the Prevailing Market Rate and concessions whether by giving Landlord notice or failing to give Landlord notice, then Landlord and Tenant shall negotiate in good faith for a period of thirty (30) days after the date of Tenant's rejection notice to resolve the Prevailing Market Rate and concessions. If Landlord and Tenant have not agreed upon the Prevailing Market Rate and concessions on or before the expiration of such 30-day period, Tenant's exercise of the applicable Option Term shall be null and void, unless Tenant, within ten (10) days after the expiration of such 30-day period, delivers written notice to Landlord electing to submit the determination of Prevailing Market Rate and concessions to arbitration (the "Arbitration Notice") in which case the Prevailing Market Rate shall be determined as set forth in Paragraph 49(d).

(d) If Tenant delivers the Arbitration Notice on or before the period set forth above, such arbitration shall be conducted and determined in South San Francisco, California, in accordance with the then-prevailing rules of JAMS or its successor for arbitration of real estate valuation disputes, except that the procedures mandated by such rules shall be modified as follows:

(i) In the Arbitration Notice, Tenant shall provide the name and address of the person to act as the arbitrator on Tenant's behalf. The arbitrator designated by Tenant in Tenant's Arbitration Notice shall be a real estate appraiser with at least ten (10) years full-time commercial real estate experience who is familiar with rental rates for office space in South San Francisco, California. Within ten (10) business days after the service on Landlord of Tenant's Arbitration Notice, Landlord shall give written notice to Tenant specifying the name and address of the person designated by Landlord to act as arbitrator on Landlord's behalf, which arbitrator shall be subject to the same qualification requirements as apply to the arbitrator selected by Tenant.

(ii) If two arbitrators are chosen pursuant to subparagraph (d)(i) above, the two arbitrators so chosen shall meet within ten (10) business days after the second arbitrator is appointed and together shall appoint a third arbitrator, who shall be a competent and impartial person who satisfies the same qualification requirements as apply to the arbitrators selected by Tenant and Landlord above. If the first two arbitrators are unable to agree upon such appointment of the third arbitrator within five (5) business days after the expiration of such ten (10) business day period, the third arbitrator shall be selected by the parties themselves and if the parties cannot so agree, then either party, on behalf of both, may request appointment of such a qualified person by the then president of the San Francisco Association of Realtors. The three arbitrators shall decide the dispute, if it has not been previously resolved, by following the procedures set forth in subparagraph (d)(iii) below.

(iii) The Prevailing Market Rate for the applicable period shall be fixed by the three arbitrators in accordance with the following procedures:

(1) Each of the two arbitrators selected by the parties shall state, in writing, such arbitrator's determination of the Prevailing Market Rate for the applicable Option Term supported by the reasons therefor. The third arbitrator shall perform its own investigation without consulting the other two arbitrators and shall make its own determination of the Prevailing Market Rate for the applicable Option Term.

(2) Within five (5) days after the third arbitrator has reached its own determination, the third arbitrator shall arrange a meeting at which time the two arbitrators selected by each party shall submit to the third arbitrator each such arbitrator's determination of Prevailing Market Rate. The role of the third arbitrator shall be to select whichever of the two proposed resolutions most closely approximates the third arbitrator's own determination of Prevailing Market Rate for the Option Period. The third arbitrator shall have no right to propose a middle ground or any modification of either of the two proposed resolutions. The resolution the third arbitrator chooses as that most closely approximating the third arbitrator's determination of the Prevailing Market Rate shall constitute the decision of the arbitrators and shall be final and binding upon the parties. Base Rent payable during the applicable Option Term shall be at ninety-five percent (95%) of the third arbitrator's determination of the Prevailing Market Rate.

(3) In the event of a failure, refusal, or inability of any arbitrator to act, the arbitrator in question shall appoint a successor for himself or herself, but in the case of the third arbitrator, a successor shall be appointed in the same manner as set forth herein with respect to the appointment of the original third arbitrator.

The arbitrators shall attempt to decide the issue within fifteen (15) business days after the appointment of the third arbitrator. Notwithstanding the other provisions in this Paragraph 49, if the proposal of the arbitrator appointed by Landlord and the proposal of the arbitrator appointed by Tenant are identical,

such proposal shall be binding and conclusive upon the parties. Each party shall pay the fees and expenses of its respective arbitrator and both shall share equally the fees and expenses of the third arbitrator. Attorneys' fees and expenses of counsel and of witnesses for the respective parties shall be paid by the respective party engaging such counsel or calling such witnesses.

PARAGRAPH 50: INTENTIONALLY OMITTED:

PARAGRAPH 51: EXECUTIVE ORDER 13224: Tenant hereby represents and warrants to Landlord that Tenant is not among the individuals or entities identified on any list compiled pursuant to Executive Order 13224 for the purpose of identifying suspected terrorists. Landlord hereby represents and warrants to Tenant that Landlord is not among the individuals or entities identified on any list compiled pursuant to Executive Order 13224 for the purpose of identifying suspected terrorists.

PARAGRAPH 52: MISCELLANEOUS:

(a) The voluntary or other surrender of possession of the Premises by Tenant, or a mutual cancellation of this Lease, shall not result in a merger of Landlord's and Tenant's estates, and shall, at Landlord's option, either terminate any existing subleases or subtenancies, or operate as an assignment to Landlord of any such subleases or subtenancies.

(b) Tenant represents and warrants that each individual executing this Lease on behalf of Tenant is duly authorized to execute and deliver this Lease on behalf of Tenant and that upon such execution this Lease shall be binding upon Tenant in accordance with its terms. If this Lease is executed by more than one tenant, Tenant's obligations hereunder shall be the joint and several obligations of each tenant executing this Lease. Nothing contained herein shall create any relationship between the parties hereto other than that of Landlord and Tenant, and Landlord shall not be deemed to be a partner or a joint venturer of Tenant in the conduct of its business.

(c) The submission of this document for review does not constitute an option, offer or agreement to lease space. This document shall be effective only upon Landlord's and Tenant's execution and Landlord's delivery of same to Tenant. Except as expressly contained herein, neither Landlord nor Landlord's agent have made representations, warranties or promises with respect to the Premises, the Property or this Lease. Landlord and Tenant each acknowledge that each has been represented by independent counsel and has executed this Lease after being fully advised by said counsel as to its effect and significance.

(d) Any remedy or election given pursuant to any provision in this Lease shall be cumulative with all other remedies at law or in equity unless otherwise specifically provided herein

(e) This Lease may be executed in multiple counterparts, each of which shall constitute one and the same instrument.

PARAGRAPH 53: EXPANSION OPTIONS:

(a) First Expansion Right.

(i) In General. Landlord hereby grants the Original Tenant and any Permitted Assignee an option to lease approximately 8,552 rentable square feet on the third (3rd) floor of the Building on the terms set forth below (the "First Expansion Space"), which First Expansion Space is depicted on Exhibit B-1.

(ii) Method of Exercise. The expansion option contained in this Paragraph 53(a) shall only be exercised by Tenant delivering written notice to Landlord no later than April 1, 2017, stating that Tenant is exercising this option ("First Expansion Notice").

(iii) First Expansion Rent. The rent payable by Tenant for the First Expansion Space (the "First Expansion Rent") shall be the product of (a) the then per rentable square foot Base Rent for the Premises (and subject to the scheduled increases set forth in Paragraph 1 of this Lease) and (b) the actual number of square feet in the First Expansion Space.

(iv) Delivery of the First Expansion Space. If Tenant exercises this option, Landlord shall deliver actual and exclusive possession of the First Expansion Space to Tenant on or before October 1, 2017 (the "First Expansion Date").

(v) Construction of First Expansion Space. Landlord shall deliver the First Expansion Space to Tenant in the Delivery Condition described in Paragraph 4 above. Subject to the foregoing, and without limitation of Landlord's obligations set forth in this Lease, Tenant shall take the First Expansion Space in its "as is" condition, and the construction of improvements in the First Expansion Space shall be in substantial accordance with Exhibit C (except that Tenant shall only be entitled to an improvement allowance equal to Thirty Dollars ($30.00) times the actual number of rentable square feet in the First Expansion Space).

(vi) Amendment to Lease. If Tenant timely exercises Tenant's right to lease the First Expansion Space as set forth herein, Landlord and Tenant shall, within fifteen (15) days after the date of Tenant's First Expansion Notice, execute an amendment adding such First Expansion Space to the Lease upon the same terms and conditions as the initial Premises, except as otherwise set forth in this Paragraph 53(a) and except that Tenant shall not be entitled to the Abated Rent set forth in Paragraph 1(c), Tenant's Share shall be increased to take into account the addition of the First Expansion Space to the Premises, and the number of parking spaces allocated to Tenant shall be increased to take into account the addition of the First Expansion Space to the Premises. Tenant shall commence payment of Rent for the First Expansion Space and the term of the First Expansion Space shall commence upon the date of delivery of the First Expansion Space to Tenant (the "First Expansion Space Commencement Date"); provided, however, that Landlord will abate Tenant's obligation to pay Base Rent (but not any other Rent) payable by Tenant for the first thirty (30) days after the First Expansion Space Commencement Date. The term of the First Expansion Space shall expire on the Expiration Date (subject, however, to Paragraphs 47 and 49 of this Lease).

(b) Second Expansion Right.

(i) In General. Landlord hereby grants the Tenant and any Permitted Assignee an option as of November 1, 2019 (the "Second Expansion Date") to lease approximately 7,927 rentable square feet on the third (3rd) floor of the Building on the terms set forth below, which Second Expansion Space is depicted on Exhibit B-2 (the "Second Expansion Space").

(ii) Method of Exercise. The expansion option contained in this Paragraph 53(b) shall only be exercised by Tenant delivering written notice to Landlord no later than April 1, 2019, stating that Tenant is exercising its option ("Second Expansion Notice").

(iii) Second Expansion Rent. The rent payable by Tenant for the Second Expansion Space (the "Second Expansion Rent") shall be product of (a) the then per Rentable Square Foot Base Rent for the Premises (and subject to the scheduled increases set forth in Paragraph 1 of this Lease) and (b) the actual number of square feet in the Second Expansion Space.

(iv) Delivery of the Second Expansion Space. If Tenant exercises this option, Landlord shall deliver actual and exclusive possession of the Second Expansion Space to Tenant on or before the Second Expansion Date.

(v) Construction of Second Expansion Space. Landlord shall deliver the Second Expansion Space to Tenant in the Delivery Condition described in Paragraph 4 above. Subject to the foregoing, and without limitation of Landlord's obligations set forth in this Lease, Tenant shall take the Second Expansion Space in its "as is" condition, and the construction of improvements in the Expansion Space shall be in substantial accordance with Exhibit C (except that Tenant shall only be entitled to an improvement allowance equal to Thirty Dollars ($30.00) times the actual number of rentable square feet in the Second Expansion Space).

(vi) Amendment to Lease. If Tenant timely exercises Tenant's right to lease the Second Expansion Space as set forth herein, Landlord and Tenant shall, within fifteen (15) days after the date of Tenant's Second Expansion Notice, execute an amendment adding such Second Expansion Space to the Lease upon the same terms and conditions as the initial Premises, except as otherwise set forth in this Paragraph 53(b) and except that Tenant shall not be entitled to the Abated Rent set forth in Paragraph 1(c), Tenant's Share shall be increased to take into account the addition of the Second Expansion Space to the Premises, and the number of parking spaces allocated to Tenant shall be increased to take into account the addition of the Second Expansion Space to the Premises. Tenant shall commence payment of Rent for the Second Expansion Space and the term of the Second Expansion Space shall commence upon the date of delivery of the Second Expansion Space to Tenant (the "Second Expansion Space Commencement Date"); provided, however, that Landlord will abate Tenant's obligation to pay Base Rent (but not any other Rent) payable by Tenant for the first thirty (30) days after the Second Expansion Space Commencement Date. The term of the Second Expansion Space shall expire on the Expiration Date (subject, however, to Paragraphs 47 and 49 of this Lease).

(c) Third Expansion Right.

(i) In General. Landlord hereby grants the Original Tenant and any Permitted Assignee an option as of October 1, 2019 (the "Third Expansion Date"), to lease approximately 8,075 square feet on the ground floor of the Building on the terms set forth below, which Third Expansion Space is depicted on Exhibit B-3.

(ii) Method of Exercise. The expansion option contained in this Paragraph 53(c) shall only be exercised by Tenant delivering written notice to Landlord no later than April 1, 2019 stating that Tenant is exercising this option ("Third Expansion Notice).

(iii) Third Expansion Rent. The rent payable by Tenant for the Third Expansion Space (the "Third Expansion Rent") shall be the product of (a) the then per Rentable Square Foot

Base Rent for the Premises (and subject to the scheduled increases set forth in Paragraph 1 of this Lease) and (b) the actual number of square feet in the Third Expansion Space.

(iv) Delivery of the Third Expansion Space. If Tenant exercises this option, Landlord shall deliver actual and exclusive possession of the Third Expansion Space to Tenant on or before the Third Expansion Date.

(v) Construction of Third Expansion Space. Landlord shall deliver the Third Expansion Space to Tenant in the Delivery Condition described in Paragraph 4 above. Subject to the foregoing, and without limitation of Landlord's obligations set forth in this Lease, Tenant shall take the Third Expansion Space in its "as is" condition, and the construction of improvements in the Expansion Space shall be in substantial accordance with Exhibit C (except that Tenant shall only be entitled to an improvement allowance equal to Seventy-Five Dollars ($75.00) times the actual number of rentable square feet in the Third Expansion Space).

(vi) Amendment to Lease. If Tenant timely exercises Tenant's right to lease the Third Expansion Space as set forth herein, Landlord and Tenant shall, within fifteen (15) days after the date of Tenant's Third Expansion Notice, execute an amendment adding such Third Expansion Space to the Lease upon the same terms and conditions as the initial Premises, except as otherwise set forth in this Paragraph 53(c) and except that Tenant shall not be entitled to the Abated Rent set forth in Paragraph 1(c), Tenant's Share shall be increased to take into account the addition of the Third Expansion Space to the Premises, and the number of parking spaces allocated to Tenant shall be increased to take into account the addition of the Third Expansion Space to the Premises. Tenant shall commence payment of Rent for the Third Expansion Space and the term of the Third Expansion Space shall commence upon the date of delivery of the Third Expansion Space to Tenant (the "Third Expansion Space Commencement Date"); provided, however, that Landlord will abate Tenant's obligation to pay Base Rent (but not any other Rent) payable by Tenant for the first ninety (90) days after the Third Expansion Space Commencement Date. The term of the Third Expansion Space shall expire on the Expiration Date (subject, however, to Paragraphs 47 and 49 of this Lease).

Notwithstanding anything above to the contrary, The rights contained in this Paragraph 53 shall be personal to the Original Tenant and any Permitted Assignee, may only be exercised by the Original Tenant and any Permitted Assignee (and not any other assignee, sublessee or other transferee of the Original Tenant's (or Permitted Assignee's) interest in this Lease) if Original Tenant or such Permitted Assignee occupies no less than 50% of the entire Premises as of the date of the Expansion Exercise Notice. Tenant shall not have the right to lease any Expansion Space as provided in this Paragraph 53, if, as of the date of the applicable Expansion Notice, or, at Landlord's option, as of the scheduled date of delivery of such Expansion Space to Tenant, Tenant is in default under this Lease (beyond the expiration of all applicable notice and cure periods).

PARAGRAPH 54: RIGHT OF FIRST OFFER: Commencing as of the sixth (6th) annual anniversary of the Commencement Date (i.e., June 1, 2021, subject, however, to extension due to Landlord Delays (if any) which extended the Commencement Date) and continuing throughout the Lease Term (including any Option Term, if applicable), Tenant shall have a right of first offer with respect to space located on the first (1st) and second (2nd) floors of the Building that is contiguous to the Premises (the "First Offer Space"). Notwithstanding the foregoing (i) the lease

term for Tenant's lease of the First Offer Space pursuant to Tenant's exercise of such first offer right of Tenant shall commence only following the expiration or earlier termination of any existing lease (if any) pertaining to the First Offer Space (the "Existing Leases"), including any renewal or extension of any such Existing Leases, whether or not such renewal or extension is pursuant to an express written provision in such lease, and regardless of whether any such renewal or extension is consummated pursuant to a lease amendment or a new lease, and (ii) such first offer right shall be subordinate and secondary to all rights of expansion, first refusal, first offer or similar rights granted to the tenants of the Existing Leases (the rights described in items (i) and (ii), above to be known collectively as "Superior Rights"). Tenant's right of first offer shall be on the terms and conditions set forth in this Paragraph 54.

(a) Procedure for Offer. Landlord shall notify Tenant (the "First Offer Notice") from time to time when Landlord determines, in Landlord's sole and absolute discretion, that Landlord shall commence the marketing of the First Offer Space (or any portion thereof) because such space shall become or is expected to become available for lease to third parties, where no holder of a Superior Right desires to lease such space. The First Offer Notice shall describe the space so offered to Tenant and shall set forth Landlord's proposed economic terms and conditions applicable to Tenant's lease of such space (collectively, the "First Offer Economic Terms"), which First Offer Economic Terms shall be based on Landlord's reasonable, good faith determination of the "fair market rental rate" for such First Offer Space. Notwithstanding the foregoing, Landlord's obligation to deliver the First Offer Notice shall not apply during the last nine (9) months of the Lease Term unless Tenant has delivered an Extension Notice (as defined in Paragraph 49(a) above) pertaining to the extension of the initial Lease Term.

(b) Procedure for Acceptance. If Tenant wishes to exercise Tenant's right of first offer with respect to the space described in the First Offer Notice, then within thirty (30) days after delivery of the First Offer Notice to Tenant, Tenant shall deliver notice to Landlord of Tenant's exercise of its right of first offer with respect to the entire space described in the First Offer Notice and on the First Offer Economic Terms contained therein. If Tenant does not exercise its right of first offer within said 30-day period (on all of the First Offer Economic Terms), then Landlord shall be free to lease the space described in the First Offer Notice to anyone to whom Landlord desires provided the economic terms and conditions of such lease are not more favorable to the tenant thereunder than the terms and conditions in the First Offer Notice. Landlord agrees that it will not offer to lease, or enter into a lease of the First Offer Space, on economic terms and conditions more favorable to the tenant thereunder than the terms and conditions in the First Offer Notice without first delivering Tenant another First Offer Notice containing such more favorable terms and conditions and repeating the procedures set forth in this Paragraph 55. Notwithstanding anything to the contrary contained herein, Tenant must elect to exercise its right of first offer, if at all, with respect to all of the space comprising the First Offer Space offered by Landlord to Tenant at any particular time, and Tenant may not elect to lease only a portion thereof or object to any of the First Offer Economic Terms.

(c) Construction of First Offer Space. Tenant shall take the First Offer Space in its "As-Is" condition (unless otherwise provided in the First Offer Notice as part of the First Offer Economic Terms), and Tenant shall be entitled to construct improvements in the First Offer Space at Tenant's expense, in accordance with and subject to the provisions of Paragraph 9 of this Lease or, if addressed in the First Offer Notice, in accordance with the terms of the First Offer Notice.

(d) Lease of First Offer Space. If Tenant timely exercises Tenant's right to lease the First Offer Space as set forth herein, Landlord and Tenant shall execute an amendment adding such First Offer Space to this Lease upon the First Offer Economic Terms set forth in Landlord's First Offer Notice and upon the same non-economic terms and conditions as applicable to the Premises then leased by Tenant under this Lease. Tenant shall commence payment of Rent for the First Offer Space and the Lease Term of the First Offer Space shall commence upon the date of delivery of such First Offer Space to Tenant (unless otherwise provided in the First Offer Notice as part of the First Offer Economic Terms). The Lease term and Rent commencement date for the First Offer Space shall be provided in the First Offer Notice as part of the First Offer Economic Terms.

(e) No Defaults. The rights contained in this Paragraph 54 shall be personal to the Original Tenant and any Permitted Assignee may only be exercised by the Original Tenant or such Permitted Assignee (and not any other assignee, sublessee or other transferee of the Original Tenant's interest (or Permitted Assignee's interest) in this Lease) if the Original Tenant or such Permitted Assignee actually occupies at least fifty percent (50%) of the entire Premises then leased by Original Tenant (or such Permitted Assignee) as of the date of Tenant's exercise of its right of first offer. In addition, at Landlord's option and in addition to Landlord's other remedies set forth in this Lease, at law and/or in equity, Tenant shall not have the right to lease the First Offer Space as provided in this Section if, as of the date of the First Offer Notice, or, at Landlord's option, as of the scheduled date of delivery of such First Offer Space to Tenant, Tenant is in default under this Lease (beyond the expiration of all applicable notice and cure periods).

PARAGRAPH 55: SECURITIES LAW FILINGS AND DISCLOSURE. Landlord acknowledges that Tenant will file a Current Report on Form 8-K (the "Current Report") with the Securities and Exchange Commission (the "SEC") within four (4) business days of the full execution and delivery of this Lease, which Current Report shall include a description of the terms and conditions of this Lease and attach this Lease as an exhibit to the Current Report. Landlord further acknowledges that Tenant will not seek confidential treatment of any of the terms and conditions of this Lease notwithstanding any other provision of this Lease as may exist to the contrary. Landlord hereby consents to Tenant's filing of such Current Report with the SEC and waives any obligation of Tenant to seek confidential treatment of any of the terms and conditions of this lease.

PARAGRAPH 56: COMMUNICATION EQUIPMENT; SUPPLEMENTAL HVAC EQUIPMENT; EMERGENCY GENERATOR. Subject to all applicable laws and any covenants, conditions and restrictions affecting the Property as well as approvals from any governmental and quasi-governmental entities, Tenant and Tenant's contractors (which shall first be reasonably approved by Landlord) shall have the right and access to install, repair, replace, remove, operate and maintain (A) one (1) so-called "satellite dishes" or other similar devices, such as antennae no greater than one (1) meter in diameter each (collectively, the "Communication Equipment"), for the purpose of receiving and sending radio, television, computer, telephone or other communication signals, at a location on the roof of the Building reasonable designated by Landlord after consultation with Tenant; and (B) supplemental HVAC Equipment in locations in the Building and/or on the roof of the Building reasonably determined by Landlord after consultation with Tenant ("Supplemental HVAC Equipment"); (C) one (1) diesel fueled Emergency Generator in a location within the Project designated by Landlord; and (D) subject to

available capacity of the Building (unless Tenant agrees to add additional capacity at Tenant's expense), such connection equipment, such as conduits, cables, risers, feeders and materials (collectively, the "Connecting Equipment") in the shafts, ducts, conduits, chases, utility closets and other facilities of the Building as is reasonably necessary to connect the Communication Equipment, Supplemental HVAC Equipment and the Emergency Generator to Tenant's other systems, machinery and equipment in the Premises. Tenant shall also have the right of access, consistent with the terms hereof, to the areas where any Communication Equipment, Supplemental HVAC Equipment, Emergency Generator and Connecting Equipment (collectively, the "Special Equipment") are located for the purposes of installing, maintaining, repairing, testing and replacing the same. Landlord, at Landlord's sole cost and expense, shall have the right to require Tenant to permanently or temporarily relocate the Communications Equipment to another equally suitable location in the southern half of the Building. Unless Landlord elects to perform such penetrations at Tenant's sole cost and expense, Tenant shall retain Landlord's designated roofing contractor to make any necessary penetrations and associated repairs to the roof in order to preserve Landlord's roof warranty. Tenant's installation and operation of the Special Equipment shall be governed by the following terms and conditions:

(a) Tenant's right to install, replace, repair, remove, operate and maintain the Special Equipment shall be subject to all applicable laws, and Landlord makes no representation that such laws permit such installation and operation;

(b) All plans and specifications for the Special Equipment shall be subject to Landlord's approval, not to be unreasonably withheld, conditioned or delayed. In the case of the plans and specifications for the Supplemental HVAC Equipment and Emergency Generator and the Connecting Equipment related thereto, such plans and specifications shall be reviewed by Landlord pursuant to the terms and conditions of the Work Letter Agreement if Tenant provides such plans and specifications for Landlord's review in connection with Landlord's review of the Construction Drawings for the Tenant Improvements;

(c) All costs of installation, operation and maintenance of the Special Equipment and any necessary related equipment (including, without limitation, costs of obtaining any necessary permits and connections to the Building's electrical system) shall be borne by Tenant;

(d) It is expressly understood that Landlord retains the right to use the roof of the Building for any purpose whatsoever (including granting rights to third parties to utilize any portion of the roof not utilized by Tenant), provided that Tenant shall have reasonable access to, and Landlord and its licensees shall not interfere with Tenant's use of, the Communication Equipment and the Supplemental HVAC Equipment located thereon. It is expressly understood that Landlord retains the right to grant third parties the right to utilize any portion of the Property located outside the Premises not utilized by Tenant as the Generator Site provided such right does not interfere with Tenant's use or occupancy of the Premises in accordance with this Lease or diminish Tenant's parking rights under this Lease;

(e) Tenant agrees to work in good faith to resolve any unreasonable interference caused by Tenant's Special Equipment with any other tenants in the Building (including with any other tenant's communication equipment or any generators or power sources or similar equipment located in the Property), and not to damage the Property or interfere with the normal operation of

the Property. Landlord agrees to work in good faith to resolve any unreasonable interference with Tenant's Special Equipment caused by Landlord's or other tenants' communication equipment, generators, power sources or similar equipment located on the Property);

(f) For the purposes of determining Tenant's obligations with respect to its use of the roof of the Building herein provided and the Generator Site, all of the provisions of this Lease relating to compliance with requirements as to insurance, indemnity, and compliance with Laws shall apply to the installation, use and maintenance of the Special Equipment; provided, however, Tenant shall only be provided access to the roof after prior written or oral notice to Landlord or its property manager (except in cases of emergency in which case such notice may be verbal) and subject to Landlord's reasonable rules and restrictions regarding access (including, at Landlord's option, the requirement that Tenant be accompanied by a representative of Landlord during such access but only to the extent such representative is reasonably available at the time of Tenant's requested access). Landlord shall not have any obligations with respect to the Special Equipment. Landlord makes no representation that the Communication Equipment will be able to receive or transmit communication signals without interference or disturbance, or that the Supplemental HVAC Equipment will be able to supply sufficient air conditioning to the Premises and Tenant agrees that Landlord shall not be liable to Tenant therefor. Landlord make no representation that the Emergency Generator and related Connecting Equipment will be able to supply sufficient power to the Premises, and Tenant agrees that Landlord shall not be liable to Tenant therefor;

(g) Subject to Paragraphs 16(g) and 21, Tenant shall (i) be solely responsible for any damage to the Building caused as a result of the Special Equipment, (ii) promptly pay any tax, license or permit fees charged pursuant to any Laws in connection with the installation, maintenance or use of the Special Equipment and comply with all precautions and safeguards recommended by all governmental authorities, and (iii) pay for all necessary repairs, replacements to or maintenance of the Special Equipment;

(h) The Supplemental HVAC Equipment shall remain the property of Tenant during the Term but shall be deemed a fixture and shall remain upon the Building upon the expiration or earlier termination of the Lease Term unless Landlord elects to have such Supplemental HVAC Equipment removed by Tenant pursuant to Section 12.2 of this Lease. The Communication Equipment shall remain the sole property of Tenant. Tenant shall remove the Communication Equipment and related Special Equipment at Tenant's sole cost and expense upon the expiration or sooner termination of this Lease or upon the imposition of any governmental law or regulation which may require removal, and shall repair the Building upon such removal to the extent required by such work of removal. If Tenant fails to remove the Communication Equipment (and/or the Supplemental HVAC Equipment (if requested by Landlord to be

removed)) and any related Connecting Equipment (to the extent applicable) and repair the Building upon the expiration or earlier termination of this Lease, Landlord may do so at Tenant's expense. The provisions of this Paragraph 56(h) shall survive the expiration or earlier termination of this Lease. as provided in Paragraph 9(d), Tenant shall have no obligation to remove the Emergency Generator upon or prior to the expiration or sooner termination of this Lease;

(i) The Special Equipment shall be treated for all purposes of this Lease as if the Special Equipment were Tenant's property. For the purposes of determining Landlord's and Tenant's respective rights and obligations with respect to its use of the roof as herein provided, the

portion of the roof affected by the Special Equipment shall be deemed to be a portion of Tenant's Premises, but shall not be included in the square footage of the Premises for purposes of establishing Rent or Operating Expenses; consequently, all of the provisions of this Lease respecting Tenant's obligations hereunder (including Tenant's obligations with respect to the roof and the Generator Site) shall apply to the installation, use and maintenance of the Special Equipment, including, without limitation, provisions relating to compliance with requirements as to insurance, indemnity, repairs and maintenance;

(j) Tenant, at Tenant's sole cost and expense, shall install and maintain such fencing and other protective equipment and/or visual screening on or about the Special Equipment as Landlord may reasonably determine. The Special Equipment shall be clearly marked to show Tenant's name, address, telephone number and the name of the person to contact in case of emergency;

(k) Tenant shall accept the Generator Site in its "AS-IS" condition, without any representations or warranties made by Landlord concerning same (including, but not limited to, the purposes for which such area is to be used by Tenant), and Landlord shall have no obligation to contract or pay for any improvements or other work in or for the Generator Site, and Tenant shall be solely responsible, at its sole cost and expense, for preparing the Generator Site for the installation of the Emergency Generator and for constructing any improvements or performing any other work in such areas pursuant to and in accordance with the provisions of this Paragraph 56(k); and

(l) If any of the conditions set forth in this Paragraph 56 are not complied with by Tenant, then such failure shall be a Default under this Lease (after expiration of notice and cure periods).

PARAGRAPH 57: **FURNITURE**: Tenant shall have the right to furnish the offices located on the third floor, second floor and ground floor portions of the Premises from the then available inventory of furniture, fixtures and equipment ("FF&E") in the Building and use the FF&E selected by Tenant within five (5) days after the date hereof at no cost or obligation to Tenant. Landlord shall promptly remove from the Premises any FF&E not selected by Tenant. Tenant shall not at any time be required to remove from the Premises, repair or maintain any of the FF&E selected by Tenant. At the end of the Term, Tenant shall have the option by written notice to Landlord to purchase some or all of the FF&E for One Dollar ($1.00).

IN WITNESS WHEREOF, Landlord and Tenant have executed this Lease on the date set forth above.

LANDLORD:

AMERICAN FUND US INVESTMENTS LP,
a Delaware limited partnership

By: /s/ Steffen Ricken
Name: Steffen Ricken
Title: President

By: /s/ Florence Radoux
Name: Florence Fricke-Radoux
Title: Vice President

TENANT:

VERACYTE, INC.,
a Delaware corporation

By: /s/ Bonnie Anderson
Name: Bonnie Anderson
Title: CEO-President

By: /s/ Shelly D Guyer
Name: Shelly D. Guyer
Title: CFO

Federal Tax I.D. Number or
Social Security Number:

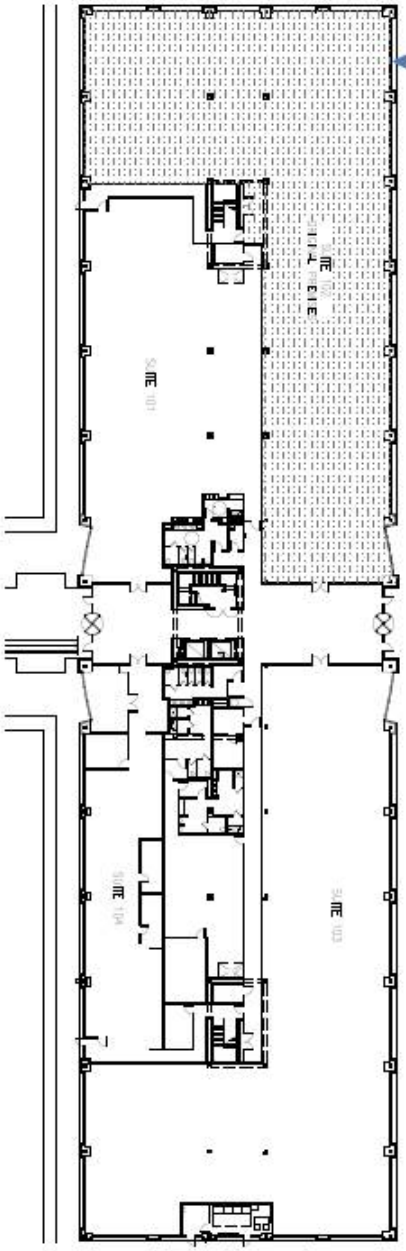
EXHIBIT A

INTENTIONALLY OMITTED

EXHIBIT B

PREMISES FLOOR PLANS

[See Following Pages]

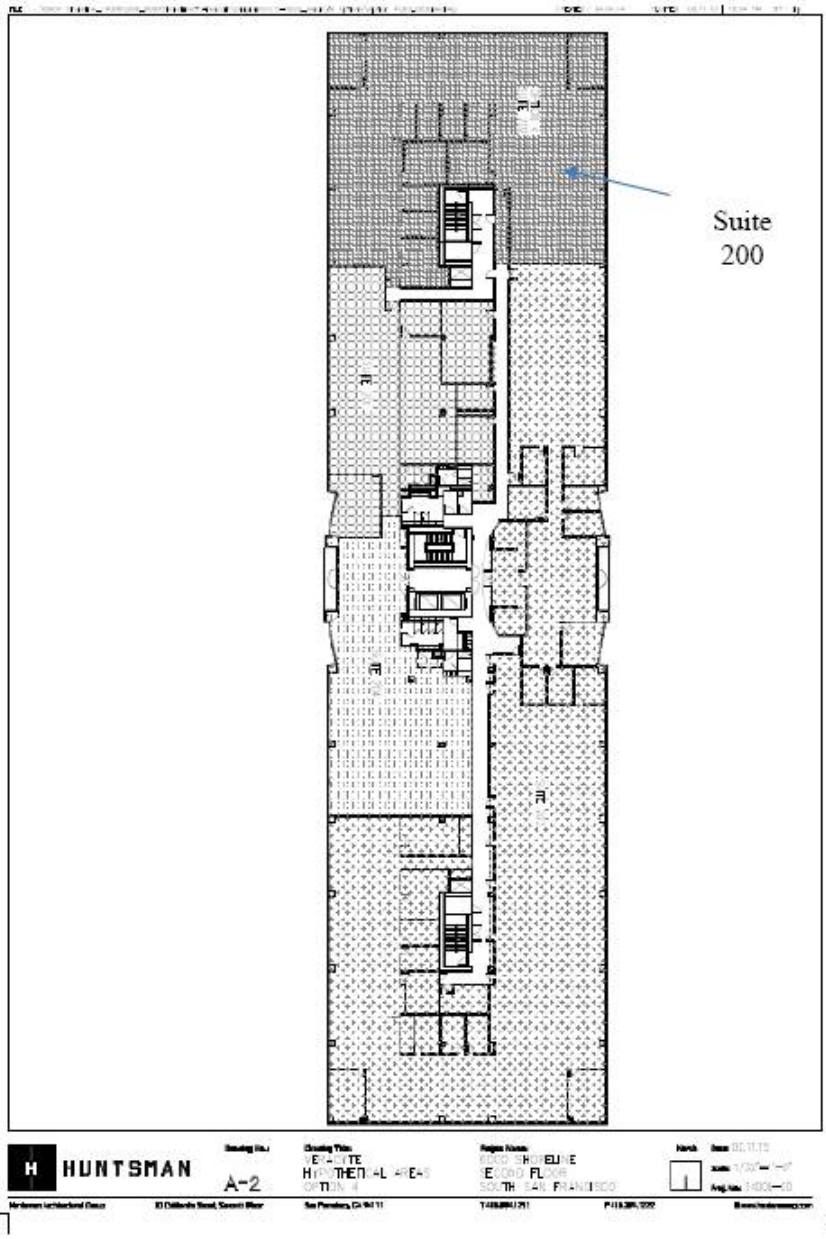


HUNTSMAN

A-1

ORIGINAL PREMISES

600 SHORELINE
FIRST FLOOR
SOUTH SAN FRANCISCO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200
HUNTSMAN
A-2

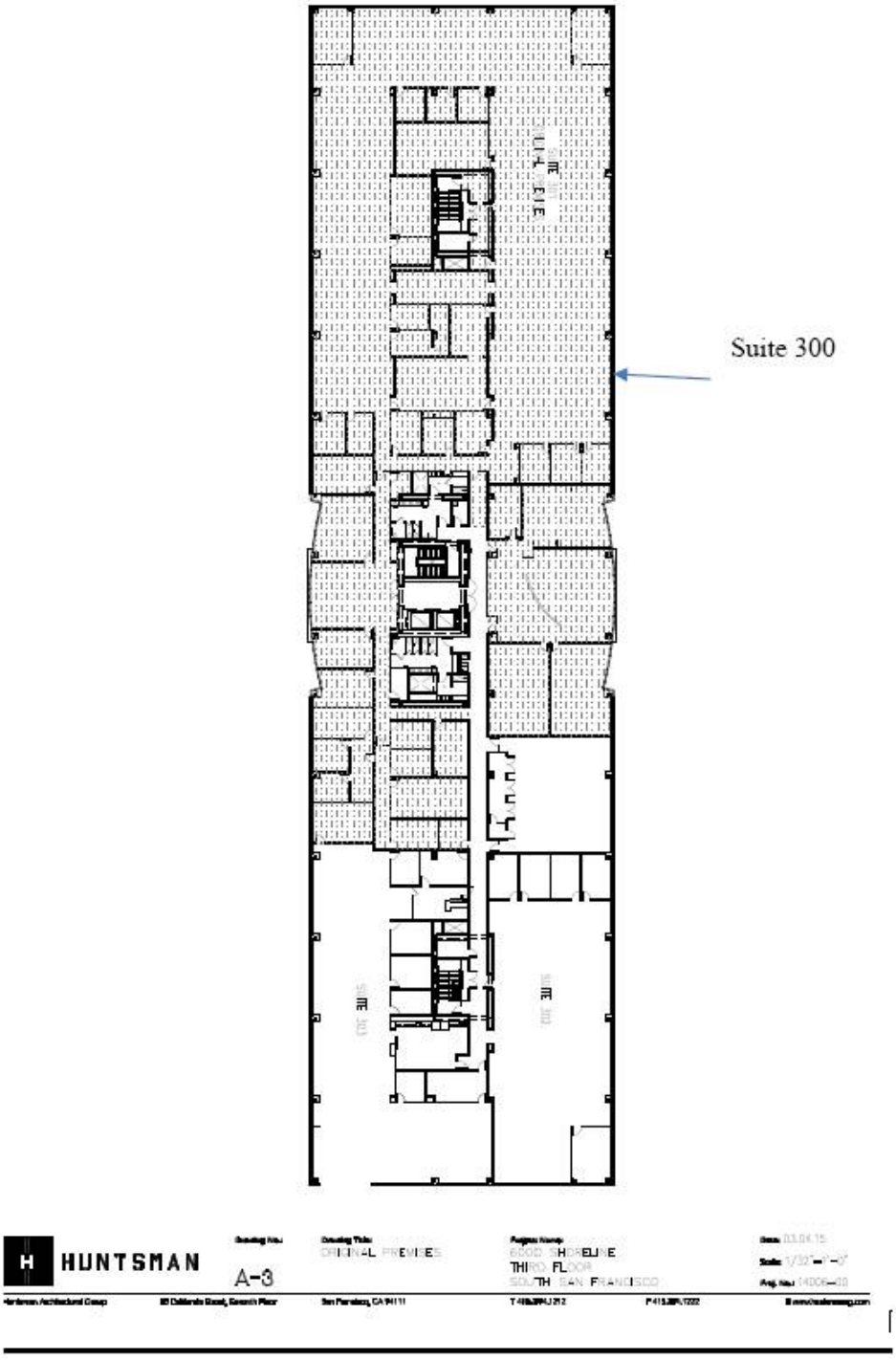

EXHIBIT B-1

FLOOR PLAN OF FIRST EXPANSION SPACE

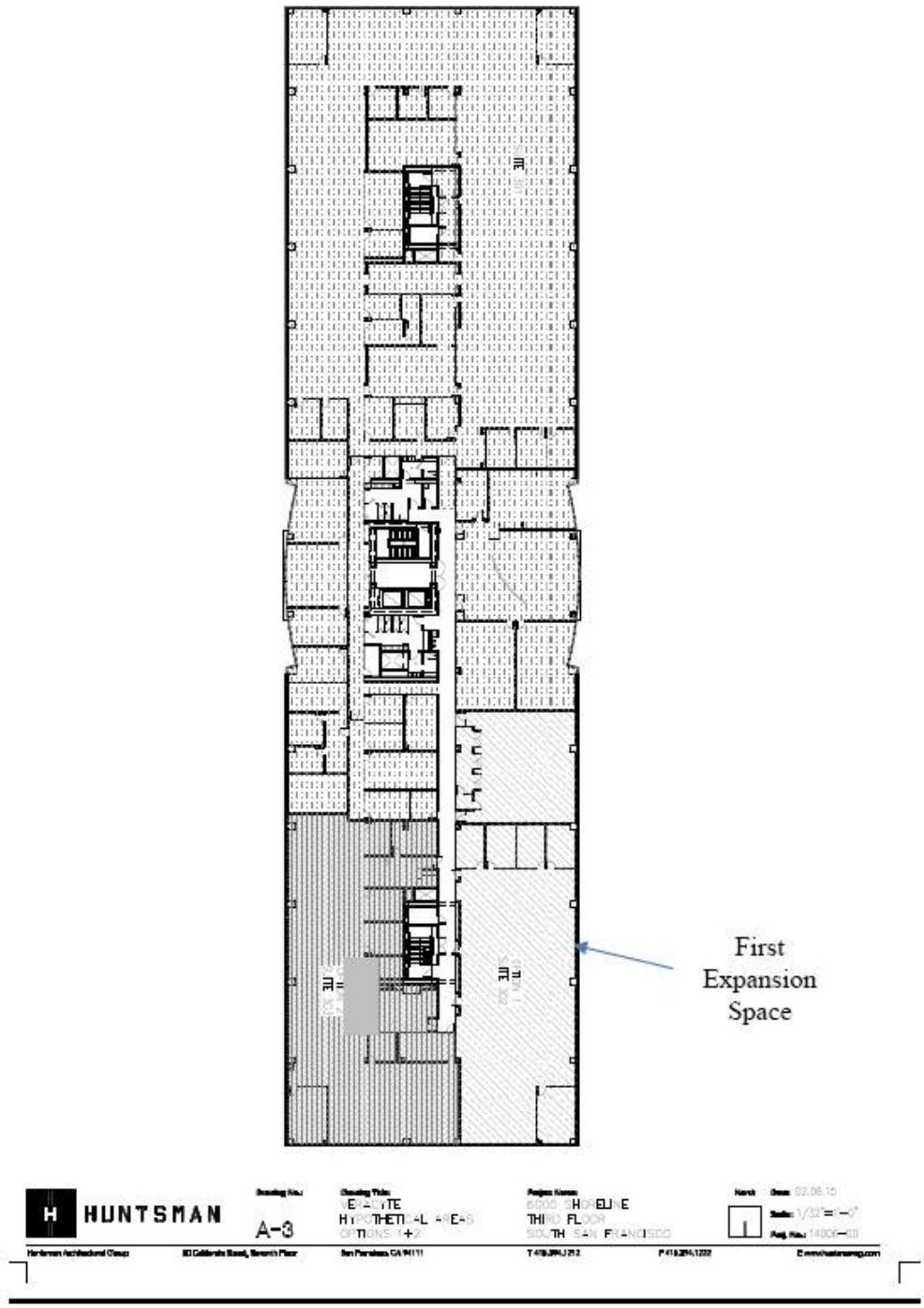

EXHIBIT B-2

FLOOR PLAN OF SECOND EXPANSION SPACE

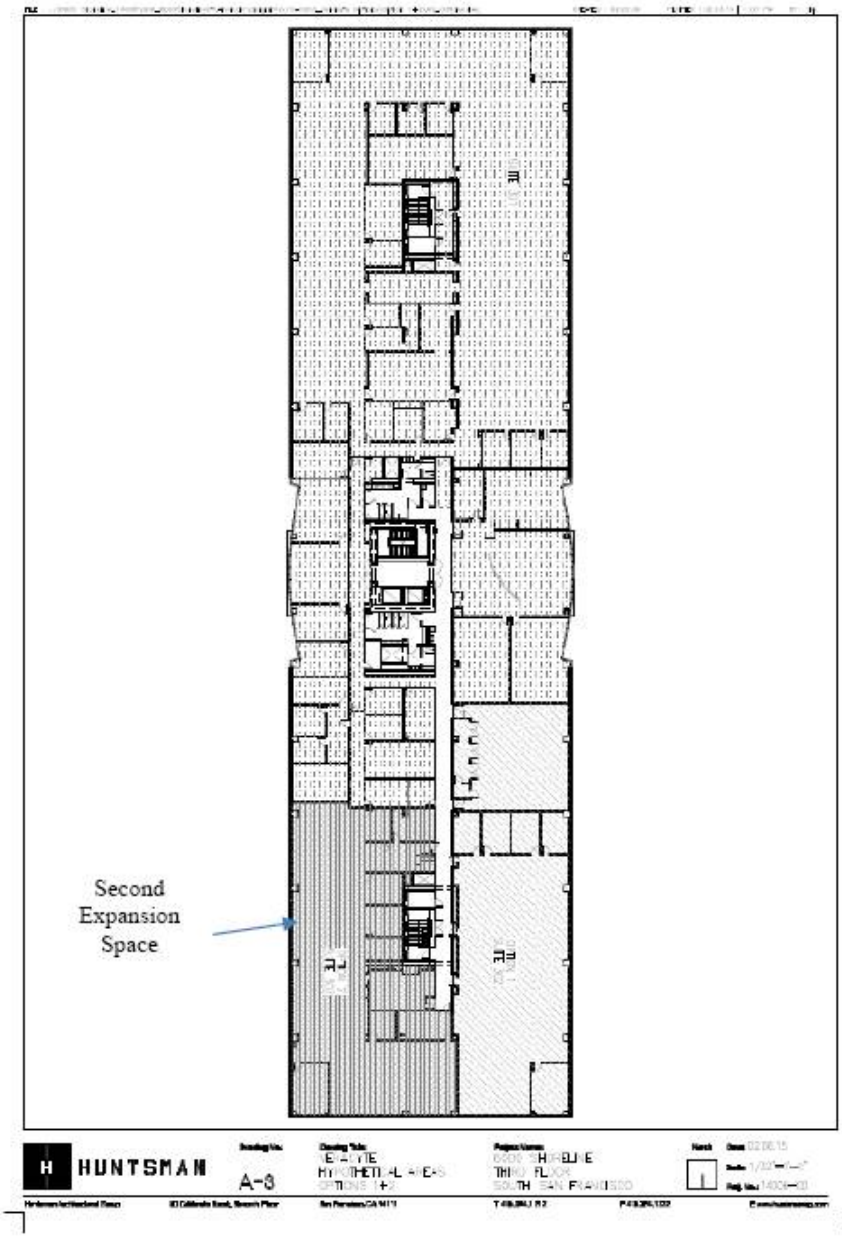

EXHIBIT B-3

FLOOR PLAN OF THIRD EXPANSION SPACE

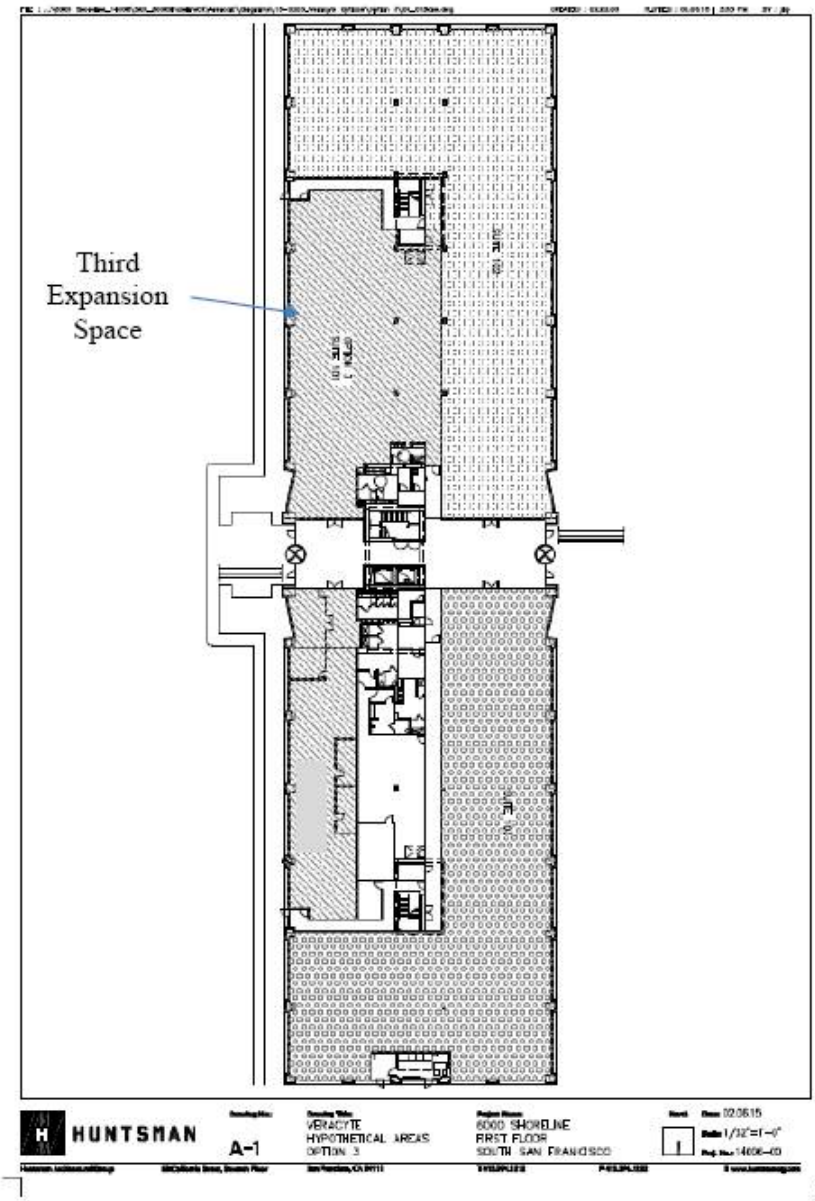

EXHIBIT C

WORK LETTER

This Tenant Work Letter ("Tenant Work Letter") shall set forth the terms and conditions relating to the construction of the Premises. All references in this Tenant Work Letter to the "Lease" shall mean the relevant portions of the Lease to which this Tenant Work Letter is attached as Exhibit C. Unless otherwise expressly defined herein, all initially-capitalized terms herein shall have the meaning ascribed to them in the Lease.

SECTION 1

BASE, SHELL AND CORE

Landlord has previously constructed the base, shell and core (i) of the Premises and (ii) of the floor(s) of the Building on which the Premises are located (collectively, the "Base, Shell and Core"), and Tenant shall accept the Base, Shell and Core pursuant and subject to the terms and conditions of the Lease, including Section 4(a) thereof.

SECTION 2

TENANT IMPROVEMENTS

2.1 Tenant Improvement Allowance. Tenant shall be entitled to (i) a tenant improvement allowance in the amount of up to, but not exceeding Seventy-Five Dollars ($75.00) per rentable square foot of the ground floor portion of the Premises (i.e., up to One Million One Hundred Twenty-Four Thousand One Hundred Dollars ($1,124,100.00) based on 14,988 rentable square feet of the ground floor portion of the Premises) (the "Allowance A"), (ii) a tenant improvement allowance in the amount of up to, but not exceeding, Thirty Dollars ($30.00) per rentable square foot of the third floor portion of the Premises (i.e., up to Nine Hundred Seventy-Two Thousand Four Hundred Eighty Dollars ($972,480.00) based on 32,416 rentable square feet in the third floor

portion of the Premises) (the "Allowance B"), (iii) a tenant improvement allowance in an amount of up to, but not exceeding, One Hundred Fifty Thousand Dollars ($150,000.00) ("Allowance C") for the installation of (a) a staging and receiving area into the Building off of the parking lot, (b) supplemental HVAC units on the roof of the Building serving the ground floor portion of the Premises (the "Tenant Rooftop Unit(s)"), and (c) an emergency generator and pad enclosed in an area outside of the Building selected by Landlord, (iv) an additional allowance equal to Five Hundred Thousand Dollars ($500,000.00) ("Allowance D") and (v) a tenant improvement allowance up to but not exceeding Fifty Dollars ($50.00) per rentable square foot of the second floor portion of the Premises (i.e., up to Five Hundred Sixty-One Thousand Fifty Dollars ($561,050.00) based on 11,221 rentable square feet in the second floor portion of the Premises ("Allowance E"), together with Allowance A, Allowance B, Allowance C and Allowance D, are collectively referred to herein as the "Allowances") to help Tenant pay for the costs of Tenant's alterations and improvements to the Premises, Building and/or the Land (collectively, the "Tenant Improvements"), including the design, permitting and construction thereof; provided, however, that Landlord shall have no obligation to disburse all or any portion of the Allowances to Tenant unless Tenant makes a request for disbursement pursuant to the terms

and conditions of Section 2.2 below prior to (y) that date which is twelve (12) months after the Rent Commencement Date (which period shall be extended on a day for day basis for each day of Force Majeure delay and/or Landlord Delay) with respect to Allowance C and any Tenant Improvements installed in the Premises prior to the exercise of Tenant's exercise of its right to the First Expansion Space, the Second Expansion Space, and/or the Third Expansion Space, as the case may be, or (z) the date that is twelve (12) months after the Expansion Space Commencement Date for the First Expansion Space, the Second Expansion Space and/or the Third Expansion Space (which period shall be extended on a day for day basis for each day of Force Majeure delay and/or Landlord Delay), with respect to any Tenant Improvements installed within the applicable Expansion Space or otherwise within the Building or the Premises in connection therewith. In addition to the foregoing, in the event that Tenant exercises its right to the First Expansion Space, the Second Expansion Space and/or the Third Expansion Space, (A) Tenant shall be entitled to an additional tenant improvement allowance in connection with each such Expansion Space (each an "Expansion Improvement Allowance"), which Expansion Improvement Allowances shall be in amounts equal to the product of the Rentable Square Footage of the applicable Expansion Space and the applicable per square foot amount for the improvement allowance specified in Section 54 of the Lease, and (B) the Expansion Improvement Allowances shall be added and included as part of the "Allowances" for the purposes of this Tenant Work Letter. Notwithstanding anything to the contrary herein, Tenant shall have the right, in its sole discretion, to apply any, or the entire portion, of each of Allowance A, Allowance B, and Allowance D to Tenant Improvements on any floor of the Building or any exterior portions of the Building and/or Land where the Tenant Improvements may be situated. Without deduction from the Allowances, Landlord shall also pay for the cost of one (1) initial space plan and one (1) revision. In no event shall Landlord be obligated to make disbursements pursuant to this Tenant Work Letter in a total amount which exceeds the Allowances. Tenant shall not be entitled to receive any cash payment or credit against Rent or otherwise for any unused portion of the Allowances which is not used to pay for the Tenant Improvement Allowance Items (as defined below).

2.2 Disbursement of the Tenant Improvement Allowance.

2.2.1 Tenant Improvement Allowance Items. Except as otherwise set forth in this Tenant Work Letter, the Allowances shall be disbursed by Landlord for the actual documented costs of the design, permitting, construction and installation of the Tenant Improvements, including, without limitation, the following items and costs (collectively, the "Tenant Improvement Allowance Items"):

2.2.1.1 Payment of (i) the fees of the Architect and the Engineers (as such terms are defined below), provided, however, that only an amount not to exceed Six Dollars ($6.00) per rentable square foot of the Premises (i.e., up to Three Hundred Fifty-One Thousand Seven Hundred Fifty Dollars ($351,750.00) based on 58,625 rentable square feet of the Premises) may be deducted from the Tenant Improvement Allowance to pay for such fees, and (ii)the fees incurred by, and the cost of documents and materials supplied by, Landlord and Landlord's consultants in connection with the preparation and review of the Construction Drawings (as defined below);

2.2.1.2 The payment of plan check, permit and license fees relating to construction of the Tenant Improvements;

2.2.1.3 The cost of construction of the Tenant Improvements, including, without limitation, contractors' fees and general conditions, testing, commissioning, and inspection costs, costs of utilities, trash removal, parking and hoists;

2.2.1.4 The cost of any changes in the Base, Shell and Core work when such changes are required by the Construction Drawings (including if such changes are due to the fact that such work is prepared on an unoccupied basis), such cost to include all direct architectural and/or engineering fees and expenses incurred in connection therewith;

2.2.1.5 The cost of any changes to the Construction Drawings or Tenant Improvements required by applicable laws;

2.2.1.6 Sales and use taxes and Title 24 fees;

2.2.1.7 The Coordination Fee (as defined below); and

2.2.1.8 All other costs to be expended by Tenant in connection with the design, permitting and construction of the Tenant Improvements; and

2.2.2 Disbursement of Allowances. Subject to Section 2.1 above, during the construction of the Tenant Improvements, Landlord shall make monthly disbursements of the Allowances for Tenant Improvement Allowance Items for the benefit of Tenant and shall authorize the release of monies for the benefit of Tenant as follows:

2.2.2.1 Monthly Disbursements. From time to time during the construction of the Tenant Improvements (but no more frequently than monthly), Tenant may deliver to Landlord: (i) a request for payment of the Contractor (as defined below), in a commercially reasonable form; (ii) invoices from those Tenant's Agents (as defined below) seeking payment for labor rendered and materials delivered to the Premises; and (iii) executed conditional mechanic's lien releases from those Tenant's Agents seeking payment pursuant to Tenant's request for payment, which releases shall comply with the appropriate provisions of California Civil Code Section 8132. Following Landlord's receipt of a completed disbursement request submission, Landlord

shall promptly (and in no event later than ten (10) business days following Landlord's receipt of a completed disbursement request submission) deliver a check to Tenant made jointly payable to the Contractor and Tenant in payment of the lesser of (A) the amounts so requested by Tenant, as set forth in this Section 2.2.2.1, above, less a ten percent (10%) retention (the aggregate amount of such retentions to be known as the "Final Retention") and (B) the balance of any remaining available portion of the Allowances (not including the Final Retention), provided that Landlord does not, within five (5) business days of Landlord's receipt of a request for payment, reasonably dispute in writing such request for payment based on material non-compliance of any work with the Approved Working Drawings (as defined below), as the same may be modified pursuant to the terms hereof, which writing shall include a reasonably detailed explanation of the basis for Landlord's reasonable dispute. In the event that Landlord timely disputes a request for payment, (y) if Tenant agrees with Landlord's conclusion, then Tenant shall remedy such material non-compliance and notify Landlord in writing of such non-compliance, in which event the applicable portion of the Allowances shall be disbursed by Landlord as part of the disbursement of the Allowance by Landlord that follows such remedy and notice to Landlord by Tenant or (z) if

Tenant disagrees with Landlord's conclusion, then Tenant shall have the right to have such disagreement resolved pursuant to the terms of Section 5.6 of this Tenant Work Letter. Landlord's payment of such amounts shall not be deemed Landlord's approval or acceptance of the work furnished or materials supplied as set forth in Tenant's payment request.

2.2.2.2 Final Retention. Subject to the provisions of this Tenant Work Letter, a check for the Final Retention payable jointly to Tenant and Contractor shall be delivered by Landlord to Tenant following the completion of construction of the Premises, provided that (i) Landlord has approved (or is deemed to have approved) the Tenant Improvements pursuant to Section 4.2.5 of this Tenant Work Letter; and (ii) Tenant has delivered to Landlord: (A) properly executed and final unconditional mechanics lien releases in compliance with the appropriate provisions of California Civil Code Section 8138; (B) a certificate of occupancy (or its legal equivalent if a certificate is not available) or permit cards signed off by the City of South San Francisco (the "City") with respect to the Premises; (C) a copy of the City-permitted plans for the Tenant Improvements; (D) where reasonably available, operation manuals and warranties for equipment included within the Tenant Improvements, if applicable; (E) a copy of Tenant's construction contract with the Contractor; and (G) the Contractor's schedule of values, showing total contract value.

2.2.2.3 Other Terms. Landlord shall only be obligated to make disbursements of the Allowances to the extent costs are incurred by Tenant for Tenant Improvement Allowance Items.

SECTION 3

CONSTRUCTION DRAWINGS

3.1 Selection of Architect/Construction Drawings. Tenant has retained (with Landlord's consent) DGA as Tenant's architect/space planner (the "Architect") to prepare the Construction Drawings. Tenant shall have the right to submit the names of additional architects to Landlord for Landlord's reasonable approval. Tenant shall retain engineering consultants designated by Tenant and reasonably approved by Landlord (which may be employees or contractors of the Architect) (the "Engineers") to prepare all plans and engineering working drawings relating to the structural, mechanical, electrical, plumbing, HVAC, life-safety, and sprinkler work in the Premises (the approval of which by Landlord shall not be unreasonably withheld, conditioned or delayed). Tenant shall have the right to submit the names of additional engineers to Landlord for Landlord's reasonable approval. Notwithstanding anything to the contrary herein, except to the extent that an alternative process or set of time frames is expressly set forth in this Tenant Work Letter, the following (the "Landlord Approval Process") shall apply to all items and matters requiring Landlord's approval or consent pursuant to this Tenant Work Letter (including Landlord's approval of the Architect, the Engineers, the Final Test Fit Plan and the Construction Drawings): (i) within five (5) business days of Landlord's receipt from Tenant of a written request for approval of an item or matter, Landlord shall respond to Tenant in writing either approving such item or matter, or reasonably disapproving such item or matter, which reasonable disapproval shall include a reasonably detailed explanation of the basis therefor; (ii) Landlord's failure to respond to a request for approval of an item or matter within such five (5) business day period, if such failure continues for an additional two (2) business days after Tenant's

second request, shall be deemed to be Landlord's approval of such item or matter; (iii) if Landlord timely and reasonably disapproves of such item or matter, (a) if Tenant agrees with Landlord's conclusion, then Tenant shall have the right to remedy the basis of such disapproval and resubmit the item or matter for Landlord's approval, in which event the foregoing process shall recommence or (b) if Tenant disagrees with Landlord's conclusion, then Tenant shall have the right to have such disagreement resolved pursuant to Section 5.6 of this Tenant Work Letter. The plans and drawings to be prepared by Architect and the Engineers hereunder shall be known collectively as the "Construction Drawings." All Construction Drawings shall be in PDF format and shall be in substantial accordance with industry standard, and shall be subject to Landlord's reasonable approval. Tenant and Architect shall have the right, but not the obligation, to verify, in the field, the dimensions and conditions as shown on the relevant portions of the base building plans; provided, however that Landlord shall retain responsibility in connection therewith to the extent that Landlord is responsible for same pursuant to the Lease. Landlord's review of the Construction Drawings as set forth in this Section 3, shall be for its sole purpose and shall not imply Landlord's review of the same, or obligate Landlord to review the same, for quality, design, Code compliance or other like matters. Accordingly, notwithstanding that any Construction Drawings are reviewed by Landlord or its space planner, architect, engineers and consultants, and notwithstanding any advice or assistance which may be rendered to Tenant by Landlord or Landlord's space planner, architect, engineers, and consultants, Landlord shall have no liability whatsoever for such review, advice or assistance and shall not be responsible for any omissions or errors contained in the Construction Drawings unless the same is the direct result of Landlord required changes to the Construction Drawings.

3.2 Test Fit Plan. Tenant shall supply Landlord with four (4) copies signed by Tenant of its final test fit plan for the Premises before any architectural working drawings or engineering drawings have been commenced. The final space plan (the "Final Test Fit Plan") shall include a layout and designation of all offices, rooms and other partitioning, and their intended use. Landlord may reasonably request clarification or more specific drawings for special use items not included in the Final Test Fit Plan. Within five (5) business days after Landlord's receipt of the Final Test Fit Plan for the Premises, Landlord shall either approve the Final Test Fit Plan or reasonably disapprove the same, which reasonable disapproval shall include a reasonably detailed explanation of the basis therefor, and the Landlord Approval Process shall apply.

3.3 Final Working Drawings. After the Final Test Fit Plan has been approved by Landlord and Tenant, Tenant shall cause the Architect and the Engineers to complete the architectural and engineering drawings for the Premises, and cause the Architect to annotate the Final Test Fit Plan in a manner which is sufficient to allow subcontractors to bid on the work and to obtain all applicable permits for the Tenant Improvements (collectively, the "Final Working Drawings"), and shall submit the same to Landlord for Landlord's reasonable approval. Tenant shall supply Landlord with four (4) copies signed by Tenant of such Final Working Drawings. Within five (5) business days after Landlord's receipt of the Final Working Drawings, Landlord shall either approve the Final Working Drawings or reasonably disapprove the same, which reasonable disapproval shall include a reasonably detailed explanation of the basis therefor, and the Landlord Approval Process shall apply.

3.4 Approved Working Drawings. The Final Working Drawings shall be approved (or deemed approved) by Landlord (the "Approved Working Drawings") pursuant to the Landlord

Approval Process prior to the commencement of construction of the Premises by Tenant. After approval or deemed approval by Landlord of the Final Working Drawings, Tenant shall submit the same to the appropriate governmental authorities for all applicable building permits. Tenant hereby agrees that neither Landlord nor Landlord's consultants shall be responsible for obtaining any building permit or certificate of occupancy for the Premises and that obtaining the same shall be Tenant's responsibility; provided, however, that Landlord shall cooperate with Tenant in executing permit applications and performing other acts reasonably necessary to enable Tenant to obtain any such permit or certificate of occupancy. Except as otherwise provided below in this paragraph, no changes, modifications or alterations (collectively "Changes") in the Approved Working Drawings may be made without the prior written consent of Landlord, which consent shall not be unreasonably withheld.

SECTION 4

CONSTRUCTION OF THE TENANT IMPROVEMENTS

4.1 Tenant's Selection of Contractor and Tenant's Agents.

4.1.1 The Contractor. Tenant shall select and retain a general contractor to construct the Tenant Improvements through a competitive bidding process, and Landlord hereby approves the following general contractors: BN Builders; XL Construction; Dome Construction; and Landmark Builders Inc. Tenant shall have the right to submit the names of additional general contractors to Landlord for Landlord's reasonable approval. Tenant shall reasonably select the general contractor from the bidders reasonably approved by Landlord. Tenant may, but shall not be required to select the contractor submitting the lowest bid; provided, however, that Tenant shall select the general contractor based upon commercially reasonable factors, which factors shall include cost. Following such competitive bidding process and Tenant's selection of a general contractor in accordance with the terms hereof, Tenant shall deliver to Landlord notice of its selection of the general contractor upon such selection, which contractor shall thereafter be the "Contractor" hereunder.

4.1.2 Tenant's Agents. All subcontractors, laborers, materialmen, and suppliers used by Tenant (such subcontractors, laborers, materialmen, and suppliers, and the Contractor to be known collectively as "Tenant's Agents") must be approved in writing by Landlord, which approval shall not be unreasonably withheld or delayed; provided that, in any event, Tenant must contract with Landlord's base building subcontractors for connecting Tenant's electrical system to the base building electrical system.

4.2 Construction of Tenant Improvements by Tenant's Agents.

4.2.1 Construction Contract; Cost Budget. Within ten (10) business days following Tenant's execution of the construction contract and general conditions with Contractor (the "Contract"), Tenant shall deliver a copy thereof to Landlord. Prior to the commencement of the construction of the Tenant Improvements, and after Tenant has accepted all bids for the Tenant Improvements, Tenant shall provide Landlord with a written detailed cost breakdown (the "Final Costs Statement") of the estimated final costs to be incurred, or which have been incurred, as set forth more particularly in Section 2.2.1.1 through 2.2.1.8 above, in connection with the design,

permitting and construction of the Tenant Improvements to be performed by or at the direction of Tenant or the Contractor (which costs form a basis for the amount of the Contract, if any (the "Final Costs").

4.2.2 Tenant's Agents.

4.2.2.1 Landlord's General Conditions for Tenant's Agents and Tenant Improvement Work. Tenant's and Tenant's Agents' construction of the Tenant Improvements shall comply with the following: (i) the Tenant Improvements shall be constructed in accordance with the Approved Working Drawings (as the same may be modified pursuant to the terms hereof) in all material respects; and (ii) Tenant shall abide by commercially reasonable rules made by Landlord's Building contractor or Landlord's Building manager ("Rules of Site") with respect to the use of freight, loading dock and service elevators, storage of materials, coordination of work with the contractors of other tenants, and any other matter in connection with this Tenant Work Letter, including, without limitation, the construction of the Tenant Improvements. The Rules of Site may be promulgated and amended from time to time; provided, however, that any amendments to the Rules of Site shall not be binding on Tenant, Contractor or Tenant's Agents unless the same are commercially reasonable and not until the same have been delivered in writing to Tenant and Contractor, and then only on a prospective basis. Amendments to the Rules of Site shall be reasonable and shall be consistent with the terms of the Lease and this Tenant Work Letter, and in the event of any conflict between the Lease and this Tenant Work Letter, on the one hand, and any such amendments, on the other hand, the Lease and this Tenant Work Letter shall control. Notwithstanding the foregoing, the freight, loading dock and service elevators shall otherwise be made available to Tenant, Contractor and Tenant's Agents on a non-exclusive basis, and Tenant, Contractor and Tenant's Agents shall have access to the Building, the Premises and the MPOE 24/7 until the Tenant Improvements have been completed. Landlord shall reasonably cooperate with Tenant, Contractor and Tenant's Agents during the course of construction of the Tenant Improvements.

4.2.2.2 Coordination Fee. Tenant shall pay a logistical coordination fee (the "Coordination Fee") to Landlord in an amount equal to the product of (i) three percent (3%), and (ii) the sum of the Allowances, which Coordination Fee shall be for services relating to the coordination of the

construction of the Tenant Improvements and shall be deducted by Landlord from the Allowances; provided, however, in no event shall such Coordination Fee exceed Fifty Thousand Dollars ($50,000.00).

4.2.2.3 Indemnity. Tenant shall indemnify, defend and hold Landlord harmless from and against any and all mechanic's, materialman's or other liens or claims (and all reasonable out-of-pocket costs or expenses associated therewith) asserted or filed against Landlord, the Building or the Land arising out of the non-payment of any person or entity constructing, installing or supplying the Tenant Improvements on behalf of Tenant or the Contractor.

4.2.2.4 Insurance Requirements.

4.2.2.4.1 Intentionally Omitted.

4.2.2.4.2 Special Coverages. Tenant or the Contractor shall carry "Builder's Risk" insurance in an amount equal to the full replacement cost of the improvements being constructed by Tenant, it being understood and agreed that the Tenant Improvements shall be insured by Tenant pursuant to the Lease immediately upon completion thereof. Such insurance shall be in form and with companies as are required to be carried by Tenant as set forth in the Lease.

4.2.2.4.3 General Terms. The insurance carried by Tenant's Agents shall comply with all of the requirements of Exhibit E including, but not limited to, notice of cancellation and naming of additional insureds. The requirements for the foregoing insurance shall not derogate from the provisions for indemnification of Landlord by Tenant under Section 4.2.2.3 of this Tenant Work Letter.

4.2.3 Governmental Compliance. The Tenant Improvements shall be installed and constructed in compliance in all respects with all applicable state, federal, city laws, codes, ordinances and regulations, as each may apply according to the lawful rulings of the controlling public official, agent or other person.

4.2.4 Inspection by Landlord. Landlord shall have the right at all reasonable times during the construction of the Tenant Improvements on not less than twenty-four (24) hours prior written notice to Tenant and the Contractor to visually inspect the Tenant Improvements to reasonably determine if they are in conformity with the Approved Working Drawings (as the same may be modified pursuant to the terms hereof) in all material respects, provided however, that such inspections shall not interfere with the construction of the Tenant Improvements and Landlord's failure to inspect the Tenant Improvements shall in no event constitute a waiver of any of Landlord's rights hereunder nor shall Landlord's mere inspection of the Tenant Improvements constitute Landlord's approval of the same. If pursuant to any inspection Landlord determines that the Tenant Improvements are not in conformity with the Approved Working Drawings in all material respects, Tenant shall notify Contractor of such alleged non-compliance in writing within twenty-four (24) hours after the end of the applicable inspection.

4.2.5 Defects or deviations in, and/or disapproval by Landlord of, the Tenant Improvements shall be rectified by Tenant at no expense to Landlord, provided however, that if Landlord determines that a defect or deviation exists or disapproves of any matter in connection with any portion of the Tenant Improvements and such defect, deviation or matter might adversely affect the mechanical, electrical, plumbing, HVAC or life-safety systems of the Building, the structure or exterior appearance of the Building or any other tenant's use of such other tenant's leased premises, Landlord may, take such action as Landlord deems necessary, at Tenant's expense and without incurring any liability on Landlord's part, to correct any such defect, deviation and/or matter, including, without limitation, causing the cessation of performance of the construction of the Tenant Improvements until such time as the defect, deviation and/or matter is corrected to Landlord's satisfaction.

4.2.6 Meetings. During the design and construction of the Tenant Improvements, Tenant shall hold weekly or less frequent meetings at mutually convenient times with representatives of the Architect and the Contractor regarding the progress of the preparation of Construction Drawings and, if applicable, the construction of the Tenant Improvements, which

meetings shall be held at a location designated by Tenant or by phone, and Landlord's representative shall receive prior notice of, and shall have the right to attend, all such meetings. Notwithstanding the foregoing, each of Tenant, Contractor, Architect and Landlord shall have the right to attend such meetings telephonically.

4.3 Notice of Completion; Copy of "As Built" Plans. If Tenant fails to do so following written notice by Landlord of such failure and an additional ten (10) days following Tenant's receipt of such notice, then Landlord may execute and file the same on behalf of Tenant as Tenant's agent for such purpose, at Tenant's sole cost and expense. At the conclusion of construction, (i) Tenant shall use commercially reasonable efforts to cause the Architect and Contractor (A) to update the Approved Working Drawings as necessary to reflect all changes made to the Approved Working Drawings during the course of construction, (B) to certify to their actual knowledge that the "record-set" of as-built drawings are true and correct, which certification shall survive the expiration or termination of the Lease, (C) to deliver to Landlord two (2) sets of such as-built drawings within ninety (90) days following issuance of a certificate of occupancy for the Premises, and (D) to deliver to Landlord a computer disk containing the Approved Working Drawings in AutoCAD format, and (ii) Tenant shall deliver to Landlord a copy of all warranties, guaranties, and operating manuals relating to the improvements, equipment and systems installed in the Premises as part of the Tenant Improvements, in each case without expense to Tenant and to the extent in Tenant's possession or control.

4.4 Coordination by Tenant's Agents with Landlord. Upon Tenant's delivery of the Contract to Landlord under Section 4.2.1 of this Tenant Work Letter, Tenant shall furnish Landlord with a non-binding, estimated schedule setting forth the projected date of the completion of the Tenant Improvements and showing the critical time deadlines for each phase of the construction of the Tenant Improvements.

SECTION 5

MISCELLANEOUS

5.1 Tenant's Representative. Tenant has designated Jennifer Pratt Mead as a representative of Tenant with respect to the design, construction, and other operational matters set forth in this Tenant Work Letter, who until further notice to Landlord, shall have full authority and responsibility to act on behalf of Tenant as to such matters as provided in this Tenant Work Letter. Notwithstanding the foregoing, no amendments to this Lease or Tenant's execution of other contracts or agreements purporting to bind Tenant shall be binding upon Tenant unless the same is/are executed by duly authorized officers of Tenant.

5.2 Landlord's Representative. Landlord has designated Wayne Wiebe as a representative with respect to the design, construction, and other operational matters set matters set forth in this Tenant Work Letter, who, until further notice to Tenant, shall have full authority and responsibility to act on behalf of Landlord as to such matters as provided in this Tenant Work Letter.

5.3 Time of the Essence in This Tenant Work Letter. Unless otherwise indicated, all references herein to a "number of days" shall mean and refer to calendar days. If any item requiring

approval is timely disapproved by Landlord, the procedure for preparation of the document and approval thereof shall be repeated until the document is approved by Landlord.

5.4 Tenant's Lease Default. Notwithstanding any provision to the contrary contained in the Lease, if an event of a monetary default or material non-monetary default by Tenant of this Tenant Work Letter (as such event is described in Section 5.5 below) or the Lease (as such event is described in Section 25 of the Lease) has occurred and exists beyond the applicable notice and cure period set forth herein or in the Lease at any time on or before the substantial completion of the Tenant Improvements, then (i) in addition to all other rights and remedies granted to Landlord pursuant to the Lease, at law and/or in equity, Landlord shall have the right to withhold payment of all or any portion of the Allowances and/or Landlord may cause Contractor to cease the construction of the Premises (in which case, Tenant shall be responsible for any delay in the substantial completion of the Premises caused by such work stoppage), and (ii) the continuing obligations of Landlord under the terms of this Tenant Work Letter shall be suspended until such time as such monetary default or material non-monetary default is cured pursuant to the terms of this Tenant Work Letter and the Lease (in which case, Tenant shall be responsible for any delay in the substantial completion of the Premises caused by such inaction by Landlord); provided, however, that once such monetary default or material non-monetary default is cured, Landlord's suspended obligations, including, without limitation, Landlord's obligation to disburse the Allowances, shall be fully reinstated and resumed, effective immediately.

5.5 Tenant's Work Letter Default. It shall be event of default of Tenant under this Work Letter if Tenant fails to observe or perform any provision, covenant or condition of this Tenant Work Letter to be observed or performed by Tenant where such failure continues for thirty (30) days after written notice thereof from Landlord to Tenant; provided, however, that if the nature of such event of default is such that the same cannot reasonably be cured within a thirty (30)-day period, Tenant shall not be deemed to be in default if it diligently commences such cure within such period and thereafter diligently proceeds to rectify and cure said default as soon as reasonably possible.

EXHIBIT D

TENANT ACCEPTANCE LETTER

[Letterhead of Tenant]

Date: 6/3/15

AMERICAN FUND US INVESTMENTS LP
c/o Real Estate Capital Partners
114 West 47th Street, 23rd Floor
New York, New York 10036
Attention: [ ]

Attention:

Re: Office Building Lease (the "Lease") dated April 29, between American Fund US Investments LP ("Landlord") and Veracyte, Inc. ("Tenant")

Premises: Suites: 100, 200 and 300, 6000 Shoreline Court, South San Francisco, California 94080.

The undersigned, as Tenant, hereby confirms as of this 10th day of June, 2015, the following:

1. Tenant has accepted possession of the Premises on June 1, 2015 and is currently occupying same.

2. The Commencement Date, Rent Commencement Date and Expiration Date, as each is defined in the Lease, are as follows:

Commencement Date:	June 1, 2015
Rent Commencement Date:	April 1, 2016
Expiration Date:	March 31, 2026

3. As of the date hereof, Landlord has fulfilled all of its obligations under the Lease.

4. The Lease is in full force and effect and has not been modified, altered, or amended, except pursuant to any instruments described above.

5. There are no offsets or credits against Base Rent or Additional Rent, nor has any Base Rent or Additional Rent been prepaid except as provided pursuant to the terms of the Lease.

6. Tenant has no notice of any prior assignment, hypothecation, or pledge of the Lease or any rents due under the Lease.

Very truly yours,
[Tenant]
By: /s/ Julie Brooks
Title: EVP, General Counsel

EXHIBIT E

TENANT ESTOPPEL CERTIFICATE

Name of Tenant: _____
Premises: Suites 100, 200 and 300
6000 Shoreline Court
South San Francisco, CA 94080

[name and address of lender or purchaser]

Ladies and Gentlemen:

("Tenant") acknowledges that ("Lender") is or is about to become the holder of a loan (the "Loan") secured by a mortgage covering the interest of AMERICAN FUND US INVESTMENTS LP, a Delaware limited partnership ("Landlord") in the building located at 6000 Shoreline Court, South San Francisco, California 94080 (the "Building"). Landlord has requested Tenant execute and deliver this Tenant Estoppel Certificate to Lender. Tenant acknowledges that Lender, and its successors and assigns, will rely upon the certifications by Tenant in this Tenant Estoppel Certificate in connection with the Loan.

Tenant hereby certifies to Lender and its successors and assigns, as follows:

1. Tenant currently leases approximately rentable square feet ("Premises") on the ( ) floor of the Building pursuant to the terms and conditions of the Office Building Lease dated , 20 between Landlord and Tenant (the "Lease"). Except for the Lease and [LIST OTHER DOCUMENTS IF ANY], there are no agreements (written or oral) or documents executed by Landlord and Tenant which are binding on Landlord in connection with the lease of the Premises. The Lease is valid, binding and in full force and effect, and has not been modified or amended in any manner whatsoever except as described herein.

2. The term of the Lease [commenced] [shall commence] on and including any presently exercised option or renewal term, ends on , subject to any rights of Tenant to early termination or extension expressly set forth in the Lease. Tenant has no right to extend the term of the Lease except to the extent expressly set forth in the Lease.

3. [ONLY IF DELIVERY HAS OCCURRED] Landlord has delivered possession of the Premises to Tenant, and Tenant has accepted possession of, and currently occupies, the Premises.

4. [ONLY IF RENT HAS COMMENCED]The current monthly base rent payable under the Lease is and the current monthly payment payable under the Lease on account of taxes is and on account of operating expenses is . Tenant's percentage share of operating expenses (including, without limitation, real estate taxes) is %. Rent and all other charges payable under the Lease on or before the

date hereof have been paid through . No amounts of monthly base rent payable under the Lease have been prepaid except through the end of the current calendar month, and no other charges payable under the Lease have been prepaid for any period, other than estimated payments of operating expenses and taxes.

5. Except as set forth below, all reconciliations of operating expenses for calendar year and all previous calendar years ("Expenses") with payments made by Tenant therefor have been made and a report thereof delivered to Tenant. Except as set forth below, Tenant has not made and has no objections to such reconciliation, and waives all claims against Landlord for any overpayment of or other amounts with respect to the Expenses. LIST EXCEPTIONS: .

6. Except to the extent expressly set forth in the Lease, Tenant has no options, rights of offer, rights of refusal or other rights to purchase all or any portion of the Building. Tenant has no options, rights of offer, rights of refusal or other rights to expand the Premises or lease any other premises in the Building, except to the extent expressly set forth in the Lease.

7. Except as set forth below, to Tenant's actual knowledge, Tenant has no current claims against Landlord under the terms of the Lease requiring Landlord to perform any improvements or repairs to the Premises, and all allowances, reimbursements or other obligations of Landlord for the payment of monies to or for the benefit of Tenant have been fully paid, all in accordance with the terms of the Lease. LIST EXCEPTIONS:

.

8. Except as set forth below, to Tenant's actual knowledge, neither Landlord nor Tenant is in default in the performance of any covenant, agreement or condition contained in the Lease, and no event has occurred and no condition exists which, with the giving of notice or the lapse of time, or both, would constitute a default by any party under the Lease. Except as set forth below, to Tenant's actual knowledge, Tenant has no defenses, counterclaims, liens or claims of offset or credit under the Lease or against rents, or any other claims against Landlord. LIST EXCEPTIONS:

.

9. Tenant is not the subject of any bankruptcy, insolvency or similar proceeding in any federal, state or other court or jurisdiction.

10. Except as set forth below, Tenant is in possession of the premises and has not subleased any portion of the Premises or assigned or otherwise transferred any of its rights under the Lease. LIST EXCEPTIONS: .

11. Tenant has deposited $ with Landlord as a security deposit or letter of credit.

12. Except as set forth below, no parties have guaranteed the performance of any of tenant's obligations under the Lease.

13. The individual executing this Tenant Estoppel Certificate has the authority to do so on behalf of Tenant and to bind Tenant to the terms hereof.

By: _____

Its: _____

Date: _____

EXHIBIT F

BUILDING RULES AND REGULATIONS

Tenant shall faithfully observe and comply with the following Rules and Regulations to the extent the same do not conflict with the Lease, and in the event of any conflict between the following or any other Rules and Regulations promulgated by Landlord, on the one hand, and the Lease, on the other, the Lease shall control. Landlord shall enforce the following and any other Rules and Regulations promulgated by Landlord against the tenants and occupants of the Building on a uniform basis.

1. Tenant shall not alter any lock or install any new or additional locks or bolts on any doors or windows of the Premises without obtaining Landlord's prior written consent (not to be unreasonably withheld, conditioned or delayed. Tenant shall bear the cost of any lock changes or repairs required by Tenant. Not less than a Building-standard amount (based on the square footage of the Premises) of keys (including card-keys) to the Building, Premises and parking facilities will be furnished to Tenant by Landlord at Landlord's sole expense, and any additional keys required by Tenant must be obtained from Landlord at a reasonable cost to be established by Landlord.

2. All doors opening to public corridors shall be kept closed at all times except for normal ingress and egress to the Premises, unless electrical hold backs have been installed.

3. Landlord reserves the right to close and keep locked all entrance and exit doors of the Building and to exclude from the Building between the hours of 6:00 p.m. and 7:00 a.m. and at all hours on Saturday, Sunday and Holidays all persons who do not present a pass or card key to the Building approved by Landlord; provided, however, that Landlord shall not exclude any contractors of Tenant requiring access to the Building during such hours to perform emergency repairs. Tenant, its employees and agents must be sure that the doors to the Premises are securely closed and locked when leaving the Premises if it is after the normal hours of business for the Building. Any tenant, its employees, agents or any other persons entering or leaving the Building at any time when it is so locked, or any time when it is considered to be after normal business hours for the Building may be required to sign the Building register when so doing. After-hours access by Tenant's authorized employees may be provided by card-key access or other procedures adopted by Landlord from time to time; provided, however, that Tenant's authorized employees shall have access to the Building, Premises and parking facilities 24/7. Landlord and its agents shall in no case be liable for damages for any error with regard to the admission to or exclusion from the Building or Land of any person. In case of invasion, mob, riot, public excitement, or other commotion, Landlord reserves the right to prevent access to the Building and/or Land during the continuance of same by any means it deems appropriate for the safety and protection of life and property.

4. Landlord shall have the right to approve the weight, size and position of all safes and other types of heavy objects brought into the Building by Tenant, such approval not to be unreasonably withheld, conditioned or delayed. Safes and other heavy objects shall, if considered necessary by Landlord, stand on supports of such thickness as is necessary to properly distribute the weight. Subject to Paragraphs 16(g) and 21, all damage done to any part of the

Building and/or Land or its contents by Tenant moving or maintaining any such safe or other heavy object shall be the sole responsibility of Tenant and any expense of said damage or injury shall be borne by Tenant.

5. No safes or other heavy objects will be brought into or removed from the Building or carried up or down in the elevators, by Tenant, except upon prior notice to Landlord, and in such manner, in such specific elevator, and between such hours as shall be reasonably designated by Landlord. Tenant shall provide Landlord with not less than 24 hours prior notice of the need to utilize an elevator for any such purpose, so as to provide Landlord with a reasonable period to schedule such use and to install such padding or take such other actions or prescribe such procedures as are appropriate to protect against damage to the elevators or other parts of the Building.

6. Landlord shall have the right to control and operate the public portions of the Building and Land, the public facilities, the heating and air conditioning serving the public portions of the Building, and any other facilities furnished for the common use of tenants, in such manner as is customary for comparable “first-class” buildings in the vicinity of the Building.

7. Employees of Landlord shall not perform any work or do anything outside their regular duties unless under special instructions from Landlord.

8. Tenant shall not harass, solicit or canvass any occupant of the Building and shall reasonably cooperate with Landlord or Landlord’s agents at no cost to Tenant to prevent same.

9. The toilet rooms, urinals, wash bowls and other apparatus shall not be used for any purpose other than that for which they were constructed, and no foreign substance of any kind whatsoever shall be thrown therein. The expense of any breakage, stoppage or damage resulting from the violation of this rule shall be home by the tenant who, or whose employees or agents, shall have caused it.

10. Tenant shall not overload the floor of the Premises, and, except in connection with alterations and improvements performed in accordance with Tenant’s Lease, shall not mark, drive nails or screws, or drill into the partitions, woodwork or plaster in any way deface the Premises or any part thereof without Landlord’s consent first had and obtained; provided, however, Landlord’s prior consent shall not be required with respect to Tenant’s placement of pictures and other normal office wall hangings on the interior walls of the Premises (but at the end of the Term, Tenant shall repair any holes and other damage to the Premises resulting therefrom).

11. Except for vending machines intended for the sole use of Tenant’s employees and invitees, no vending machine shall be installed, maintained or operated upon the Premises without the written consent of Landlord.

12. With the exception of Tenant’s own dedicated systems for its labs, Tenant shall not use any method of heating or air conditioning other than that which may be supplied by Landlord, without the prior written consent of Landlord. The foregoing shall not prohibit the use of small space heaters or fans.

13. With the exception of the Emergency Generator and Connecting Equipment, Tenant shall not use or keep in or on the Premises or the Land any kerosene, gasoline or other inflammable or combustible fluid or material. Tenant shall not use or keep any foul or noxious gas or substance in or on the Premises nor interfere in any way with other tenants or those having business therein.

14. Tenant shall not bring into or keep within the Land or the Premises any animals or birds other than service animals.

15. No cooking of food other than in microwave ovens shall be done or permitted by any tenant on the Premises, nor shall the Premises be used for lodging or for any illegal purposes. Notwithstanding the foregoing, Underwriters’ laboratory-approved equipment and microwave ovens may be used in the Premises for heating food and brewing coffee, tea, hot chocolate and similar beverages, provided that such use is in accordance with all applicable federal, state and city laws, codes, ordinances, rules and regulations, and does not cause odors which are reasonably objectionable to Landlord and other tenants.

16. Landlord will reasonably approve where and how telephone and telegraph wires are to be introduced to the Premises. Except in connection with alterations and improvements performed in accordance with Tenant’s Lease, no boring or cutting for wires shall be allowed without the consent of Landlord. The location of telephone call boxes and other office equipment permanently affixed to the Premises shall be subject to the reasonable approval of Landlord.

17. Landlord reserves the right to exclude or expel from the Building and/or Land any person who, in the judgment of Landlord, is intoxicated or under the influence of liquor or drugs, or who shall in any manner do any act in violation of any of these Rules and Regulations.

18. Tenant, its employees and agents shall not loiter in the entrances or corridors, nor in any way obstruct the sidewalks, lobby, halls, stairways or elevators, and shall use the same only as a means of ingress and egress for the Premises.

19. Tenant shall store all its trash and garbage within the interior of the Premises. No material shall be placed in the trash boxes or receptacles if such material is of such nature that it may not be disposed of in the ordinary and customary manner of removing and disposing of trash and garbage in the city in which the Building is located without violation of any law or ordinance governing such disposal. All trash, garbage and refuse disposal shall be made only through entry-ways and elevators provided for such purposes at such times as Landlord shall designate.

20. Tenant shall comply with all safety, fire protection and evacuation procedures and regulations established by Landlord or any governmental agency.

21. Tenant shall keep doors locked and other means of entry to the Premises closed, when the Premises are not occupied.

22. No awnings or other projection shall be attached to the outside walls of the Building without the prior written consent of Landlord. No non-Building standard curtains, blinds,

shades or screens shall be attached to or hung in, or used in connection with, any window or door of the Premises without the prior written consent of Landlord, not to be unreasonably withheld, conditioned or delayed. The sashes, sash doors, skylights, windows, and doors that reflect or admit light and air into the halls, passageways or other public places in the Building shall not be covered or obstructed by Tenant, nor shall any bottles, parcels or other articles be placed on the windowsills. All electrical ceiling fixtures hung in offices or spaces along the perimeter of the Building must be fluorescent and/or of a quality, type, design and bulb color approved by Landlord, not to be unreasonably withheld, conditioned or delayed.

23. The washing and/or detailing of or, the installation of windshields, radios, telephones in or general work on, automobiles shall not be allowed on the Land.

24. The term "personal goods or services vendors" as used herein means persons who periodically enter the Building of which the Premises are a part for the purpose of selling goods or services to a tenant, other than goods or services which are used by the Tenant only for the purpose of conducting its business in the Premises. "Personal goods or services" include, but are not limited to, drinking water and other beverages, food, barbering services and shoe-shining services. Landlord reserves the right to prohibit personal goods and services vendors from access to the Building except upon Landlord's prior written consent and upon such reasonable terms and conditions, including, but not limited to, the payment of a reasonable fee and provision for insurance coverage, as are related to the safety, care and cleanliness of the Building, the preservation of good order thereon, and the relief of any financial or other burden on Landlord or other tenants occasioned by the presence of such vendors or the sale by them of personal goods or services to Tenant or its employees. Under no circumstance shall the personal goods or services vendors display their products in a public or common area, including corridors and elevator lobbies. If necessary for the accomplishment of these purposes, Landlord may exclude a particular vendor entirely or limit the number of vendors who may be present at any one time in the Building

25. Tenant must comply with reasonable requests by the Landlord concerning the informing of their employees of items of importance to Landlord.

26. Tenant shall comply with any non-smoking ordinance applicable to the Premises or Building adopted by any applicable governmental authority.

27. Landlord reserves the right at any time to reasonably change or rescind any one or more of these Rules and Regulations, or to make such other and further reasonable, non-discriminatory and uniformly enforced Rules and Regulations delivered to Tenant in writing as in Landlord's judgment may from time to time be necessary for the management, safety, care and cleanliness of the Premises and Building, and for the preservation of good order therein, as well as for the convenience of other occupants and tenants therein, provided such changes and Rules and Regulations do not interfere with the Permitted Use or conflict with the terms of the Lease. Landlord shall not be responsible to Tenant or to any other person for the nonobservance of the Rules and Regulations by another tenant or other person, Tenant shall be deemed to have read these Rules and Regulations.

EXHIBIT G

TENANT'S PROPERTY

EXHIBIT H

FORM OF LETTER OF CREDIT

IRREVOCABLE STANDBY LETTER OF CREDIT NUMBER

ISSUE DATE: _____

ISSUING BANK:
SILICON VALLEY BANK
3003 TASMAN DRIVE
2ND FLOOR, MAIL SORT HF210
SANTA CLARA, CALIFORNIA 95054

BENEFICIARY:

AMERICAN FUND US INVESTMENTS LP
C/O REAL ESTATE CAPITAL PARTNERS
114 WEST 47TH STREET, 23RD FLOOR
NEW YORK, NY 10036
ATTENTION: KARIN E. SHEWER

FACSIMILE NO.: 212-843-6120

WITH A COPY TO:

REAL ESTATE CAPITAL PARTNERS, LP
13241 WOODLAND PARK ROAD, SUITE 600
HERNDON, VA 20171
TELEPHONE: 703-481-7100
FAX: 703-481-7101

APPLICANT:

VERACYTE, INC., A DELAWARE CORPORATION

AMOUNT: US$ SIX HUNDRED THREE THOUSAND TWO HUNDRED FIFTY-ONE AND 25/100 DOLLARS ($603,251.25)

EXPIRATION DATE: JULY 31, 2016

LOCATION: SANTA CLARA, CALIFORNIA

DEAR SIR/MADAM:

WE HEREBY ESTABLISH OUR IRREVOCABLE STANDBY LETTER OF CREDIT NO. SVBSF IN YOUR FAVOR AVAILABLE BY YOUR DRAFTS DRAWN ON US AT SIGHT IN THE FORM OF EXHIBIT "A" ATTACHED AND ACCOMPANIED BY THE FOLLOWING DOCUMENTS:

1. THE ORIGINAL OF THIS LETTER OF CREDIT AND ALL AMENDMENT(S), IF ANY.

2. BENEFICIARY'S SIGNED STATEMENT STATING AS FOLLOWS:

(A) "SUCH AMOUNT IS DUE TO THE BENEFICIARY AS LANDLORD UNDER THE TERMS AND CONDITIONS OF THAT CERTAIN LEASE AGREEMENT DATED FOR PREMISES LOCATED AT 6000 SHORELINE COURT, SOUTH SAN FRANCISCO, CALIFORNIA; OR

(B) "THE BANK HAS NOTIFIED US THAT THIS LETTER OF CREDIT WILL NOT BE EXTENDED BEYOND THE CURRENT EXPIRATION DATE OF THIS LETTER OF CREDIT;" OR

(C) "TENANT HAS FILED A VOLUNTARY PETITION UNDER THE FEDERAL BANKRUPTCY CODE;" OR

(D) "AN INVOLUNTARY PETITION HAS BEEN FILED AGAINST TENANT UNDER THE FEDERAL BANKRUPTCY CODE".

PARTIAL DRAWS AND MULTIPLE PRESENTATIONS ARE ALLOWED.

THIS ORIGINAL LETTER OF CREDIT MUST ACCOMPANY ANY DRAWINGS HEREUNDER FOR ENDORSEMENT OF THE DRAWING AMOUNT AND WILL BE RETURNED TO THE BENEFICIARY UNLESS IT IS FULLY UTILIZED.

THIS LETTER OF CREDIT SHALL BE AUTOMATICALLY EXTENDED FOR AN ADDITIONAL PERIOD OF ONE YEAR, WITHOUT AMENDMENT, FROM THE PRESENT OR EACH FUTURE EXPIRATION DATE UNLESS AT LEAST THIRTY (30) DAYS PRIOR TO THE THEN CURRENT EXPIRATION DATE WE SEND YOU A NOTICE BY REGISTERED MAIL OR OVERNIGHT COURIER SERVICE AT THE ABOVE ADDRESS THAT THIS LETTER OF CREDIT WILL NOT BE EXTENDED BEYOND THE CURRENT EXPIRATION DATE. IN NO EVENT SHALL THIS LETTER OF CREDIT BE AUTOMATICALLY EXTENDED BEYOND JULY 31, 2026.

THIS LETTER OF CREDIT IS TRANSFERABLE ONE OR MORE TIMES, BUT IN EACH INSTANCE ONLY TO A SINGLE BENEFICIARY AS TRANSFEREE AND ONLY UP TO THE THEN AVAILABLE AMOUNT, ASSUMING SUCH TRANSFER TO SUCH TRANSFEREE WOULD BE IN COMPLIANCE WITH THEN APPLICABLE LAW AND REGULATION, INCLUDING BUT NOT LIMITED TO THE REGULATIONS OF THE U. S.

DEPARTMENT OF TREASURY AND U. S. DEPARTMENT OF COMMERCE. AT THE TIME OF TRANSFER, THE ORIGINAL LETTER OF CREDIT AND ORIGINAL AMENDMENT(S), IF ANY, MUST BE SURRENDERED TO US AT OUR ADDRESS INDICATED IN THIS LETTER OF CREDIT TOGETHER WITH OUR TRANSFER FORM ATTACHED HERETO AS EXHIBIT "B" DULY EXECUTED. THE CORRECTNESS OF THE SIGNATURE AND TITLE OF THE PERSON SIGNING THE TRANSFER FORM MUST BE VERIFIED BY BENEFICIARY'S BANK. [SELECT ONE: BENEFICIARY OR APPLICANT] SHALL PAY OUR TRANSFER FEE OF ¼ OF 1% OF THE TRANSFER AMOUNT (MINIMUM US$250.00) UNDER THIS LETTER OF CREDIT. EACH TRANSFER SHALL BE EVIDENCED BY OUR ENDORSEMENT ON THE REVERSE OF THE LETTER OF CREDIT AND WE SHALL FORWARD THE ORIGINAL OF THE LETTER OF CREDIT SO ENDORSED TO THE TRANSFEREE.

DRAFT(S) AND DOCUMENTS MUST INDICATE THE NUMBER AND DATE OF THIS LETTER OF CREDIT.

DOCUMENTS MUST BE FORWARDED TO US BY OVERNIGHT DELIVERY SERVICE TO: SILICON VALLEY BANK, 3003 TASMAN DRIVE, SANTA CLARA CA 95054, ATTN: INTERNATIONAL DIVISION.

WE HEREBY AGREE WITH THE BENEFICIARY THAT THE DRAFTS DRAWN UNDER AND IN ACCORDANCE WITH THE TERMS AND CONDITIONS OF THIS LETTER OF CREDIT SHALL BE DULY HONORED UPON PRESENTATION TO US ON OR BEFORE THE EXPIRATION DATE OF THIS LETTER OF CREDIT, WITHOUT INQUIRY AS TO THE ACCURACY THEREOF AND REGARDLESS OF WHETHER APPLICANT DISPUTES THE CONTENT OF ANY SUCH DOCUMENTS OR CERTIFICATIONS.

IF ANY INSTRUCTIONS ACCOMPANYING A DRAWING UNDER THIS LETTER OF CREDIT REQUEST THAT PAYMENT IS TO BE MADE BY TRANSFER TO YOUR ACCOUNT WITH ANOTHER BANK, WE WILL ONLY EFFECT SUCH PAYMENT BY FED WIRE TO A U.S. REGULATED BANK, AND WE AND/OR SUCH OTHER BANK MAY RELY ON AN ACCOUNT NUMBER SPECIFIED IN SUCH INSTRUCTIONS EVEN IF THE NUMBER IDENTIFIES A PERSON OR ENTITY DIFFERENT FROM THE INTENDED PAYEE.

THIS LETTER OF CREDIT IS SUBJECT TO THE INTERNATIONAL STANDBY PRACTICES (ISP98), INTERNATIONAL CHAMBER OF COMMERCE, PUBLICATION NO. 590.

AUTHORIZED SIGNATURE AUTHORIZED SIGNATURE

IRREVOCABLE STANDBY LETTER OF CREDIT NUMBER

EXHIBIT “A”

DATE: _____ REF. NO. _____

AT SIGHT OF THIS DRAFT

PAY TO THE ORDER OF US$

US DOLLARS

DRAWN UNDER SILICON VALLEY BANK, SANTA CLARA, CALIFORNIA, STANDBY LETTER OF CREDIT NUMBER NO. DATED

TO: SILICON VALLEY BANK
3003 TASMAN DRIVE
SANTA CLARA, CA 95054

_____
(BENEFICIARY’S NAME)

_____
Authorized Signature

GUIDELINES TO PREPARE THE DRAFT

1. DATE: ISSUANCE DATE OF DRAFT.
2. REF. NO.: BENEFICIARY’S REFERENCE NUMBER, IF ANY.
3. PAY TO THE ORDER OF: NAME OF BENEFICIARY AS INDICATED IN THE L/C (MAKE SURE BENEFICIARY ENDORSES IT ON THE REVERSE SIDE).
4. US$: AMOUNT OF DRAWING IN FIGURES.
5. USDOLLARS: AMOUNT OF DRAWING IN WORDS.
6. LETTER OF CREDIT NUMBER: SILICON VALLEY BANK’S STANDBY L/C NUMBER THAT PERTAINS TO THE DRAWING.
7. DATED: ISSUANCE DATE OF THE STANDBY L/C.
8. BENEFICIARY’S NAME: NAME OF BENEFICIARY AS INDICATED IN THE L/C.
9. AUTHORIZED SIGNATURE: SIGNED BY AN AUTHORIZED SIGNER OF BENEFICIARY.

IF YOU HAVE QUESTIONS RELATED TO THIS STANDBY LETTER OF CREDIT PLEASE CONTACT US AT .
IRREVOCABLE STANDBY LETTER OF CREDIT NUMBER

EXHIBIT “B”

TRANSFER FORM

DATE: _____

TO: SILICON VALLEY BANK
3003 TASMAN DRIVE
SANTA CLARA, CA 95054
ATTN:INTERNATIONAL DIVISION.
STANDBY LETTERS OF CREDIT

RE: IRREVOCABLE STANDBY LETTER OF CREDIT
NO. ISSUED BY
SILICON VALLEY BANK, SANTA CLARA
L/C AMOUNT:

GENTLEMEN:

FOR VALUE RECEIVED, THE UNDERSIGNED BENEFICIARY HEREBY IRREVOCABLY TRANSFERS TO:

(NAME OF TRANSFEREE)

(ADDRESS)

ALL RIGHTS OF THE UNDERSIGNED BENEFICIARY TO DRAW UNDER THE ABOVE LETTER OF CREDIT UP TO ITS AVAILABLE AMOUNT AS SHOWN ABOVE AS OF THE DATE OF THIS TRANSFER.

BY THIS TRANSFER, ALL RIGHTS OF THE UNDERSIGNED BENEFICIARY IN SUCH LETTER OF CREDIT ARE TRANSFERRED TO THE TRANSFEREE. TRANSFEREE SHALL HAVE THE SOLE RIGHTS AS BENEFICIARY THEREOF, INCLUDING SOLE RIGHTS RELATING TO ANY AMENDMENTS, WHETHER INCREASES OR EXTENSIONS OR OTHER AMENDMENTS, AND WHETHER NOW EXISTING OR HEREAFTER MADE. ALL AMENDMENTS ARE TO BE ADVISED DIRECTLY TO THE TRANSFEREE WITHOUT NECESSITY OF ANY CONSENT OF OR NOTICE TO THE UNDERSIGNED BENEFICIARY.

THE ORIGINAL OF SUCH LETTER OF CREDIT IS RETURNED HEREWITH, AND WE ASK YOU TO ENDORSE THE TRANSFER ON THE REVERSE THEREOF, AND FORWARD IT DIRECTLY TO THE TRANSFEREE WITH YOUR CUSTOMARY NOTICE OF TRANSFER.

SINCERELY,

(BENEFICIARY'S NAME)

(SIGNATURE OF BENEFICIARY)

(NAME AND TITLE)

SIGNATURE AUTHENTICATED

The name(s), title(s), and signature(s) conform to that/those on file with us for the company and the signature(s) is/are authorized to execute this instrument.

We further confirm that the company has been identified applying the appropriate due diligence and enhanced due diligence as required by BSA and all its subsequent amendments.

(Name of Bank)

(Address of Bank)

(City, State, ZIP Code)

(Authorized Name and Title)

(Authorized Signature)

(Telephone number)

Exhibit 31.1

PRINCIPAL EXECUTIVE OFFICER'S CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Bonnie Anderson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Veracyte, 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(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) 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.

Date: August 13, 2015

/s/ Bonnie H. Anderson

Bonnie H. Anderson
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

PRINCIPAL FINANCIAL OFFICER'S CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Shelly Guyer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Veracyte, 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(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) 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.

Date: August 13, 2015

/s/ Shelly D. Guyer
Shelly D. Guyer
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

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

In connection with the quarterly report of Veracyte, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of the Company certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to such officer's knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 13, 2015

/s/ Bonnie H. Anderson
Bonnie H. Anderson
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

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

In connection with the quarterly report of Veracyte, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of the Company certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to such officer's knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 13, 2015

/s/ Shelly D. Guyer
Shelly D. Guyer
Chief Financial Officer
(Principal Financial and Accounting Officer)